

**Insurance Council of British Columbia**  
**Financial Statements**  
For the year ended May 31, 2018

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**Financial Statements**  
For the year ended May 31, 2018

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## Independent Auditor's Report

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### To the Members of the Insurance Council of British Columbia

We have audited the accompanying financial statements of the Insurance Council of British Columbia, which comprise the Statement of Financial Position as at May 31, 2018, and the Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Insurance Council of British Columbia as at May 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*BDO Canada LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
September 11, 2018

**Insurance Council of British Columbia**  
**Statement of Financial Position**

**May 31**

**2018**

**2017**

**Assets**

**Current**

Cash (Note 2)	\$ 7,000,002	\$ 5,074,278
Short-term investments (Note 3)	903,033	1,415,330
Accounts receivable	65,197	35,995
Prepaid expenses	43,940	83,625

**8,012,172**      6,609,228

**Long-term investments (Note 3)**

-      894,955

**Property and equipment (Note 4)**

**1,398,033**      1,786,319

**\$ 9,410,205**      \$ 9,290,502

**Liabilities and Net Assets**

**Liabilities**

**Current**

Accounts payable and accrued liabilities (Note 5)	\$ 875,693	\$ 1,131,324
Pending application fees	168,048	114,258
Deferred council licensing revenue	4,970,855	3,424,080
Tenant inducement - current portion	45,766	45,766

**6,060,362**      4,715,428

**Tenant inducement**

**137,076**      182,953

**6,197,438**      4,898,381

**Net Assets**

Investment in property and equipment	1,215,191	1,557,600
Unrestricted	1,997,576	2,834,521

**3,212,767**      4,392,121

**\$ 9,410,205**      \$ 9,290,502

Approved on behalf of Council:



Member



Member

**Insurance Council of British Columbia**  
**Statement of Operations**

<b>For the year ended May 31</b>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>		
Council fees - Licensees	\$ 3,995,665	\$ 3,352,221
Council fees - First and re-applications	1,104,800	1,008,600
Council fees - Insurers	456,000	456,000
Examination fees	328,325	287,125
Interest	34,780	36,462
Fines	239,394	136,244
Investigative costs	17,913	41,117
Hearing costs	4,236	-
Other	17,294	22,728
	<b>6,198,407</b>	<b>5,340,497</b>
<b>Expenses</b>		
Advertising	17,694	4,396
Amortization	442,587	437,793
Data processing and information system maintenance	474,699	346,091
Data processing system planning costs	-	39,126
Equipment rentals and service	18,981	11,653
Hearings	311,762	194,990
Insurance	22,544	18,994
Loss on disposal of property and equipment	30,018	1,343
Maintenance	7,562	10,579
Meetings	251,490	200,428
Minor furniture and equipment	20,471	3,559
Office and miscellaneous	136,432	91,023
Postage and delivery	40,622	39,104
Professional fees	511,236	624,196
Public relations	4,822	616
Qualifying examinations	189,432	206,222
Rent	607,602	583,997
Salaries and benefits	4,148,388	3,554,293
Stationery, printing and supplies	34,637	35,832
Telephone	30,053	28,494
Training	24,218	17,057
Travel	52,511	63,347
	<b>7,377,761</b>	<b>6,513,133</b>
<b>Deficiency of revenue over expenses</b>	<b>\$ (1,179,354)</b>	<b>\$ (1,172,636)</b>

**Insurance Council of British Columbia**  
**Statement of Changes in Net Assets**

**For the year ended May 31**

	Investment in Property and Equipment	Unrestricted	2018	2017
Balance, beginning of year	\$ 1,557,600	\$ 2,834,521	\$ 4,392,121	\$ 5,564,757
Deficiency of revenue over expenses for the year	-	(1,179,354)	(1,179,354)	(1,172,636)
Amortization of property and equipment	(442,587)	442,587	-	-
Purchase of property and equipment	84,319	(84,319)	-	-
Amortization of tenant inducement	45,877	(45,877)	-	-
Loss on disposal of property and equipment	(30,018)	30,018	-	-
Balance, end of year	\$ 1,215,191	\$ 1,997,576	\$ 3,212,767	\$ 4,392,121

**Insurance Council of British Columbia**  
**Statement of Cash Flows**

**For the year ended May 31** **2018** **2017**

**Cash provided by (used in)**

**Operating activities**

Deficiency of revenue over expenses for the year	\$ (1,179,354)	\$ (1,172,636)
Items not involving cash		
Amortization	442,587	437,793
Amortization of tenant inducement	(45,877)	(45,877)
Loss on disposal of property and equipment	30,018	1,343
	(752,626)	(779,377)
Changes in non-cash operating working capital		
Accounts receivable	(29,202)	(5,177)
Prepaid expenses	39,685	(35,039)
Accounts payable and accrued liabilities	(255,631)	(29,416)
Pending application fees	53,790	(53,579)
Deferred council licensing revenue	1,546,775	456,185
	602,791	(446,403)

**Investing activities**

Proceeds from maturity of investments	1,407,252	322,155
Purchase of property and equipment	(84,319)	(106,612)
	1,322,933	215,543

**Increase (decrease) in cash during the year** **1,925,724** **(230,860)**

**Cash, beginning of year** **5,074,278** **5,305,138**

**Cash, end of year** **\$ 7,000,002** **\$ 5,074,278**

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**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

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**1. Significant Accounting Policies**

(a) Purpose

The Insurance Council of British Columbia ("Council") is constituted under the Financial Institutions Act of British Columbia (the "Act") and is a tax-exempt body under Section 149 of the *Income Tax Act*. Council determines the qualification and suitability of applicants for licensing as insurance agents, insurance salespersons and insurance adjusters; administers examinations to such applicants; and issues the respective licences. In addition, Council investigates complaints and determines any required disciplinary action.

As well as making licensing fee assessments against licensees and insurers to fund its expenses, Council collects other fees prescribed under the Act on behalf of the provincial government.

(b) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations ("ASNPO").

(c) Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. All short and long term investments have been designated to be in the fair value category, with gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

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**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

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**1. Significant Accounting Policies (Continued)**

(d) Revenue Recognition

Council follows the deferral method of accounting whereby restricted revenues are deferred and recognized at the time the related expenditures are incurred. Unrestricted revenues are recorded when received.

With the exception of the internal restriction for Investment in Property and Equipment, there are no restrictions over the net assets of Council.

Revenue (Council fees - Licensees) are recognized over the term of the license period.

Revenue (Council fees - First and re-applications) are recognized when the application is processed or when the licensee decides to not proceed with the application and forfeits the fee.

Revenue (Council fees - Insurers) are recognized at the time the assessment is charged to the insurer.

Examination revenue is non-refundable and is recognized when the exam is written.

Fines revenue and investigation and hearing costs recovered are recognized when collection is reasonably assured.

(e) Property and Equipment

Property and equipment are recorded at historical cost and amortized using the straight-line method over their estimated useful lives, commencing when they are put into use, over the following periods:

Furniture and equipment	5-10 years
Computer hardware	5 years
Minor computer software	2 years
Major computer software systems	5 years

Leasehold improvements are amortized over the lease term.

(f) Employee Future Benefits

The Council and its employees make contributions to a defined contribution Group RRSP plan. The Council matches all staff contributions up to 5% of gross earnings for all employees and 6% for senior management. The Council's contributions to the Plan are expensed when incurred.

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**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

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**1. Significant Accounting Policies (Continued)**

(g) Pending Application Fees

Pending application fees represent amounts collected for Council fees - Licensees where the licence has not been issued prior to the fiscal year-end. The revenue is recognized when the licence is issued.

(h) Tenant Inducement

Tenant inducement represents funds received upon the signing a new office premises lease. Such amounts are amortized as a reduction of rent expense on a straight-line basis over the lease term.

(i) Use of Estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Not-For-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in these financial statements are the useful lives of the property and equipment and completeness of accounts payable and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

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**2. Cash**

The Council's bank accounts are held at one chartered bank earning interest at market rates.

**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

**3. Investments**

Investments are held with Canadian life insurers as follows:

**2018 Short-term Investments**

	<b>Interest Rate</b>	<b>Maturity Date</b>	
Non-registered life insurance policy	N/A	N/A	\$ 1,020
Cashable Compound	0.80%	05/14/2019	120,485
Cash Surrender Value	0.80%	12/08/2018	364,025
Guaranteed Investment Certificate	0.83%	05/18/2019	294,811
Cashable Compound	0.70%	05/15/2019	122,692
			<b>\$ 903,033</b>

**2017 Short-term Investments**

	<b>Interest Rate</b>	<b>Maturity Date</b>	
Non-registered life insurance policy	N/A	N/A	\$ 1,019
Non-registered life insurance policy	0.55%	04/05/2018	130,652
Non-registered life insurance policy	0.55%	04/29/2018	298,045
Cash Surrender Value	0.80%	12/08/2017	361,136
Guaranteed Investment Certificate	1.43%	07/04/2017	276,487
Cashable Compound	1.30%	08/16/2017	347,991
			<b>\$ 1,415,330</b>

**2017 Long-term Investments**

	<b>Interest Rate</b>	<b>Maturity Date</b>	
Cashable Compound	0.80%	05/14/2019	\$ 120,480
Cash Surrender Value	0.80%	12/08/2018	361,136
Guaranteed Investment Certificate	0.83%	05/18/2019	292,333
Cashable Compound	0.70%	05/15/2019	121,001
			<b>\$ 894,950</b>

The Council's investments are reinvested upon maturity at interest rates available at the time. As a result, fluctuation in interest rates on such investments will affect interest income earned and the fair market value of the investments.

**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

**4. Property and Equipment**

	2018		2017	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 287,092	\$ 221,010	\$ 66,082	\$ 81,497
Leasehold improvements	1,032,220	590,762	441,458	551,833
Computer hardware	334,860	245,114	89,746	133,401
Minor computer software	140,103	100,944	39,159	12,273
Major computer software systems	<u>1,228,632</u>	<u>467,044</u>	<u>761,588</u>	<u>1,007,315</u>
	<u>\$ 3,022,907</u>	<u>\$ 1,624,874</u>	<u>\$ 1,398,033</u>	<u>\$ 1,786,319</u>

**5. Accounts Payable and Accrued Liabilities**

	2018		2017	
Accrued liabilities - operations	\$ 121,682	\$	76,940	\$
Accrued vacation	79,366	\$	91,820	\$
Accrued retirement allowance	34,167	\$	218,834	\$
Salaries payable	40,428	\$	58,680	\$
Other accounts payable	2,000	\$	1,800	\$
Government fees payable	<u>598,050</u>	<u>\$</u>	<u>683,250</u>	<u>\$</u>
	<u>\$ 875,693</u>	<u>\$</u>	<u>1,131,324</u>	<u>\$</u>

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**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

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**6. Commitments**

Council has an operating lease with respect to its office premises until May 31, 2022. Pursuant to the terms of the lease, the Council will pay rent of an annual base rent plus its proportionate share of operating costs and property taxes. The annual base rent payments required in respect of the rented premises are as follows:

2019	\$ 362,297
2020	362,297
2021	362,297
2022	<u>362,297</u>
	<u>\$ 1,449,188</u>

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**7. Defined Contribution Retirement Plan**

Council maintains a defined contribution Group RRSP plan for its employees. During the year, the Council paid \$130,653 (2017 - \$116,902) for employer contributions to the plan.

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**Insurance Council of British Columbia**  
**Notes to the Financial Statements**

**May 31, 2018**

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**8. Financial Instruments Risks**

The Council through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at May 31, 2018. There have been no changes to the risks in the current year.

a) Credit Risk

Credit risk is the risk that the Council will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Council to significant concentrations of credit risk consist primarily of cash and investments and accounts receivable. The Council mitigates credit risk on its receivables through diversification of its customer base and limiting its exposure to any one customer. The Council limits its exposure to credit risk by placing its cash and investments with various high credit quality financial institutions and life insurers, in accordance with investment policies adopted by the Council.

The Council is also exposed to credit risk arising from all of its bank accounts being held at one financial institution and deposits are only insured up to \$100,000.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Council is exposed to interest rate risk on its fixed rate financial instruments. Fixed-interest instruments subject the Council to a fair value risk. The interest rates and terms of cash and investments are disclosed in Notes 2 and 3. The Council limits its exposure by diversifying the durations of the fixed-income investments that are held at a given time.

c) Liquidity Risk

Liquidity risk is the risk that the Council will not be able to meet its obligations as they fall due. The Council maintains adequate levels of working capital and prepares cash flow forecasts to ensure all its obligations can be met when they fall due.

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**9. Related Party Transactions**

During the year, \$77,500 (2017 - \$69,250) was paid to family members of the Council's employees for exam proctor services provided. These transactions were in the normal course of operations and are measured at their exchange amount.