

**INSURANCE COUNCILS
OF SASKATCHEWAN**

FINANCIAL STATEMENTS

December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Members of Insurance Councils of Saskatchewan

We have audited the accompanying financial statements of Insurance Councils of Saskatchewan, which comprise the statement of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011, and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Insurance Councils of Saskatchewan as at December 31, 2012, December 31, 2011 and January 1, 2011 and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants

Regina, Saskatchewan
May 6, 2013

INSURANCE COUNCILS OF SASKATCHEWAN

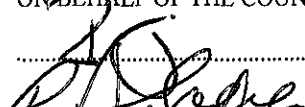

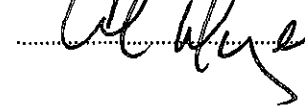
Statement of Financial Position

As at

| | December 31, 2012 | December 31, 2011 (Note 2) | January 1, 2011 (Note 2) |
|---|----------------------|----------------------------------|--------------------------------|
| CURRENT ASSETS | | | |
| Cash | \$ 176,570 | \$ 174,976 | \$ 255,835 |
| Accrued interest receivable | 8,869 | 3,468 | 2,448 |
| Accounts receivable | 8,533 | 5,781 | 4,184 |
| Prepaid expenses | 5,023 | 7,262 | 644 |
| Short-term investments (Note 4) | 266,182 | 316,265 | 228,601 |
| | 465,177 | 507,752 | 491,712 |
| LONG-TERM INVESTMENTS (Note 4) | 1,060,376 | 636,247 | 315,682 |
| CAPITAL ASSETS (Note 5) | 97,837 | 60,205 | 36,506 |
| INTANGIBLE ASSETS (Note 6) | 517,222 | 501,863 | 418,079 |
| | \$ 2,140,612 | \$ 1,706,067 | \$ 1,261,979 |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued liabilities | \$ 18,049 | \$ 17,312 | \$ 15,871 |
| Annual license renewal fees received in advance | 74,665 | 82,755 | 81,960 |
| Deferred tenant inducement (Note 7) | 10,244 | 2,806 | - |
| | 102,958 | 102,873 | 97,831 |
| NET ASSETS | | | |
| Unrestricted | 1,022,595 | 841,126 | 509,563 |
| Invested in capital assets and intangible assets | 615,059 | 562,068 | 454,585 |
| Internally restricted litigation reserve (Note 8) | 200,000 | 200,000 | 200,000 |
| Internally restricted software development reserve (Note 9) | 200,000 | - | - |
| | 2,037,654 | 1,603,194 | 1,164,148 |
| | \$ 2,140,612 | \$ 1,706,067 | \$ 1,261,979 |

See accompanying notes

ON BEHALF OF THE COUNCIL

 Member
 Member
 Member

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Operations

Years ended December 31, 2012 and December 31, 2011

| | <u>2012</u> | <u>2011</u> (Note 2) |
|--|-------------------|-------------------------|
| REVENUE | | |
| License fees | \$ 1,318,130 | \$ 1,225,853 |
| Investment income | 20,639 | 12,260 |
| Examination fees | 50,505 | 48,575 |
| Investigative cost recovery | 7,300 | 65,250 |
| Investigative fines and penalties | 8,411 | 31,971 |
| Course provider fees | 14,359 | 12,978 |
| Rental income | 17,850 | 5,950 |
| | <u>1,437,194</u> | <u>1,402,837</u> |
| EXPENSES | | |
| Amortization - intangible assets | 69,432 | 56,859 |
| Amortization - capital assets | 32,165 | 14,198 |
| Audit and legal fees | 14,737 | 18,788 |
| Bank charges | 19,503 | 15,676 |
| Bond / insurance | 2,748 | 4,574 |
| Complaints | 5,916 | 13,872 |
| Computer | 27,363 | 19,819 |
| Committee meetings | 26,838 | 18,144 |
| Consultants | 26,330 | 7,060 |
| - Council meetings - GICS | 30,853 | 28,661 |
| - Hail | 5,184 | 3,470 |
| - Life | 18,010 | 13,082 |
| Examination | 20,637 | 11,709 |
| Investigation | 587 | 1,425 |
| Litigation expense | 2,388 | 45,399 |
| Miscellaneous | 3,774 | 1,150 |
| Office supplies | 23,380 | 21,927 |
| Postage and courier | 19,324 | 16,570 |
| Rent expense | 92,581 | 30,266 |
| Salaries | 552,701 | 564,306 |
| Shared services | - | 48,840 |
| Telephone | 8,283 | 7,996 |
| | <u>1,002,734</u> | <u>963,791</u> |
| EXCESS OF REVENUE OVER EXPENSES | \$ 434,460 | \$ 439,046 |

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Changes in Net Assets

Years ended December 31, 2012 and December 31, 2011

| | Unrestricted Net Assets | Invested in Property and Equipment and Intangible Assets | Internally Restricted | | 2012 Total | 2011 Total (Note 2) |
|------------------------------------|----------------------------|--|-----------------------|---------------------------------|---------------------|---------------------------|
| | | | Litigation Reserve | Software Development Reserve | | |
| Balance, beginning of year | \$ 841,126 | \$ 562,068 | \$ 200,000 | \$ - | \$ 1,603,194 | \$ 1,164,148 |
| Excess of revenue over expenses | 536,057 | (101,597) | - | - | 434,460 | 439,046 |
| Investment in long-lived assets | (154,588) | 154,588 | - | - | - | - |
| Interfund transfers: | | | | | | |
| Transfer to establish reserve | (200,000) | - | - | 200,000 | - | - |
| Balance, end of year | \$ 1,022,595 | \$ 615,059 | \$ 200,000 | \$ 200,000 | \$ 2,037,654 | \$ 1,603,194 |

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Cash Flows

Years ended December 31, 2012 and December 31, 2011

| | <u>2012</u> | <u>2011</u> (Note 2) |
|--|-------------------|-------------------------|
| NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES: | | |
| OPERATING ACTIVITIES | | |
| Excess of revenue over expenses | \$ 434,460 | \$ 439,046 |
| Items not affecting cash | | |
| Amortization - capital assets | 32,165 | 14,198 |
| Amortization - intangible assets | 69,432 | 56,859 |
| Reinvested distributions | (50,862) | (33,551) |
| Change in fair value and gains on sale of investments | 26,858 | 19,851 |
| Changes in non-cash working capital | | |
| Accrued interest receivable | (5,401) | (1,020) |
| Accounts receivable | (2,752) | (1,597) |
| Prepaid expenses | 2,239 | (6,618) |
| Accounts payable and accrued liabilities | 737 | 1,441 |
| Deferred tenant inducement | 7,438 | 2,806 |
| Annual license renewal fees received in advance | (8,090) | 795 |
| | <u>506,224</u> | <u>492,210</u> |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 306,608 | 105,471 |
| Purchase of investments | (656,650) | (500,000) |
| Purchase of capital assets | (69,798) | (37,897) |
| Purchase of intangible assets | (84,790) | (140,643) |
| | <u>(504,630)</u> | <u>(573,069)</u> |
| NET INCREASE (DECREASE) IN CASH | 1,594 | (80,859) |
| CASH, BEGINNING OF YEAR | 174,976 | 255,835 |
| CASH, END OF YEAR | \$ 176,570 | \$ 174,976 |

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Years Ended December 31, 2012 and December 31, 2011

1. PURPOSE OF INSURANCE COUNCILS OF SASKATCHEWAN

Insurance Councils of Saskatchewan ("ICS") issues annual licenses to individual and agency licencees in accordance with the licensing powers delegated to it by the Superintendent of Insurance. It was established by regulation pursuant to the Saskatchewan Insurance Amendment Act, 1985, as a not-for-profit organization and is exempt from income tax under Section 149 of the Income Tax Act.

2. ADOPTION OF NEW ACCOUNTING FRAMEWORK

During the year ended December 31, 2012, ICS adopted the new Canadian accounting standards for not-for-profit organizations (the "new standards") issued by the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") and set out in Part III of the CICA Handbook. In accordance with Section 1501 of Part III of the CICA Handbook, *First-time adoption*, ("Section 1501"), the date of transition to the new standards is January 1, 2011 and ICS has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for ICS's accounting under the new standards. In its opening statement of financial position, under the recommendations of Section 1501, ICS:

- (a) Recognized all assets and liabilities whose recognition is required by the new standards;
- (b) Did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- (c) Reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and
- (d) Applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of section 1501, the accounting policies set out in Note 3 have been consistently applied to all years presented and the standards have been applied retrospectively excluding cases where optional exemptions available under Section 1501 have been applied. ICS has not elected to adopt any of the exemptions available under Section 1501.

There was no significant impact of the adoption of the new standards on the statement of financial position as at January 1, 2011 or the statements of operations or cash flows for the year ended December 31, 2011.

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Years Ended December 31, 2012 and December 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("NPO Standards") and reflect the following significant accounting principles:

a) Use of estimates

The preparation of financial statements in conformity with NPO Standards requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year.

Amounts involving the use of estimates include recoverability of accounts receivable, fair value of investments, and the useful lives of property and equipment. Actual results could differ from those estimates.

b) Capital assets

Capital assets are recorded at cost. When capital assets are sold or retired, the related costs and accumulated amortization are removed from the respective accounts and any gain or loss is reflected in the statement of operations. Expenditures for repairs and maintenance are charged to operations as incurred. Leaseholds are amortized over the remaining term of the lease.

Capital assets are amortized over their estimated useful lives using the following methods and rates:

| | |
|-------------------------|-------------------------|
| Furniture and equipment | 20% diminishing balance |
| Computer hardware | 30% straight line |
| Computer software | 100% straight line |

c) Intangible assets

Intangible assets are recorded at cost. Costs are capitalized only to the extent that their recovery is reasonably assured. These costs are amortized over the anticipated period of benefit beginning when the development reaches substantial completion as follows:

| | |
|----------------------------|-------------------|
| Software development costs | 10% straight line |
|----------------------------|-------------------|

d) Long-lived assets

Long-lived assets such as capital assets and intangibles are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from the use and eventual disposition of the item. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value at the date of impairment.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
Years Ended December 31, 2012 and December 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments

ICS initially measures its financial assets and financial liabilities at fair value. ICS subsequently measures all its financial assets and financial liabilities at amortized cost, except for marketable securities (bonds, notes and income funds) which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost include cash, accrued interest receivable and accounts receivable.

For financial instruments measured at amortized cost, transaction costs are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized using the effective interest method. Any premium or discount related to an instrument measured at amortized cost is amortized over the expected life using the effective interest method and recognized in net earnings as interest income or expense.

With respect to financial assets measured at cost or amortized cost, ICS recognizes in net earnings an impairment loss, if any, when it determines that a significant adverse change has occurred during the period in the expected timing or amount of future cash flows. When the extent of impairment of a previously written-down asset decreases and the decrease can be related to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed in net earnings in the period the reversal occurs.

Credit risk

ICS's principal financial assets are cash, accounts receivable and investments, which are subject to credit risk. The carrying amounts of financial assets on the statement of financial position represent ICS's maximum credit exposure at the statement of financial position date.

ICS's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the statement of financial position are net of allowance for doubtful accounts, estimated by the management of ICS based on previous experience and its assessment of the current economic environment. ICS does not have significant exposure to any individual customer. The credit risk on cash and investments is limited because the counterparties are chartered banks with high credit-ratings assigned by national credit-rating agencies and fixed term investments of a high credit quality. ICS also limits its exposure by ensuring that it has invested in securities in accordance with the investment policy.

Liquidity risk

Liquidity risk is the risk of being unable to meet cash requirements or to fund obligations as they become due. ICS manages its liquidity risk by constantly monitoring forecasted and actual cash flows and financial liability maturities, and by holding assets that can be readily converted into cash. Accounts payable are generally repaid within 30 days.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
Years Ended December 31, 2012 and December 31, 2011

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

Interest rate risk

ICS is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate instruments subject ICS to a fair value risk while the floating rate instruments subject it to a cash flow risk.

f) Revenue recognition

License fees are recognized in the period the price is determinable and collection has occurred.

Fees received in advance are deferred and recognized as income in the period in which the license is issued.

All other revenue is recognized in the period it is earned, price is determinable and collection is reasonably assured.

g) Registered savings plan

ICS has made contributions of \$21,705 (2011 - \$23,080) to employees' registered savings plans. The contributions are expensed as incurred.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
Years Ended December 31, 2012 and December 31, 2011

4. INVESTMENTS

Short-Term Investments

| Bonds | December 31, 2012 | | |
|---|--------------------------|----------------------|-------------------|
| | Rate | Maturity Date | Fair Value |
| Renaissance High Interest Savings Account | Variable | N/A | \$ 1,679 |
| Trimark Floating Rate Income Fund | Variable | N/A | 82,543 |
| Province of Ontario | 4.75% | June 2, 2013 | 84,248 |
| Finning International Inc. | 5.16% | September 3, 2013 | 57,276 |
| Caterpillar Financial Services Ltd | 2.64% | December 2, 2013 | 40,436 |
| | | | \$ 266,182 |

Long-Term Investments

| Bonds | December 31, 2012 | | |
|------------------------------------|--------------------------|----------------------|-------------------|
| | Rate | Maturity Date | Fair Value |
| Altagas Limited | 4.10% | March 24, 2016 | \$ 52,492 |
| Bell Canada | 3.60% | December 2, 2015 | 41,710 |
| Bell Canada | 5.00% | February 15, 2017 | 158,706 |
| Brookfield Asset Mgmt Inc. | 5.20% | September 8, 2016 | 152,996 |
| Calloway Real Estate | 5.10% | June 4, 2015 | 52,865 |
| Canadian Imperial Bank of Commerce | Variable | May 20, 2014 | 48,518 |
| Canadian Imperial Bank of Commerce | Variable | September 22, 2015 | 57,669 |
| Canadian Imperial Bank of Commerce | Variable | June 20, 2018 | 64,091 |
| Canadian Imperial Bank of Commerce | Variable | December 14, 2017 | 37,726 |
| Canadian Imperial Bank of Commerce | 4.75% | December 22, 2014 | 95,241 |
| CIBC Premium Yield | Variable | January 19, 2019 | 70,000 |
| CitiGroup Financial Canada Inc. | 4.75% | March 17, 2014 | 79,378 |
| Laurentian Bank of Canada | 3.70% | November 2, 2015 | 71,991 |
| Manulife Financial Corp | 5.16% | June 26, 2015 | 76,993 |
| | | | \$ 1,060,376 |

The adjustment to fair value at December 31, 2012 was an unrealized loss of \$(21,343) (2011 - unrealized loss of \$(19,851)) which was recognized in investment income.

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Years Ended December 31, 2012 and December 31, 2011

4. INVESTMENTS (continued)

Short-Term Investments

| Bonds | Rate | December 31, 2011 | |
|---|----------|-------------------|------------|
| | | Maturity Date | Fair Value |
| Renaissance High Interest Savings Account | Variable | N/A | \$ 57,013 |
| Trimark Floating Rate Income Fund | Variable | N/A | 78,431 |
| Government of Canada | 5.25% | June 1, 2012 | 81,402 |
| Wells Fargo Financial Canada Corp. | 4.40% | December 12, 2012 | 99,419 |
| | | | \$ 316,265 |

Long-Term Investments

| Bonds | Rate | December 31, 2011 | |
|-------------------------------------|----------|--------------------|------------|
| | | Maturity Date | Fair Value |
| Bell Canada | 3.60% | December 2, 2015 | \$ 41,526 |
| Caterpillar Financial Services Ltd. | 2.64% | December 2, 2013 | 40,603 |
| Canadian Imperial Bank of Commerce | Variable | May 20, 2014 | 49,673 |
| Canadian Imperial Bank of Commerce | 4.75% | December 22, 2014 | 43,267 |
| Canadian Imperial Bank of Commerce | Variable | September 22, 2015 | 58,296 |
| Canadian Imperial Bank of Commerce | Variable | May 11, 2016 | 68,593 |
| Canadian Imperial Bank of Commerce | Variable | December 14, 2017 | 39,334 |
| CitiGroup Financial Canada Inc. | 4.75% | March 17, 2014 | 78,003 |
| Finning International Inc. | 5.16% | September 3, 2013 | 58,926 |
| Laurentian Bank of Canada | 3.70% | November 2, 2015 | 70,878 |
| Province of Ontario | 4.75% | June 2, 2013 | 87,148 |
| | | | \$ 636,247 |

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Years Ended December 31, 2012 and December 31, 2011

4. INVESTMENTS (continued)

Short-Term Investments

| Bonds | Rate | January 1, 2011 | |
|---|----------|-----------------|------------|
| | | Maturity Date | Fair Value |
| Renaissance High Interest Savings Account | Variable | N/A | \$ 50,313 |
| Trimark Floating Rate Income Fund | Variable | N/A | 77,346 |
| HSBC Financial Corp Ltd. | 4.80% | April 13, 2011 | 100,942 |
| | | | \$ 228,601 |

Long-Term Investments

| Bonds | Rate | January 1, 2011 | |
|------------------------------------|----------|--------------------|------------|
| | | Maturity Date | Fair Value |
| Canadian Imperial Bank of Commerce | Variable | May 20, 2014 | \$ 51,424 |
| Canadian Imperial Bank of Commerce | Variable | September 22, 2015 | 59,002 |
| Finning International Inc. | 5.16% | September 3, 2013 | 59,414 |
| Government of Canada | 5.25% | June 1, 2012 | 28,396 |
| Province of Ontario | 4.75% | June 2, 2013 | 58,503 |
| Wells Fargo Financial Canada Corp. | 4.40% | December 12, 2012 | 58,943 |
| | | | \$ 315,682 |

5. CAPITAL ASSETS

| | Cost | Accumulated Amortization | Net Book Value | | |
|-------------------------|------------|--------------------------|-------------------|-------------------|-----------------|
| | | | December 31, 2012 | December 31, 2011 | January 1, 2011 |
| Furniture and equipment | \$ 85,510 | \$ 36,669 | \$ 48,841 | \$ 30,768 | \$ 20,358 |
| Computer hardware | 75,378 | 54,384 | 20,994 | 14,557 | 16,148 |
| Computer software | 279,324 | 264,025 | 15,299 | - | - |
| Leasehold improvements | 15,243 | 2,540 | 12,703 | 14,880 | - |
| | \$ 455,455 | \$ 357,618 | \$ 97,837 | \$ 60,205 | \$ 36,506 |

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Years Ended December 31, 2012 and December 31, 2011

6. INTANGIBLE ASSETS

| | Cost | Accumulated Amortization | Net Book Value | | |
|-------------------------------|------------|-----------------------------|---------------------|---------------------|-------------------|
| | | | December 31 2012 | December 31 2011 | January 1 2011 |
| Software development costs | \$ 707,914 | \$ 190,692 | \$ 517,222 | \$ 501,863 | \$ 418,079 |

Certain applications and systems software development costs have been capitalized amounting to \$84,790 in 2012 (\$140,643 in 2011).

7. DEFERRED TENANT INDUCEMENT

| | December 31 2012 | December 31 2011 | January 1 2011 |
|---|---------------------|---------------------|-------------------|
| The lease agreement includes tenant inducements which are amortized straight-line over the term of the lease. | \$ 10,244 | \$ 2,806 | \$ - |

8. LITIGATION RESERVE

Funds relating to the litigation reserve have been internally restricted for the purpose of providing for the ongoing legal costs associated with defending ICS' rights to license and regulate insurance agents, agencies and adjusters in the Province of Saskatchewan.

9. SOFTWARE DEVELOPMENT RESERVE

Funds relating to the software development reserve have been internally restricted for the purpose of reserving funds for future software development; as to allow ICS to continue to provide sufficient administration associated with licensing and regulating insurance agents, agencies and adjusters in the Province of Saskatchewan.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
Years Ended December 31, 2012 and December 31, 2011

10. COMMITMENTS

ICS has annual lease payments under the operating lease for the premises for the next five years and thereafter as follows:

| | | |
|------------|----|----------------|
| 2013 | \$ | 38,311 |
| 2014 | | 40,767 |
| 2015 | | 46,660 |
| 2016 | | 49,117 |
| 2017 | | 50,099 |
| Thereafter | | 33,400 |
| | \$ | <u>258,354</u> |