

**INSURANCE COUNCILS
OF SASKATCHEWAN**

FINANCIAL STATEMENTS

December 31, 2013

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, 2013, 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 Insurance Councils of Saskatchewan as at December 31, 2013, 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.

Deloitte LLP

Chartered Accountants

April 14, 2014
Regina, Saskatchewan

INSURANCE COUNCILS OF SASKATCHEWAN

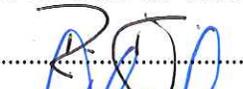
Statement of Financial Position

As at December 31, 2013

	December 31, 2013	December 31, 2012
CURRENT ASSETS		
Cash	\$ 165,042	\$ 176,570
Accrued interest receivable	7,524	8,869
Accounts receivable	21,081	8,533
Prepaid expenses	4,695	5,023
Short-term investments (Note 3)	256,905	266,182
	455,247	465,177
LONG-TERM INVESTMENTS (Note 3)	874,292	1,060,376
CAPITAL ASSETS (Note 4)	87,676	97,837
INTANGIBLE ASSETS (Note 5)	1,071,714	517,222
	\$ 2,488,929	\$ 2,140,612
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 33,913	\$ 18,049
Annual license renewal fees received in advance	77,475	74,665
Deferred tenant inducement (Note 6)	15,717	10,244
	127,105	102,958
NET ASSETS		
Unrestricted	752,434	1,022,595
Invested in capital assets and intangible assets	1,159,390	615,059
Internally restricted litigation reserve (Note 7)	200,000	200,000
Internally restricted software development reserve (Note 8)	250,000	200,000
	2,361,824	2,037,654
	\$ 2,488,929	\$ 2,140,612

See accompanying notes

ON BEHALF OF THE COUNCIL

 Member
 Member
 Member

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Operations

Year ended December 31, 2013

	2013	2012
REVENUE		
License fees	\$ 1,381,822	\$ 1,318,130
Investment income	24,986	20,639
Examination fees	62,830	50,505
Investigative cost recovery	3,960	7,300
Investigative fines and penalties	3,983	8,411
Course provider fees	13,840	14,359
Rental income	18,200	17,850
	1,509,621	1,437,194
EXPENSES		
Amortization - intangible assets	111,443	69,432
Amortization - capital assets	31,910	32,165
Audit and legal fees	30,711	14,737
Bank charges	24,369	19,503
Bond / insurance	3,850	2,748
Complaints	680	5,916
Computer	48,581	27,363
Committee meetings	35,092	26,838
Consultants	71,431	26,330
Council meetings - GICS	31,361	32,263
- Hail	7,409	5,184
- Life	24,188	18,010
Examination	11,079	20,637
Investigation	8,548	587
Litigation expense	-	2,388
Miscellaneous	3,177	3,774
Office supplies	27,598	23,380
Postage and courier	18,150	19,324
Rent expense	91,396	91,171
Salaries	595,525	552,701
Telephone	8,953	8,283
	1,185,451	1,002,734
EXCESS OF REVENUE OVER EXPENSES	\$ 324,170	\$ 434,460

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Changes in Net Assets

Year ended December 31, 2013

	Unrestricted Net Assets	Invested in Property and Equipment and Intangible Assets	Internally Restricted		2013 Total	2012 Total
			Litigation Reserve	Software Development Reserve		
Balance, beginning of year	\$ 1,022,595	\$ 615,059	\$ 200,000	\$ 200,000	\$ 2,037,654	\$ 1,603,194
Excess of revenue over expenses	467,523	(143,353)	-	-	324,170	434,460
Investment in long-lived assets	(687,684)	687,684	-	-	-	-
Interfund transfers:						
Transfer to establish reserve	(50,000)	-	-	50,000	-	-
Balance, end of year	\$ 752,434	\$ 1,159,390	\$ 200,000	\$ 250,000	\$ 2,361,824	\$ 2,037,654

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Cash Flows

Year Ended December 31, 2013

	<u>2013</u>	<u>2012</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 324,170	\$ 434,460
Items not affecting cash		
Amortization - capital assets	31,910	32,165
Amortization - intangible assets	111,443	69,432
Reinvested distributions	(44,925)	(50,862)
Change in fair value and realized gains on sale of investments	18,877	26,858
Changes in non-cash working capital		
Accrued interest receivable	1,345	(5,401)
Accounts receivable	(12,548)	(2,752)
Prepaid expenses	328	2,239
Accounts payable and accrued liabilities	15,864	737
Deferred tenant inducement	5,473	7,438
Annual license renewal fees received in advance	2,810	(8,090)
	<u>454,747</u>	<u>506,224</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	331,410	349,524
Purchase of investments	(110,000)	(699,566)
Purchase of capital assets	(21,749)	(69,798)
Purchase of intangible assets	(665,936)	(84,790)
	<u>(466,275)</u>	<u>(504,630)</u>
NET (DECREASE) INCREASE IN CASH	(11,528)	1,594
CASH, BEGINNING OF YEAR	176,570	174,976
CASH, END OF YEAR	\$ 165,042	\$ 176,570

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Year ended December 31, 2013

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. 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
Leasehold improvements	Straight line over term of lease

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
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INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Financial instruments (continued)

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.

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 \$23,930 (2012 - \$21,705) to employees' registered savings plans. The contributions are expensed as incurred.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2013

3. INVESTMENTS

Short-Term Investments		December 31, 2013	
Bonds	Rate	Maturity Date	Fair Value
Renaissance High Interest Savings Account	Variable	N/A	\$ 1,700
Trimark Floating Rate Income Fund	Variable	N/A	84,859
CitiGroup Financial Canada Inc.	4.75%	March 17, 2014	77,512
Canadian Imperial Bank of Commerce	4.75%	December 22, 2014	92,834
			\$ 256,905
Long-Term Investments		December 31, 2013	
Bonds	Rate	Maturity Date	Fair Value
Altgas Limited	4.10%	March 24, 2016	\$ 52,135
Bell Canada	3.60%	December 2, 2015	41,263
Bell Canada	5.00%	February 15, 2017	155,026
Brookfield Asset Mgmt Inc.	5.20%	September 8, 2016	151,980
Calloway Real Estate	5.10%	June 4, 2015	52,009
Canadian Imperial Bank of Commerce	Variable	June 20, 2015	58,787
Canadian Imperial Bank of Commerce	Variable	December 14, 2017	38,642
CIBC Premium Yield	Variable	January 19, 2019	65,818
Laurentian Bank of Canada	3.70%	November 2, 2015	71,581
Manulife Financial Corp	5.16%	June 26, 2015	75,560
CIBC Premium Yield	Variable	December 20, 2019	111,491
			\$ 874,292

The adjustment to fair value at December 31, 2013 was an unrealized loss of \$17,799 (2012 - unrealized loss of \$21,343) which was recognized in investment income.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2013

3. INVESTMENTS (continued)

Short-Term Investments		December 31, 2012	
Bonds	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		December 31, 2012	
Bonds	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

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2013

4. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 93,630	\$ 46,809	\$ 46,821	\$ 48,841
Computer hardware	84,414	61,383	23,031	20,994
Computer software	283,917	276,617	7,300	15,299
Leasehold improvements	15,243	4,718	10,525	12,703
	<u>\$ 477,204</u>	<u>\$ 389,527</u>	<u>\$ 87,677</u>	<u>\$ 97,837</u>

5. INTANGIBLE ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2013</u>	<u>2012</u>
Software development costs	\$ 1,373,850	\$ 302,136	\$ 1,071,714	\$ 517,222

Certain applications and systems software development costs have been capitalized amounting to \$665,936 in 2013 (\$84,790 in 2012).

6. DEFERRED TENANT INDUCEMENT

	<u>2013</u>	<u>2012</u>
The lease agreement includes tenant inducements which are amortized straight-line over the term of the lease.	\$ 15,717	\$ 10,244

7. 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.

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

December 31, 2013

8. 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.

9. COMMITMENTS

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

2014	\$	40,767
2015		46,660
2016		49,117
2017		50,099
2018		33,400
	\$	<u>220,043</u>

10. COMPARATIVE FIGURES

Certain comparative figures have been restated to be consistent with current year disclosures.