

**INSURANCE COUNCILS
OF SASKATCHEWAN**

FINANCIAL STATEMENTS

December 31, 2015



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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, 2015, 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, 2015, 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.

Chartered Professional Accountants, Chartered Accountants
Licensed Professional Accountants

April 4, 2016
Regina, Saskatchewan

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Financial Position

As at December 31

	2015	2014
CURRENT ASSETS		
Cash	\$ 512,579	\$ 130,167
Accrued interest receivable	9,222	8,178
Accounts receivable	4,221	23,592
Prepaid expenses	5,477	3,072
Short-term investments (Note 3)	366,015	272,541
	897,514	437,550
LONG-TERM INVESTMENTS (Note 3)	1,021,589	1,095,453
CAPITAL ASSETS (Note 4)	73,456	78,232
INTANGIBLE ASSETS (Note 5)	1,213,820	1,146,451
	\$ 3,206,379	\$ 2,757,686
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 91,998	\$ 25,199
Annual license renewal fees received in advance	77,735	79,545
Deferred tenant inducement (Note 6)	15,858	18,734
	185,591	123,478
NET ASSETS		
Unrestricted	1,183,512	909,525
Invested in capital assets and intangible assets	1,287,276	1,224,683
Internally restricted litigation reserve (Note 7)	200,000	200,000
Internally restricted software development reserve (Note 8)	350,000	300,000
	3,020,788	2,634,208
	\$ 3,206,379	\$ 2,757,686

See accompanying notes

ON BEHALF OF THE COUNCIL

 Member

 Member

 Member

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Operations

Year ended December 31

	2015	2014
REVENUE		
License fees	\$ 1,602,135	\$ 1,469,394
Investment income	22,333	25,259
Examination fees	99,595	62,505
Investigative cost recovery	10,460	1,430
Investigative fines and penalties	34,480	3,208
Course provider fees	14,740	14,820
Miscellaneous	250	-
Rental income	20,300	19,250
	1,804,293	1,595,866
EXPENSES		
Amortization - intangible assets	181,467	111,704
Amortization - capital assets	24,699	34,628
Audit and legal fees	35,902	35,924
Bank charges	36,661	29,865
Bond / insurance	3,856	3,850
Complaints	8,352	6,270
Computer	97,400	22,554
Committee meetings	48,923	78,820
Consultants	56,993	59,613
Council meetings - GICS	46,248	53,016
- Hail	1,348	7,058
- Life	38,086	41,394
Examination	15,109	11,054
Investigation	10,439	10,525
Miscellaneous	801	3,443
Office supplies	24,533	23,027
Postage and courier	17,737	23,640
Rent expense	95,466	94,773
Salaries	663,476	662,451
Telephone	10,217	9,873
	1,417,713	1,323,482
EXCESS OF REVENUE OVER EXPENSES	\$ 386,580	\$ 272,384

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Changes in Net Assets

Year ended December 31

	Unrestricted Net Assets	Invested in Property and Equipment and Intangible Assets	Internally Restricted		2015 Total	2014 Total
			Litigation Reserve	Software Development Reserve		
Balance, beginning of year	\$ 909,525	\$ 1,224,683	\$ 200,000	\$ 300,000	\$ 2,634,208	\$ 2,361,824
Excess of revenue over expenses	592,746	(206,166)	-	-	386,580	272,384
Investment in long-lived assets	(268,759)	268,759	-	-	-	-
Interfund transfers:						
Transfer to establish reserve	(50,000)	-	-	50,000	-	-
Balance, end of year	\$ 1,183,512	\$ 1,287,276	\$ 200,000	\$ 350,000	\$ 3,020,788	\$ 2,634,208

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Statement of Cash Flows

Year Ended December 31

	<u>2015</u>	<u>2014</u>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 386,580	\$ 272,384
Items not affecting cash		
Amortization - capital assets	24,699	34,628
Amortization - intangible assets	181,467	111,704
Change in fair value and realized gains on sale of investments	27,049	17,130
Changes in non-cash working capital		
Accrued interest receivable	(1,044)	(654)
Accounts receivable	19,371	(2,511)
Prepaid expenses	(2,405)	1,623
Accounts payable and accrued liabilities	66,799	(8,714)
Deferred tenant inducement	(1,810)	3,017
Annual license renewal fees received in advance	(2,876)	2,070
	<u>697,830</u>	<u>429,411</u>
INVESTING ACTIVITIES		
Proceeds from sale of investments	423,553	270,884
Purchase of investments	(470,212)	(524,813)
Purchase of capital assets	(19,923)	(25,181)
Purchase of intangible assets	(248,836)	(186,442)
	<u>(315,418)</u>	<u>(464,286)</u>
NET INCREASE (DECREASE) IN CASH	382,412	(34,875)
CASH, BEGINNING OF YEAR	130,167	165,042
CASH, END OF YEAR	\$ 512,579	\$ 130,167

See accompanying notes

INSURANCE COUNCILS OF SASKATCHEWAN

Notes to the Financial Statements

Year ended December 31, 2015

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 capital assets and intangible assets. 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, 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Long-lived assets

When an item in capital assets no longer has any long-term service potential to ICS, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Write-downs are not reversed.

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 investments which are recorded at fair value. Changes in fair value are recognized in the statement of operations.

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, 2015

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 \$35,296 (2014 - \$35,786) to employees' registered savings plans. The contributions are expensed as incurred.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
December 31, 2015

3. INVESTMENTS

Short-Term Investments	December 31, 2015		
	Rate	Maturity Date	Fair Value
Renaissance high interest savings account	Variable	N/A	\$ 25
Bank of Montreal savings account	Variable	N/A	83,752
Brookfield Asset Mgmt Inc. bond	5.20%	8-Sep-16	145,225
National Bank bond	Variable	15-Dec-16	137,013
			\$ 366,015

Long-Term Investments	December 31, 2015		
	Rate	Maturity Date	Fair Value
CIBC commercial paper	N/A	14-Dec-17	\$ 39,236
Bell Canada bond	5.00%	15-Feb-17	149,393
CIBC commercial paper	N/A	20-Jun-18	62,465
CIBC commercial paper	N/A	20-Dec-19	102,536
CIBC commercial paper	N/A	19-Jan-19	66,638
Veresen Inc. bond	4.00%	22-Nov-18	128,235
Ford Credit Canada bond	3.32%	19-Dec-17	128,674
Manufacturers Life bond	2.82%	26-Feb-23	128,519
Riocan Real Estate bond	N/A	5-Mar-18	49,991
Cominar Real Estate bond	N/A	15-Jun-17	51,189
Canadian Western Bank commercial paper	N/A	14-Jan-19	114,713
			\$ 1,021,589

The adjustment to fair value at December 31, 2015 was an unrealized loss of \$27,048 (2014 - unrealized loss of \$13,505) which was recognized in investment income.

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
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3. INVESTMENTS (continued)

Short-Term Investments	December 31, 2014		
	Rate	Maturity Date	Fair Value
Renaissance high interest savings account	Variable	N/A	\$ 1,721
Trimark floating rate income fund	Variable	N/A	86,045
Bell Canada bond	3.60%	2-Dec-15	40,659
Laurentian Bank of Canada bond	3.70%	2-Nov-15	70,899
Manulife Financial Corp	5.16%	26-Jun-15	73,217
			\$ 272,541

Long-Term Investments	December 31, 2014		
	Rate	Maturity Date	Fair Value
CIBC bond	N/A	14-Dec-17	\$ 39,940
Bell Canada bond	5.00%	15-Feb-17	153,116
Brookfield Asset Mgmt Inc. bond	5.20%	8-Sep-16	148,972
CIBC bond	N/A	20-Jun-18	60,902
CIBC bond	3.15%	2-Nov-20	130,458
CIBC bond	N/A	20-Dec-19	107,992
CIBC bond	N/A	19-Jan-19	65,854
Veresen Inc. bond	4.00%	22-Nov-18	130,628
Ford Credit Canada bond	3.32%	19-Dec-17	129,303
Manufacturers Life bond	2.82%	26-Feb-23	128,288
			\$ 1,095,453

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value	
			2015	2014
Furniture and equipment	\$ 94,223	\$ 63,830	\$ 30,393	\$ 37,991
Computer hardware	112,910	81,885	31,025	28,072
Computer software	299,933	294,065	5,868	3,822
Leasehold improvements	15,243	9,073	6,170	8,347
	\$ 522,309	\$ 448,853	\$ 73,456	\$ 78,232

INSURANCE COUNCILS OF SASKATCHEWAN
Notes to the Financial Statements
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5. INTANGIBLE ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	
			<u>2015</u>	<u>2014</u>
Software development costs	\$ 1,809,128	\$ 595,308	\$ 1,213,820	\$ 1,146,451

Certain applications and systems software development costs have been capitalized amounting to \$248,836 in 2015 (\$186,442 in 2014).

6. DEFERRED TENANT INDUCEMENT

	<u>2015</u>	<u>2014</u>
The lease agreement includes tenant inducements which are amortized straight-line over the term of the lease.	\$ 15,858	\$ 18,734

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.

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 three years as follows:

2016	49,117
2017	50,099
2018	33,400
	<u>\$ 132,616</u>