

Farmers' Mutual Insurance Agency Limited

Financial statements

December 31, 2019

Contents

	Page
Independent review practitioner's engagement report	1
Statement of financial position	2
Statements of operations and retained earnings	3
Statement of cash flows	4
Notes to the financial statements	5 – 13

Independent Practitioner's Review Engagement Report

Grant Thornton LLP
Suite 204
220 Main Street
Antigonish, NS
B2G 2C2
T +1 902 863 4587
F +1 902 863 0917
www.GrantThornton.ca

To the shareholders of
Farmers' Mutual Insurance Agency Limited

We have reviewed the accompanying financial statements of Farmers' Mutual Insurance Agency Limited that comprise the balance sheet as at December 31, 2019, and the statements of operations and retained earnings 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 International Financial Reporting Standards, 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.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of Farmers' Mutual Insurance Agency Limited as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 15 of the financial statements which explains that certain comparative information for the year ended December 31, 2018, has been restated.



Antigonish, Canada
February 25, 2020

Chartered Professional Accountants

Farmers' Mutual Insurance Agency Limited

Statement of financial position

December 31

2019

2018

Restated
(Note 15)**Assets**

Current

Cash and cash equivalents	\$	302,686	\$	213,707
Receivables		130,015		99,945
Income taxes receivable		-		7,280
Trust fund assets (note 8)				
Cash		20,320		43,398
Premiums receivable		18,579		36,795
		<u>471,600</u>		401,125
Intangibles (note 4)		1		1
Computer equipment (note 5)		4,572		10,923
	\$	<u>476,173</u>	\$	<u>412,049</u>

Liabilities

Current

Payables and accruals	\$	8,705	\$	5,617
Income tax payable		23,248		-
Trust fund liabilities (note 8)		11,776		43,628
		<u>43,729</u>		49,245
Deferred tax		1,120		2,741
		<u>44,849</u>		51,986

Shareholder equity

Capital stock (note 6)		2		2
Retained earnings		431,322		360,061
		<u>431,324</u>		360,063
	\$	<u>476,173</u>	\$	<u>412,049</u>

Approved on behalf of the Board

Director_____
Director

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited

Statements of operations and retained earnings

Year ended December 31	2019	2018
		Restated (Note 15)
Revenues		
Commission income - insurance	\$ 485,161	\$ 480,342
Agency bill income	61,436	53,872
Profit sharing	95,133	61,916
Other	<u>40</u>	<u>-</u>
	<u>641,770</u>	<u>596,130</u>
Expenses		
Depreciation	6,351	6,351
Bank charges	2,846	1,830
Commissions	241,496	229,727
Dues and fees	6,708	10,600
Information technology	51,926	66,901
Office	2,081	12,632
Professional fees	8,451	5,290
Provision for doubtful accounts	841	1,126
Rent	6,900	6,900
Wages and benefits	<u>210,906</u>	<u>194,166</u>
	<u>538,506</u>	<u>535,523</u>
Income before income taxes	<u>103,264</u>	<u>60,607</u>
Income taxes (note 12)		
Current	33,624	19,964
Deferred	<u>(1,621)</u>	<u>(1,170)</u>
	<u>32,003</u>	<u>18,794</u>
Net income	<u>\$ 71,261</u>	<u>\$ 41,813</u>
<hr/>		
Retained earnings, beginning of year, as previously reported	\$ 348,831	\$ 318,248
Prior period adjustment (note 15)	<u>11,230</u>	<u>-</u>
Retained earnings, beginning of the year, As restated	360,061	318,248
Net income	<u>71,261</u>	<u>41,813</u>
Retained earnings, end of year	<u>\$ 431,322</u>	<u>\$ 360,061</u>

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited

Statement of cash flows

Year ended December 31	2019	2018
		Restated (Note 15)
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net income	\$ 71,261	\$ 41,813
Depreciation	6,351	6,351
Deferred tax	(1,621)	(1,170)
Change in non-cash operating working capital (note 7)	<u>3,546</u>	<u>(39,567)</u>
	<u>79,537</u>	<u>7,427</u>
Financing activities		
Change in trust fund items	<u>9,442</u>	<u>12,185</u>
Increase in cash and cash equivalents	88,979	19,612
Cash and cash equivalents Beginning of year	<u>213,707</u>	<u>194,095</u>
End of year	<u>\$ 302,686</u>	<u>\$ 213,707</u>
Supplemental cash flow information		
Income tax paid	\$ <u>15,423</u>	\$ <u>32,474</u>
Interest paid	\$ <u>Nil</u>	\$ <u>Nil</u>

See accompanying notes to the financial statements

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

1. Nature of business

The Company was incorporated on June 17, 2010 under the laws of the Province of Nova Scotia after previously operating as a division of its parent, Antigonish Farmers' Mutual Insurance Company. The address of Company's registered office is 188 Main Street, Antigonish, NS B2G 2B9. The Company operates an insurance brokerage business.

2. Basis for presentation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The financial statements were authorized for issue by the Board of Directors on January 21, 2020.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost basis, except for those financial assets and financial liabilities that have been measured at a fair value as described in Note 3.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgement

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 3

Note 3

Income taxes

Computer equipment – depreciation

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

2. Basis for presentation (continued)

- (e) Critical judgements in applying the Company's accounting policies.

Management has not made any critical judgements apart from those involving estimations in the process of applying the Company's accounting policies that have a significant effect on the amounts recognized in these financial statements.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, balances with banks which are subject to an insignificant risk of changes in value.

The estimated fair value of cash and cash equivalents approximate carrying values due to the relatively short term nature of the instruments.

Financial instruments

The Company's financial assets are classified as fair value through profit or loss, or amortized cost. Financial liabilities are classified as amortized cost. Financial assets and liabilities are initially recognized at fair value with subsequent measurement based on classification. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and choice where applicable.

Financial assets are measured at fair value except for those classified as amortized cost, which are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument, then subsequently carried at amortized cost using the effective interest method.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Impairment of financial assets

Financial assets are classified at amortized cost and debt instruments are classified at fair value through other comprehensive income. Allowance for credit losses are recorded on financial assets regardless of whether there has been an actual impairment.

Recognition of credit losses are based on up to 12 months of expected losses for performing assets (Stage 1) and the recognition of lifetime expected losses on performing assets that have experienced a significant increase in credit risk since origination (Stage 2). Stage 3 requires the recognition of lifetime losses for all credit impaired assets. The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including: past events, current conditions and reasonable forecasts that affect the expected collectability of the future cash flows of the instrument.

Revenue recognition

Insurance commission income is recognized as of the effective date of the insurance policy.

Computer equipment

Computer equipment is recorded at cost less accumulated depreciation and any recognized impairment loss. Depreciation is charged so as to write off the cost or valuation of computer equipment over its estimated useful life using the following method and rate:

Computer equipment	5 years, straight-line
--------------------	------------------------

The assets' residual value, useful life and method of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. If an asset is impaired, the carrying amount is reduced to the asset's recoverable amount with an offsetting charge recorded in the statement of operations. If events or changes in circumstances indicate that a previously recognized impairment loss has decreased or no longer exists, the reversal is recognized in the statement of operations to the extent that the carrying amount of the asset after reversal does not exceed the carrying amount that would have been had no impairment taken place.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

3. Summary of significant accounting policies (continued)

Computer equipment (continued)

Gains and losses arising from the disposition of the computer equipment asset are measured as the difference between the net disposal proceeds and the carrying value of the asset and are reported in the statement of operations.

Any item of computer equipment is derecognized upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is included in the statement of operations in the year the asset is derecognized.

Income taxes

Tax expense represents the sum of tax currently payable and deferred tax.

Tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the statement of operations because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of operations, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to sell off current tax assets against current tax liabilities and when the Company intends to settle its current tax assets and liabilities on a net basis.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of a past transaction, including legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle at the reporting date.

New and revised International Financial Reporting Standards adopted during the year and issued but not yet effective

IFRS 16 – Leases

The IASB released IFRS 16 *Leases*, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor).

All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. When applying that model, a lessee is required to recognize:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value
- depreciation of lease assets separately from interest on lease liabilities in the income statement

The Company adopted this new standard; there were no material changes as a result of adoption.

IAS 12 – Income Taxes

The IASB released IAS 12 clarification that an entity recognizes income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend

The Company adopted this new standard amendment; there were no material changes as a result of adoption.

4. Intangible assets

The Company's intangible assets represent customer list. The customer list is recorded at the nominal value of \$1.

	<u>2019</u>	<u>2018</u>
Customer list	\$ <u>1</u>	\$ <u>1</u>

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

5. Computer equipment	<u>2019</u>	<u>2018</u>
Gross carrying amount		
Balance, December 31, 2018	\$ 31,755	\$ 31,755
Additions	-	-
Disposals	<u>-</u>	<u>-</u>
	<u>31,755</u>	<u>31,755</u>
Amortization and impairment		
Balance, December 31, 2018	20,832	14,481
Depreciation	6,351	6,351
Disposals	<u>-</u>	<u>-</u>
	<u>27,183</u>	<u>20,832</u>
At December 31, 2019	\$ <u>4,572</u>	\$ <u>10,923</u>

The Company did not record any impairment charges or reversals during the year.

6. Capital stock	<u>2019</u>	<u>2018</u>
Authorized:		
One common share with no par value		
Issued:		
1 common share	\$ <u>2</u>	\$ <u>2</u>

7. Supplemental cash flow information	<u>2019</u>	<u>2018</u>
		Restated (Note 15)
Changes in non-cash operating working capital		
Receivables	\$ (30,070)	\$ (27,062)
Income taxes receivable	30,528	(12,511)
Payables and accruals	<u>3,088</u>	<u>6</u>
	\$ <u>3,546</u>	\$ <u>(39,567)</u>

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

8. Trust funds

Under agreements with insurers, all premiums collected by the Company, less commissions and other deductions, are to be held in trust for these companies. These funds cannot be used or applied for other purposes and must be remitted to the insurer within a specific period after the effective date of the policies. Premiums receivable are not assignable.

9. Future employee benefits

Included in expenditures is \$5,475 (2018 - \$4,981) in contributions the company made on behalf of its employees under a defined contribution pension plan.

10. Financial instrument management

Credit risk

Credit risk is the risk that a counterparty fails to discharge on obligation to the Company. The Company is exposed to credit risk from financial assets including cash and cash equivalents held at banks, receivables and premium receivables.

Credit risk management

The credit risk is managed based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash and cash equivalents are managed by only using major reputable financial institutions.

Receivables and premium receivables are short term in nature consisting of a large number of policyholders across geographical locations, and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

Security

Receivables consist of large numbers of customers in various geographical areas. The Company does not hold any security on receivable balances, nor any security on cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business.

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

11. Related party transactions

Compensation for the Company's key management personnel is set out below:

	<u>2019</u>	<u>2018</u>
Key management personnel		
Salaries, commissions and benefits	\$ <u>119,288</u>	\$ <u>108,175</u>

During the year, the Company paid rental income to its shareholder of \$6,000 (2018 - \$6,000), income of \$22,509 (2018 - \$Nil) and expenses of \$82,458 (2018 - \$97,076) related to salaries of employees.

12. Income taxes

Income tax expense attributable to taxable income differs from the amounts computed by applying the combined federal and provincial income tax rate of 31% (2018 - 31.00%) to income before income taxes as a result of the following:

The provision for income tax (recovery) expense is as follows:

	<u>2019</u>	<u>2018</u> Restated (Note 15)
Income before income taxes	\$ <u>103,264</u>	\$ <u>60,607</u>
Income tax expense at the statutory rate	\$ <u>32,012</u>	\$ <u>18,788</u>
Changes in income taxes		
Other	<u>(9)</u>	<u>6</u>
	\$ <u>32,003</u>	\$ <u>18,794</u>

Deferred tax liability, arising from temporary differences is summarized as follows:

<i>Deferred tax liability</i>	<u>2019</u>	<u>2018</u>
Equipment	\$ <u>(1,120)</u>	\$ <u>(2,741)</u>

Farmers' Mutual Insurance Agency Limited

Notes to the financial statements

December 31, 2019

13. Capital management

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, (ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, and (iii) to maintain an optimal capital structure that provides necessary financial flexibility. No changes were made to these objectives in the current year.

The Company sets the amount of capital in proportion to its overall financing structure, its equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

14. Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization.

15. Prior period adjustment

During the year, management determined that profit sharing revenues and receivables were understated by \$16,278 at December 31, 2018. The corresponding impact to 2018 current income tax expense was an understatement of \$5,048 and income taxes receivable was overstated by \$5,048.

As a result of these errors, the following financial statement items as at December 31, 2018 have been increased (decreased) as follows:

	Previously <u>Reported</u>	<u>Adjustments</u>	<u>Restated</u>
<u>Statement of operations and retained earnings</u>			
Profit sharing revenue	\$ 45,638	\$ 16,278	\$ 61,916
Current income tax expense	14,916	5,048	19,964
Retained earnings	348,831	11,230	360,061
<u>Balance sheet</u>			
Receivables	83,667	16,278	99,945
Income taxes receivable	12,328	(5,048)	7,280
<u>Cash flow statement</u>			
Receivables	(10,784)	(16,278)	(27,062)
Income taxes receivable	(17,559)	5,048	(12,511)
Net income	30,583	11,230	41,813