

Financial Report – August 31, 2021

Report prepared by Alec Harmer, September 14, 2021

Summary

The income statement showed underwriting at fifteen times the budgeted amount with a \$7.5 million profit. Earned premiums were up 5.6% from last year, despite lack luster premium growth. However, the remarkable result is due to the low claims incurred year to date. Net claims costs are down 37.5% compared to this time last year and down 55% from budget. General expenses, in total, are under budget at \$7.8 million, 4.4% lower than budget. Overall, the market value of our investments are remaining strong and year to date market value increased in value by \$1.2 million. In general our investment income is off last year's results but higher than budget expectations. Our net profit of \$7 million after our tax estimates is a significant improvement over last year's excellent results and budget expectations.

Details – Balance Sheet

Our balance sheet is strong with surplus up 19.5% from this time last year. Cash and investments are up 14% from last year and 2.7% higher than budgeted. Cash will be reviewed at the end of September and any excess will be transferred to investments. Right now, we have excess cash with 9 million in our account. After FM Re's deposit, we will have about \$4 million to transfer.

Reinsurance recoverable(s) are on par with last year and lower than our budget. We have had almost no reinsurance activity for current year claims. Our budget assumed modest activity, so we are below budget by 18%. On the flip side, Gross claims have dropped a modest amount of 3.5% to \$22.6 million.

Assets now stand at \$88.2 million dollars, up 9.6% from last year and 0.7% above budget.

Liabilities are up 0.9% from last year to \$43.5 million but 11% under our budgeted amount. Unearned premiums are up 5.5% due to some premium increases but that increase in liabilities was offset by a reduction in outstanding claims. These two numbers cover the change in total liabilities.

Details – Income Statement

Direct premiums written has increased by 3.9% over the same period last year and fell from July's YTD where we had seen improvement over the 2nd quarter in our growth. This continues to be below budget expectations and it is now reasonable to assume 2021 will not meet the budget. We continue to monitor premium growth.

After reinsurance costs, net earned premiums are up 5.6% from last year.

Reinsurance costs are close to 2020 with the increase in retention taken helping to offset the rate increases. Modest premium growth will mean reinsurance estimates in the budget will be exaggerated.

When reviewing the claims and general expenses, I will remind you of the changes in accounting practices. We have added some new expense accounts that will enable us to provide the board and management more detailed information. When we add new accounts, we can't show a direct comparison to last year, as last year's account is \$0 and this will continue for a year. By next March, you will have a year over year comparison for each of these new accounts. I will highlight where the comparable information was last year as we go through each section.

Gross Claims Incurred

Our positive results year to date are a result of the low claims incurred year to date of \$5.1m, down 44% from last year and 62% from budget. Our reinsurance recoveries were in a negative position by just over \$100,000. This adjustment increases Net Claims Incurred to \$5.2 million.

Net loss ratio to August 31st is 25.8%.

You will also notice the first new account, Claims Benefits. Prior to this year we expensed all of the health benefits and pension to one account. We are now allocating our benefit costs and company portion of the pension costs to the applicable department.

Policy Acquisition Expenses

We have made a few changes to this section. The Distribution manager's salary is now included with the sales salaries and all of their benefits are broken out into a new account. In addition, we are including the amortization of the purchase of Gunter Insurance in this section. Last year it was included with depreciation. Acquisition expenses are up 8.5%. General commissions are up relative to the growth @ 4.3% while we have increase our CPC estimate to \$412,500 (+28.9%). The other increase affecting this area are from accounting changes as previous noted.

Directors Fees and Benefits

Similar to the other areas the benefits are now allocated to a new account. Director fees are down 23% from the budgeted amount. As was mentioned last year, the directors' fee expenses were exaggerated through the year and correct at year end. Significant board activity occurred in June and July of 2020 causing that year to also be higher than normal. 2021's figures represent the actual expenses for January through August. The board has also moved to pay out annual honourariums on a monthly basis, increasing the accuracy further.

Professional Fees

These are in-line with the prior period and below budget. Since these costs are through third parties, this will be timing and we have some expenses upcoming in this area.

Salaries and Benefits

Two areas impacting this section are reallocating the distribution manager's salary and benefits as well as allocating benefits to each specific area (claims, loss prevention, directors and distribution). We are above budget in these areas and it could be some budget projection issues. We also had a maternity leave, where an individual was hired earlier to help when the maternity leave occurs. We also have a maternity leave benefit which tops up the individual's salary over EI, during the term. This is in-line with our values of family and just for your interest, the first maternity leave in over 20 years.

Advertising & Donations

Donations are just starting in 2021 compared to 2020, which were accelerated by the pandemic. Hospital donations will go out as normal in the 3rd quarter and the donation of \$25k to Five Counties Children is included in the current numbers.

Education

Additional education costs were incurred this year, including Warren and April's accounting session during June. The amount is still in-line with our budget.

Depreciation

Depreciation expense last year included computer depreciation and amortization of Gunter Insurance. This year they are being allocated to their own accounts. The budget is not aligned well with depreciation expenses and we will work on improving that estimate for 2022.

Building Expenses

The big change here is the taxes. This is timing with 2020, but you can see the expense is in-line with budget expectations. The cleaning costs are up due to the pandemic response and anticipated pretty well in the budget.

Technology

We have added several new accounts in this section. Insurance System Fees (ISF) are basically Cognition costs, then we have IT Contractors, IT Supplies, Software and other License Fees and Depreciation for Computers. The budget for IFS is off due to the expense being paid by quarter and the budget allocating the expense by month.

Risk Analysis & Prevention

Similar to the other departments we have added benefits to this section. We will also have a new account for External Inspection Expense to recognize the cost of inspection software and other inspection expense from third parties. More travel expenses were considered in the budget but the pandemic held us back from field inspections for longer than we thought.

Investment Income

Investment income has held up nicely with dividend earnings increase offsetting losses in sales. Market value continues to be positive after a sluggish start to the year.

Underwriting profit is up \$4.2 million from 2020 with our combined ratio sitting at 64.3%. Our expense ratio, assisted in part by reduced activities due to the pandemic, sits at 38.5%.

We use approximately 25% as a tax rate, so the result is an estimate of just over \$2.3m on \$9.3m of pre-tax profit.

Balance Sheet as at August 31st

ASSETS

Cash & Investments

	2020	2021	% off Prior	2021 B	% off Budget
Cash	8,491,278	9,097,268	7.1%	6,965,148	30.6%
Accrued Interest	194,061	202,613	4.4%	200,488	1.1%
Investments @ Cost	42,672,444	47,718,288	11.8%	50,861,235	-6.2%
Change in Market Value	<u>2,192,306</u>	<u>4,151,968</u>	89.4%	<u>1,532,311</u>	171.0%
	53,550,089	61,170,136	14.2%	59,559,182	2.7%

Accounts Receivable

Policyholders	8,890,343	9,028,335	1.6%	8,764,212	3.0%
Due from Facility	<u>420,530</u>	<u>441,699</u>	5.0%	<u>403,917</u>	9.4%
	9,310,873	9,470,033	1.7%	9,168,129	3.3%

Reinsurance

Due from FM Re - Catastrophe Claims	1,046,951	566,088	-45.9%	241,422	134.5%
Due from FM Re - Paid Claims	218,889	76,707	-65.0%	0	0.0%
Reinsurance Claims Reserves	(3,014,193)	3,464,418	-214.9%	5,263,938	-34.2%
Reinsurance Claims IBNR	<u>8,261,356</u>	<u>2,148,839</u>	-74.0%	<u>2,148,839</u>	0.0%
	6,513,003	6,256,052	-3.9%	7,654,199	-18.3%

Broker Acquisition

Broker Purchase	568,000	568,000	0.0%	568,000	0.0%
Broker Acquisition - Amortization	<u>(142,267)</u>	<u>(255,967)</u>	79.9%	<u>(254,667)</u>	0.5%
	425,733	312,033	-26.7%	313,333	-0.4%

Building and Equipment

Land	1,039,600	1,039,600	0.0%	1,039,600	0.0%
Building	5,635,326	5,635,326	0.0%	5,635,326	0.0%
Building - Accumulated Depreciation	<u>471,688</u>	<u>610,492</u>	29.4%	<u>612,572</u>	-0.3%
	5,163,638	5,024,834	-2.7%	5,022,754	0.0%
Building Components	645,705	645,705	0.0%	645,705	0.0%
Building Components - Accum. Depreciation	<u>107,694</u>	<u>139,899</u>	29.9%	<u>139,979</u>	-0.1%
	538,011	505,805	-6.0%	505,725	0.0%
Office Equipment	731,040	764,308	4.6%	814,308	-6.1%
Office Equipment - Accum. Depreciation	<u>243,744</u>	<u>320,663</u>	31.6%	<u>321,545</u>	-0.3%
	487,296	443,645	-9.0%	492,763	-10.0%
Computer Equipment	801,430	796,730	-0.6%	811,441	-1.8%
Computer Equipment - Accum. Depreciation	<u>516,466</u>	<u>597,440</u>	15.7%	<u>618,429</u>	-3.4%
	284,963	199,290	-30.1%	193,013	3.3%

Other Assets

Deferred Policy Acquisition Expenses	3,046,039	3,266,519	7.2%	3,485,901	-6.3%
Prepaid Expenses	111,812	474,584	324.4%	111,812	324.4%
Employee Payroll Deductions	<u>(4,777)</u>	<u>(1,834)</u>	-61.6%	<u>(3,047)</u>	-39.8%
	3,153,074	3,739,269	18.6%	3,594,666	4.0%
	<u>\$80,466,280</u>	<u>\$88,160,698</u>	9.6%	<u>\$87,543,365</u>	0.7%

Balance Sheet as at August 31st

	2020	2021	% off Prior	2021 B	% off Budget
LIABILITIES					
Accounts Payable					
Expenses Due & Accrued	422,442	406,608	-3.7%	435,423	-6.6%
Reinsurance Premiums Due	245,074	47,772	-80.5%	494,124	-90.3%
Employee Payroll Deductions	<u>(176)</u>	<u>28</u>	-116.0%	<u>0</u>	0.0%
	667,340	454,408	-31.9%	929,547	-51.1%
Due to Brokers					
Contingent Profit Sharing	360,231	422,354	17.2%	400,000	5.6%
Marketing Program	0	114,959	0.0%	26,634	331.6%
Commissions	<u>485,972</u>	<u>489,010</u>	0.6%	<u>524,324</u>	-6.7%
	846,203	1,026,323	21.3%	950,958	7.9%
Outstanding Claims					
Facility Claims	0	0	0.0%	0	0.0%
Gross Claims Outstanding	13,081,932	16,623,794	27.1%	22,494,861	-26.1%
Gross Claims IBNR	<u>10,382,264</u>	<u>6,010,042</u>	-42.1%	<u>6,050,042</u>	-0.7%
	23,464,196	22,633,836	-3.5%	28,544,903	-20.7%
Taxes Due					
Income Taxes	864,788	1,163,711	34.6%	(600,055)	-293.9%
RST & HST	<u>133,472</u>	<u>142,450</u>	6.7%	<u>144,005</u>	-1.1%
	998,259	1,306,161	30.8%	(456,050)	-386.4%
UEP & Other Liabilities					
Miscellaneous	0	0	0.0%	0	0.0%
Premium Deficiency	0	0	0.0%	0	0.0%
Unearned Premiums	<u>17,148,004</u>	<u>18,098,232</u>	5.5%	<u>18,941,430</u>	-4.5%
	17,148,004	18,098,232	5.5%	18,941,430	-4.5%
	<u>43,124,002</u>	<u>43,518,960</u>	0.9%	<u>48,910,788</u>	-11.0%
SURPLUS					
Opening Balance	33,159,806	37,640,360	13.5%	37,640,365	0.0%
Earnings during the Period	<u>4,182,471</u>	<u>7,001,379</u>	67.4%	<u>992,212</u>	605.6%
Ending Surplus	37,342,277	44,641,738	19.5%	38,632,577	15.6%
	<u>\$80,466,280</u>	<u>\$88,160,698</u>	9.6%	<u>\$87,543,365</u>	0.7%

Income Statement to August 31st

	2020	2021	% off Prior	2021 B	% off Budget
Premiums					
Premiums Written - Direct	22,700,519	23,590,534	3.9%	24,453,137	-3.5%
Premiums Written - Facility/Other	<u>188,788</u>	<u>146,262</u>	-22.5%	<u>176,338</u>	-17.1%
	22,889,307	23,736,796	3.7%	24,629,474	-3.6%
Reinsurance Premiums					
Reinsurance Ceded - Direct	2,699,858	2,511,608	-7.0%	3,212,082	-21.8%
Reinsurance Ceded - Other	<u>71,893</u>	<u>318,322</u>	342.8%	<u>214,493</u>	48.4%
	2,771,751	2,829,930	2.1%	3,426,575	-17.4%
Change in Unearned Premium					
Increase / (Decrease) in UEP	<u>986,830</u>	<u>704,618</u>	-28.6%	<u>1,370,173</u>	-48.6%
NET EARNED PREMIUM	19,130,726	20,202,249	5.6%	19,832,726	1.9%
Policy Interest / Charges					
Pre-authorized Payment Revenue	307,094	328,979	7.1%	325,919	0.9%
NSF Fees	<u>3,254</u>	<u>0</u>	-100.0%	<u>4,674</u>	-100.0%
TOTAL INCOME	<u>19,441,074</u>	<u>20,531,228</u>	5.6%	<u>20,163,319</u>	1.8%
Gross Claims Incurred					
Gross Claims and External Adjusting	8,702,849	4,683,689	-46.2%	12,834,162	-63.5%
Claims - Salaries	227,200	236,457	4.1%	234,056	1.0%
Claims - Benefits	0	54,718	0.0%	61,196	-10.6%
Other Internal Claims Costs	4,365	4,405	0.9%	134,334	-96.7%
Facility & Other Claims Cost	<u>95,594</u>	<u>109,209</u>	14.2%	<u>100,155</u>	9.0%
	9,030,010	5,088,479	-43.6%	13,363,903	-61.9%
Reinsurance Recoveries	<u>694,446</u>	<u>(119,882)</u>	-117.3%	<u>1,800,000</u>	-106.7%
NET CLAIMS INCURRED	<u>8,335,563</u>	<u>5,208,361</u>	-37.5%	<u>11,563,903</u>	-55.0%
Policy Acquisition Expenses					
Commission Expense	4,010,286	4,184,454	4.3%	4,419,112	-5.3%
Contingent Profit Sharing Commission (CPC)	320,000	412,500	28.9%	433,336	-4.8%
Sales - Salaries / Remuneration	105,302	150,361	42.8%	164,092	-8.4%
Sales - Benefits	0	37,812	0.0%	37,619	0.5%
Broker Promotion & Advertising	0	0	0.0%	33,336	-100.0%
Agency Rent / Expenses / Promotion	6,507	15,262	134.5%	53,336	-71.4%
Agency purchase amortization	0	47,200	0.0%	74,400	-36.6%
Rating Costs / Broker Connectivity	3,906	38,370	882.2%	64,548	-40.6%
Less:					
Change in Deferred Policy Acquisition Expenses	116,261	138,237	18.9%	241,281	-42.7%
Facility & Other Commission Revenue	<u>(10,569)</u>	<u>40,529</u>	-483.5%	<u>85,528</u>	-52.6%
NET COMMISSION EXPENSE	<u>4,340,309</u>	<u>4,707,194</u>	8.5%	<u>4,952,970</u>	-5.0%

Income Statement to August 31st

	2020	2021	% off Prior	2021 B	% off Budget
Directors Fees and Benefits					
Directors Fees	151,232	90,670	-40.0%	117,136	-22.6%
Benefits	<u>0</u>	<u>46,699</u>	0.0%	<u>28,656</u>	63.0%
	151,232	137,370	-9.2%	145,792	-5.8%
Professional Fees					
Audit Fees	30,000	24,000	-20.0%	36,000	-33.3%
Legal Fees, Office Related	0	0	0.0%	2,919	-100.0%
Professional Fees	<u>14,236</u>	<u>20,844</u>	46.4%	<u>18,346</u>	13.6%
	44,236	44,844	1.4%	57,265	-21.7%
Salaries and Benefits					
Underwriting / Admin - Salaries	1,093,806	957,783	-12.4%	941,547	1.7%
Underwriting / Admin - Benefits	<u>395,252</u>	<u>247,850</u>	-37.3%	<u>238,279</u>	4.0%
	1,489,058	1,205,634	-19.0%	1,179,826	2.2%
Travel Expenses & Meals					
Travelling Expense	10,887	709	-93.5%	10,588	-93.3%
Travel Directors	5,911	671	-88.6%	7,267	-90.8%
Meals Expenses	<u>9,693</u>	<u>3,922</u>	-59.5%	<u>9,075</u>	-56.8%
	26,491	5,302	-80.0%	26,930	-80.3%
Advertising & Donations					
Advertising	22,885	31,477	37.5%	21,067	49.4%
Donations	<u>72,900</u>	<u>33,580</u>	-53.9%	<u>60,269</u>	-44.3%
	95,785	65,057	-32.1%	81,336	-20.0%
Conventions & Annual Meeting					
Non-OMIA Conferences	8,728	0	-100.0%	28,641	-100.0%
OMIA Conferences	<u>0</u>	<u>1,141</u>	0.0%	<u>0</u>	0.0%
	8,728	1,141	-86.9%	28,641	-96.0%
Education					
Education - Staff	14,474	24,275	67.7%	22,177	9.5%
Education - Directors	<u>1,226</u>	<u>465</u>	-62.1%	<u>3,346</u>	-86.1%
	15,701	24,740	57.6%	25,523	-3.1%
Depreciation					
Depreciation Expense - Building & Equipment	<u>352,400</u>	<u>194,892</u>	-44.7%	<u>169,434</u>	15.0%
	352,400	194,892	-44.7%	169,434	15.0%
Sundry / Other					
Sundry	6,625	14,353	116.7%	16,999	-15.6%
Bad Debts	8,245	(15,766)	-291.2%	5,015	-414.4%
Insurance	40,100	18,594	-53.6%	44,700	-58.4%
Kitchen Expense	<u>3,634</u>	<u>3,179</u>	-12.5%	<u>5,463</u>	-41.8%
	58,603	20,361	-65.3%	72,177	-71.8%

Income Statement to August 31st

	2020	2021	% off Prior	2021 B	% off Budget
Membership Fees					
Membership Fees	<u>90,857</u>	<u>68,030</u>	-25.1%	<u>74,874</u>	-9.1%
	90,857	68,030	-25.1%	74,874	-9.1%
Government & Regulatory					
Premium Tax	80,000	65,722	-17.8%	74,281	-11.5%
Facility Association	0	0	0.0%	0	0.0%
RST Income	0	(1,500)	0.0%	(875)	71.4%
Regulatory Assessments	<u>0</u>	<u>0</u>	0.0%	<u>600</u>	-100.0%
	80,000	64,222	-19.7%	74,006	-13.2%
Building Expenses					
Real Estate Taxes	43,972	63,363	44.1%	67,000	-5.4%
Fuel and Light	23,647	26,617	12.6%	33,395	-20.3%
Janitorial and Cleaning	21,494	26,444	23.0%	26,202	0.9%
Repair and Maintenance, Building	<u>21,162</u>	<u>18,274</u>	-13.6%	<u>17,642</u>	3.6%
	110,275	134,698	22.1%	144,239	-6.6%
Office Expenses					
Postage	45,779	51,651	12.8%	47,518	8.7%
Telephone	37,712	31,025	-17.7%	43,133	-28.1%
Printing, Stationary and Office	<u>32,211</u>	<u>33,240</u>	3.2%	<u>48,306</u>	-31.2%
	115,703	115,917	0.2%	138,957	-16.6%
Technology					
OMIA - Stats - IT Costs	32,763	46,825	42.9%	30,519	53.4%
Insurance System Fees	398,251	243,894	-38.8%	313,335	-22.2%
IT Contractors	0	29,050	0.0%	33,336	-12.9%
IT Supplies	0	7,212	0.0%	0	0.0%
Software and other License Fees	0	88,128	0.0%	0	0.0%
Depreciation Expense - Computer	<u>0</u>	<u>66,136</u>	0.0%	<u>87,124</u>	-24.1%
	431,014	481,244	11.7%	464,314	3.6%
Risk Analysis & Prevention					
Loss Prevention - Salaries	253,194	258,489	2.1%	254,031	1.8%
Loss Prevention - Benefits	0	71,608	0.0%	67,429	6.2%
Purchase (Sales) of Fire Equipment	(67)	1,848	-2869.4%	2,554	-27.7%
External Inspection Expense	0	5,392	0.0%	0	0.0%
Inspection - Education	5,109	4,095	-19.8%	6,979	-41.3%
Policy Underwriting Information	30,432	26,960	-11.4%	45,000	-40.1%
Inspection - Travel / Expenses	<u>24,374</u>	<u>22,965</u>	-5.8%	<u>41,569</u>	-44.8%
	313,043	391,358	25.0%	417,562	-6.3%
Bank Charges					
Bank Charges	<u>90,704</u>	<u>113,600</u>	25.2%	<u>78,067</u>	45.5%
	90,704	113,600	25.2%	78,067	45.5%
GENERAL EXPENSES	<u>\$7,814,137</u>	<u>\$7,775,605</u>	-0.5%	<u>\$8,131,913</u>	-4.4%
Underwriting Profit / (Loss)	<u>\$3,291,373</u>	<u>\$7,547,263</u>	129.3%	<u>\$467,503</u>	1514.4%

Income Statement to August 31st

	2020	2021	% off Prior	2021 B	% off Budget
Investment Income					
Investment Interest Earned	479,397	465,032	-3.0%	423,063	9.9%
Dividend Income Earned	46,675	344,531	638.1%	10,223	3270.2%
Gain or Loss on Sale of Investments	336,294	(115,779)	-134.4%	384,660	-130.1%
Change in Market Value Investments	1,475,428	1,193,211	-19.1%	150,000	695.5%
Loss/Gain on Disposal of Assets	0	0	0.0%	0	0.0%
Portfolio Management Fees	<u>111,372</u>	<u>99,179</u>	-10.9%	<u>112,500</u>	-11.8%
	2,226,421	1,787,816	-19.7%	855,446	109.0%
 Net Profit / (Loss) before Tax	 \$5,517,794	 \$9,335,079	 69.2%	 \$1,322,949	 605.6%
Income Tax Expense					
Income Tax Expense - Current	1,335,323	2,333,700	74.8%	330,737	605.6%
 Net Profit / (Loss)	 \$4,182,471	 \$7,001,379	 67.4%	 \$992,212	 605.6%