
Alberta Insurance Council

Annual Report

2015

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Members of the Councils – 2015

Life Insurance Council

| <u>Name</u> | <u>Position</u> | <u>Representing</u> |
|---------------|-----------------|---------------------|
| Kenneth Doll | Chair | Life Agents |
| Robert Evans | Vice Chair | Public |
| Robin Rankine | Secretary | Life Companies |
| Jim Brownlee | Member | Life Companies |
| Roy Jaques | Member | Life Agents |
| Elizabeth Hak | Member | Public |

General Insurance Council

| <u>Name</u> | <u>Position</u> | <u>Representing</u> |
|-----------------|-----------------|---------------------|
| Louise Clare | Chair | Insurance Brokers |
| Robert Bhatia | Vice Chair | Public |
| Frank Corrick | Member | Direct Writers |
| Thom Young | Member | Insurance Brokers |
| Lloyd Hickman | Member | Public |
| Amanda Sawatzky | Member | Direct Writers |
| Chris Miller | Member | General Insurers |
| Lorrie King | Member | Insurance Brokers |

Insurance Adjusters' Council

| <u>Name</u> | <u>Position</u> | <u>Representing</u> |
|--------------------|-----------------|---------------------|
| David Hicks | Chair | General Insurers |
| Ronald Schaller | Vice Chair | Public |
| R.V. (Bob) Pearson | Member | Adjusters |
| Kevin Hengstler | Member | Adjusters |

Alberta Insurance Council

The Alberta Insurance Council is composed of one member appointed by each of the above Councils and two appointed public members.

| <u>Name</u> | <u>Position</u> | <u>Representing</u> |
|-----------------|-----------------|------------------------------|
| Vacant | Chair | Public |
| Kenneth Doll | Vice Chair | Life Insurance Council |
| Louise Clare | Member | General Insurance Council |
| David Hicks | Member | Insurance Adjusters' Council |
| David M. Dominy | Member | Public |

Report of the Chief Executive Officer – 2015

It is my pleasure to present the Annual Report of the Alberta Insurance Council (AIC) for the year ending December 31, 2015.

The growth in the number of Certificates of Authority issued each year continues to increase. There was a significant increase in the number of examinations written in the last quarter of 2015. We believe this is an isolated occurrence due in large part to the pending implementation of new Level 1 General insurance examinations and the implementation of a modularized National Life License Qualification examination both in January 2016.

The General Insurance Council (GIC) worked closely throughout 2015 with general insurance education providers to revise and update the Curriculum Design Document for Level 1 and Level 2 general insurance licensing. New Level 1 examinations were developed and introduced in January 2016 and new Level 2 examinations are being developed and will be introduced in July 2016. Work on the Level 3 curriculum continues into 2016. The GIC conducted quarterly meetings with general insurance educators throughout 2015 and these meetings provided much valuable information and feedback and the GIC appreciates their participation in this process.

The Life Insurance Council (LIC) approved the implementation of a national life license qualification program and modularized examinations effective January 2016. Council will continue to monitor the program and examinations throughout the coming year.

The AIC working with stakeholders and officials from the Office of the Superintendent of Insurance made a number of recommendations for amendments to the Insurance Agents and Adjusters Regulation and the Certificate Expiry Penalties and Fees Regulation and will continue to pursue these amendments in 2016.

The position of Chair of the AIC is currently vacant. Recruitment is underway and we hope to have the position filled in the near future.

In 2015, AIC introduced an online exam registration process which has been helpful in expediting registrations for prospective agents and adjusters and has allowed us to allocate staff resources to increasing services to all stakeholder groups. An online licensing system for first-time applicants was introduced in late 2015 and to date, has been proven to decrease licensing wait times and afford a more effective and efficient licensing process for new applicants for Certificates of Authority.

The AIC continues to work with regulatory bodies in other jurisdictions through the Canadian Insurance Services Regulatory Organizations (CISRO) to enhance consumer protection and reduce regulatory arbitrage.

The AIC continues to provide administrative services to the Continuing Education Accreditation Committee.

We at the AIC appreciate comments and feedback from all of our stakeholders and I encourage you to contact me in Edmonton or Anthonet Maramieri (Chief Operating Officer) in Calgary. We welcome any opportunity to speak with you on issues of interest.

In closing, I would like to thank Mark Prefontaine, Senior Assistant Deputy Minister and Nilam Jetha, Acting Assistant Deputy Minister and Superintendent of Insurance, and their excellent staff for all of their assistance and support throughout the past year.

I would also like to extend my appreciation to all Council members, past and present, for their continued efforts and support. Your dedication and commitment is a credit to the industry and to the system of peer judgement which is the foundation upon which the AIC functions.

I also take this opportunity to thank the staff of the AIC for their extraordinary service to stakeholders, consumers and to the regulatory process.

A handwritten signature in black ink, appearing to read 'Joanne Abram', with a large, stylized initial 'J'.

Joanne Abram
Chief Executive Officer
April 2016

Appendix A - Examination Statistics

Life Insurance Council

| | | | |
|-----------|--------|------|-----|
| Full Life | Given | 4664 | |
| | Passed | 3048 | 65% |
| | Failed | 1616 | 35% |
| A&S | Given | 431 | |
| | Passed | 390 | 90% |
| | Failed | 41 | 10% |

Total Life Council Examinations: 5095

General Insurance Council

| | | | |
|---------|--------|------|-----|
| Level 1 | Given | 2227 | |
| | Passed | 888 | 40% |
| | Failed | 1339 | 60% |
| Level 2 | Given | 730 | |
| | Passed | 151 | 21% |
| | Failed | 579 | 79% |
| Level 3 | Given | 87 | |
| | Passed | 26 | 30% |
| | Failed | 61 | 70% |

Total General Council Examinations: 3044

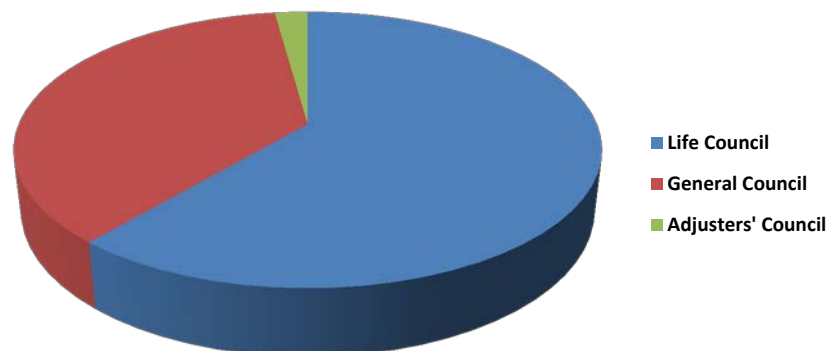
Insurance Adjusters' Council

| | | | |
|-------|--------|-----|-----|
| Basic | Given | 180 | |
| | Passed | 91 | 51% |
| | Failed | 89 | 49% |

Total Adjusters' Council Examinations: 180

January 1, 2015 – December 31, 2015 – Total Examinations: 8319

Examination Statistics



Appendix B - Certificates Active at December 31, 2015

Life Insurance Council

| | | |
|---|--------------|-------|
| Life | D/R | 2036 |
| Life | Unrestricted | 11944 |
| Life | Corporate | 2037 |
| Accident & Sickness | D/R | 2012 |
| Accident & Sickness | Agent | 11632 |
| Accident & Sickness | Corporate | 2013 |
| Travel Agency | Agency | 350 |
| Funeral Services Business | Restricted | 46 |
| Automobile Dealership for Credit Related | Restricted | 565 |
| Deposit Taking Institution for Credit Related | Restricted | 54 |
| Deposit Taking Institution for Group Travel | Restricted | 11 |
| Sales Finance Company for Credit Related | Restricted | 262 |
| Personal Accident Type | Restricted | 5 |
| Equipment Dealer for Credit Related | Restricted | 198 |

Total Life Insurance Council Certificates: 33165

General Insurance Council

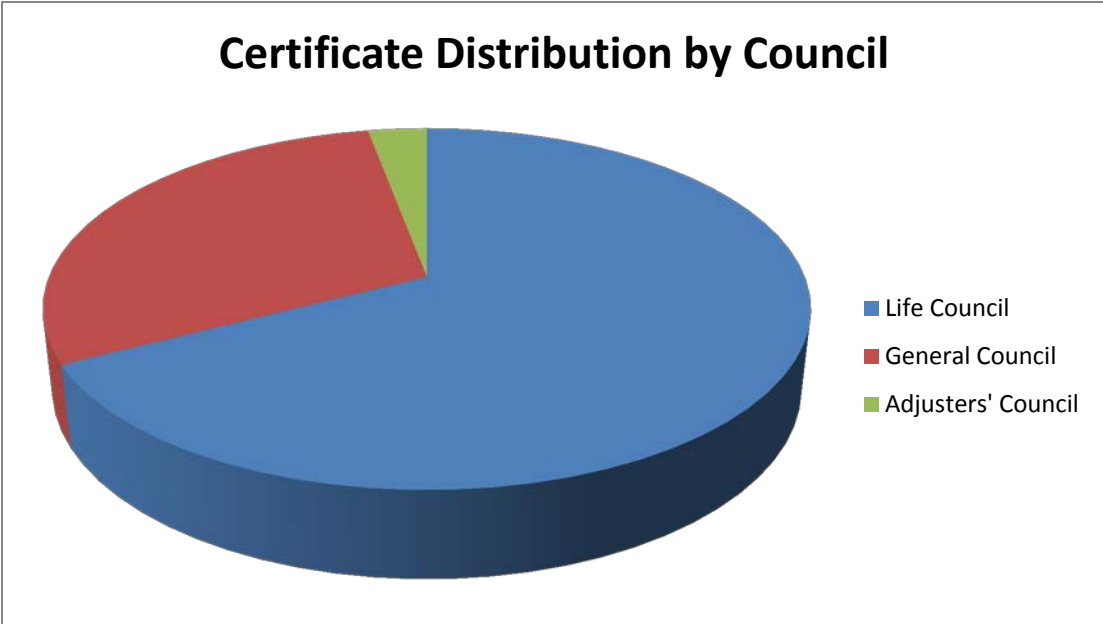
| | | |
|--|--------------|------|
| General Insurance Agent | D/R | 1077 |
| General Insurance Agent | Probationary | 1 |
| General Insurance Agent | Level 1 | 5088 |
| General Insurance Agent | Level 2 | 6328 |
| General Insurance Agent | Corporate | 1077 |
| Automobile Dealership , Equipment Warranty | Restricted | 630 |
| Aircraft – Agent | Restricted | 6 |
| General Insurance Agent Restricted to Hail | Restricted | 4 |
| Equipment Dealers – Equipment Warranty | Restricted | 185 |
| Freight Forwarding Company | Restricted | 1 |
| Hail – Agent | Restricted | 142 |
| Hail – D/R | Restricted | 23 |
| Hail – Agency | Restricted | 23 |
| Livestock – Agent | Restricted | 27 |
| Livestock – D/R | Restricted | 2 |
| Livestock – Agency | Restricted | 2 |

Total General Insurance Council Certificates 14616

Insurance Adjusters' Council

| | | |
|---|--------------|-------------|
| Adjusters – Level 3 | D/R | 74 |
| Adjusters – Level 3 | Independent | 276 |
| Adjusters – Level 2 | Restricted | 137 |
| Adjusters – Level 1 | Probationary | 404 |
| Adjusters – Corporate | Corporate | 74 |
| Restricted Hail Adjusters | D/R | 5 |
| Restricted Hail Adjusters | Corporate | 5 |
| Restricted Hail Adjusters | Adjuster | 89 |
| Restricted Equipment Warranty Adjuster | D/R | 9 |
| Restricted Equipment Warranty Adjuster | Corporate | 9 |
| Restricted Equipment Warranty Adjuster | Adjuster | 29 |
| Restricted Travel Adjuster | D/R | 12 |
| Restricted Travel Adjuster | Corporate | 12 |
| Restricted Travel Adjuster | Adjuster | 315 |
| Total Insurance Adjusters' Council Certificates: | | 1450 |

Total Certificates: 49231



Appendix C – Complaint Statistics for all Councils - 2015

| | |
|--|-----|
| TOTAL NUMBER OF COMPLAINTS OPENED IN 2015 – ALL COUNCILS | 187 |
| TOTAL NUMBER CARRIED FORWARD TO 2015 | 66 |
| TOTAL NUMBER OF COMPLAINTS DEALT WITH IN 2015 | 180 |
| TOTAL NUMBER OUTSTANDING AT DECEMBER 31, 2015 | 73 |

New Complaints per Council

| | ADJUSTERS | GENERAL | LIFE | COMPANY |
|------------------|-----------|---------|------|---------|
| TOTAL COMPLAINTS | 8 | 66 | 104 | 9 |

Disciplinary Action Taken by Councils

| ACTION | ADJUSTERS | GENERAL | LIFE |
|-------------------------|-----------|---------|------|
| Refuse New Applications | | | 8 |
| Refuse Reinstatement | | | |
| Refused Advance Level | | | |
| Fines | 3 | 9 | 12 |
| Suspension | | | |
| Suspension and Fine | | | 1 |
| Revocation | | | |
| Revocation and Fine | | 1 | 3 |
| TOTAL | 3 | 10 | 24 |

A complete breakdown by individual Council providing type of complaint, status and method of disposition is attached.

Appendix D - Life Insurance Council Complaints

| | | | |
|------------------------------------|------------|---|------------|
| REPLACEMENT NOT COMPLETED | 2* | HOLDING OUT ISSUES | 5* |
| Not Substantiated | 2 | Not Substantiated | 1 |
| | | Administrative Caution | 4 |
| CONDUCT/MISCONDUCT | 44* | | |
| Not Substantiated | 22 | | |
| Fine by Council | 6 | LICENSE OR OTHER OCCUPATION | 22* |
| Fine by Statement of Fact | 1 | Not Substantiated | 2 |
| Suspension and Fine | 1 | Report to Council No Action | 13 |
| Revocation and Fine | 2 | Refused New Application | 7 |
| Administrative Caution | 6 | Carried Forward to 2016 | 3 |
| Closed by Negotiation | 2 | | |
| Warning Code | 3 | NON-DISCLOSURE ISSUES (OTHER THAN REPLACEMENT) | 5* |
| Carried Forward to 2016 | 12 | Not Substantiated | 2 |
| | | Fine by Council | 1 |
| COVERAGE DIFFERENCES | 1* | Administrative Caution | 2 |
| Not Substantiated | 1 | Carried Forward to 2016 | 6 |
| | | | |
| PREMIUM OR DEPOSIT PROBLEMS | 1* | | |
| Not Substantiated | 1 | | |
| | | | |
| CLAIMS PROBLEMS | 1* | | |
| Not Substantiated | 1 | | |
| | | | |
| UNLICENSED SOLICITATION | 13* | | |
| Not Substantiated | 6 | | |
| Complainant in Error | 1 | | |
| Administrative Caution | 4 | | |
| Close Multiple Cases | 2 | | |
| Carried Forward to 2016 | 15 | | |

*Denotes number of files concluded, not number of files opened in 2015

Appendix E - General Insurance Council Complaints

| | | | |
|------------------------------------|------------|---|------------|
| CONDUCT/MISCONDUCT | 31* | CLAIMS PROBLEMS | 2* |
| Not Substantiated | 17 | Not Substantiated | 2 |
| Fine by Council | 5 | | |
| Complainant in Error | 1 | | |
| Administrative Caution | 2 | | |
| Closed by Negotiation | 5 | UNLICENSED SOLICITATION | 17* |
| Reported to Other Authority | 1 | Not Substantiated | 8 |
| Carried Forward to 2016 | 16 | Fine by Council | 2 |
| | | Fine by Statement of Fact | 2 |
| | | Administrative Caution | 5 |
| | | Carried Forward to 2016 | 6 |
| COVERAGE DIFFERENCES | 4* | HOLDING OUT ISSUES | 0* |
| Not Substantiated | 4 | Carried Forward to 2016 | 1 |
| Carried Forward to 2016 | 5 | | |
| MISQUOTES | 0* | LICENSE OR OTHER OCCUPATION | 3* |
| Carried Forward to 2016 | 1 | Administrative Caution | 1 |
| | | Report to Council No Action | 2 |
| | | Carried Forward to 2016 | 1 |
| PREMIUM OR DEPOSIT PROBLEMS | 5* | NON-DISCLOSURE ISSUES (OTHER THAN REPLACEMENT) | 3* |
| Not Substantiated | 5 | Fine by Council | 2 |
| Carried Forward to 2016 | 3 | Fine by Statement of Fact | 1 |

*Denotes number of files concluded, not number of files opened in 2015

Appendix F - Insurance Adjusters' Council Complaints

| | |
|--------------------------------|-----------|
| CONDUCT/MISCONDUCT | 6* |
| Not Substantiated | 5 |
| Stop Code | 1 |
| Carried Forward to 2016 | 1 |
| CLAIMS PROBLEMS | 1* |
| Not Substantiated | 1 |
| UNLICENSED SOLICITATION | 4* |
| Not Substantiated | 2 |
| Fine by Council | 1 |
| Administrative Caution | 1 |
| Carried Forward to 2016 | 4 |

*Denotes number of files concluded, not number of files opened in 2015

Appendix G - Company Complaints

CONDUCT/MISCONDUCT

| | |
|--------------------------------------|-----------|
| PROPERTY/LIABILITY PERSONAL | 1* |
| Report to Superintendent | 1 |
| PROPERTY/LIABILITY COMMERCIAL | 1* |
| Report to Superintendent | 1 |
| WARRANTY | 2* |
| Report to Superintendent | 2 |
| INCIDENTAL TYPES | 1* |
| Report to Superintendent | 1 |
| CREDITOR LIFE | 2* |
| Report to Superintendent | 2 |
| LIFE PERSONAL | 2* |
| Report to Superintendent | 2 |

*Denotes number of files concluded, not number of files opened in 2015

Appendix H - Appeals to the Appeal Board - 2015

During the 2015 year, seven (7) Appeals were concluded by Appeal Board Panels. The disposition of those matters is as follows:

| <u>Number of Appeals</u> | <u>Decision</u> |
|--------------------------|-----------------|
| 1 | Altered |
| 3 | Dismissed |
| 4 | Allowed |

The Appeals that were concluded produced the following results:

Altered

This matter was carried over from 2014. The Appeal Panel altered the original council decision by increasing an agent's period of suspension from 6 months to 9 months. This matter has been appealed further and is pending before the Court of Queen's Bench for Alberta.

Dismissed

In the first case the Appeal Panel dismissed an agent's appeal from a decision of the Life Insurance Council (the "LIC") wherein the LIC ordered that the agent's certificate of authority be revoked. The Appeal Panel confirmed the sanction.

In a second matter the Appeal Panel confirmed the LIC's decision to refuse the issuance of an agent's certificate of authority.

The Appeal Panel dismissed an appeal in a third matter in regard to the replacement of a life insurance policy and confirmed the LIC's decision.

Allowed

All four appeals allowed by appeal panels related to the issuance of certificates of authority. In each case the panels ordered that certificates be issued.

Three further appeals were pending as of December 31, 2015.

Appendix I - Financial Statements - 2015

Financial Statements of

**ALBERTA INSURANCE
COUNCIL**

Year ended December 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended and notes, comprising 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 public sector accounting 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.

Auditors' 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 our 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, we consider 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 audit is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2015, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

April 6, 2016

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|------------------------------------|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 2) | \$ 6,598,351 | \$ 5,573,234 |
| Accounts receivable | 42,498 | 23,482 |
| Prepaid expenses | 78,359 | 85,525 |
| | <u>6,719,208</u> | <u>5,682,241</u> |
| Capital assets (note 3) | 969,344 | 1,043,765 |
| | <u>\$ 7,688,552</u> | <u>\$ 6,726,006</u> |

Liabilities and Net Assets

| | | |
|---|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 512,415 | \$ 446,975 |
| Deferred license, assessment, and continuing education fee revenue (note 5) | 2,538,258 | 2,355,184 |
| | <u>3,050,673</u> | <u>2,802,159</u> |
| Asset retirement obligation (note 4) | 64,849 | 64,239 |
| Deferred rent and tenant inducements (note 6) | 433,646 | 469,096 |
| | <u>3,549,168</u> | <u>3,335,494</u> |
| Net assets: | | |
| Invested in capital assets | 620,362 | 640,758 |
| Internally restricted (note 7) | 750,000 | - |
| Unrestricted (note 7) | 2,769,022 | 2,749,754 |
| | <u>4,139,384</u> | <u>3,390,512</u> |
| | <u>\$ 7,688,552</u> | <u>\$ 6,726,006</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

| | 2015 Budget | 2015 | 2014 |
|--|---------------------|-------------------|---------------------|
| Revenue: | | | |
| License, assessment, examination and continuing education fees | \$ 5,187,000 | \$ 6,084,441 | \$ 5,379,746 |
| Interest and other | 55,000 | 49,174 | 58,010 |
| | <u>5,242,000</u> | <u>6,133,615</u> | <u>5,437,756</u> |
| Expenses: | | | |
| Manpower (note 8) | 3,236,000 | 2,914,418 | 3,303,429 |
| Occupancy and premises | 804,000 | 770,752 | 768,776 |
| Amortization of capital assets | 370,000 | 356,805 | 333,384 |
| Councils, boards and committees (note 9) | 301,000 | 322,951 | 394,973 |
| Software and computer | 453,000 | 385,471 | 343,867 |
| Office and administration | 221,000 | 211,331 | 218,995 |
| Professional fees | 103,000 | 189,398 | 181,210 |
| Communications | 146,000 | 144,958 | 160,059 |
| Travel | 80,000 | 86,848 | 151,285 |
| Loss on disposal of capital assets | - | 1,811 | - |
| | <u>5,714,000</u> | <u>5,384,743</u> | <u>5,855,978</u> |
| Excess (deficiency) of revenue over expenses | \$ (472,000) | \$ 748,872 | \$ (418,222) |

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

| | Invested in capital assets | Internally restricted | Unrestricted | 2015 | 2014 |
|---|-------------------------------|--------------------------|--------------|--------------|--------------|
| Net assets, beginning of year | \$ 640,758 | \$ - | \$ 2,749,754 | \$ 3,390,512 | \$ 3,808,734 |
| Excess (deficiency) of revenue over expenses | - | - | 748,872 | 748,872 | (418,222) |
| Amortization of capital assets | (356,805) | - | 356,805 | - | - |
| Amortization of deferred tenant inducements | 54,635 | - | (54,635) | - | - |
| Accretion of asset retirement obligation | (610) | - | 610 | - | - |
| Loss from disposal of capital assets | (1,811) | - | 1,811 | - | - |
| Purchase of capital assets | 284,367 | - | (284,367) | - | - |
| Proceeds on sale of capital assets | (172) | - | 172 | - | - |
| Transfer to internally restricted (note 7) | - | 750,000 | (750,000) | - | - |
| Net assets, end of year | \$ 620,362 | \$ 750,000 | \$ 2,769,022 | \$ 4,139,384 | \$ 3,390,512 |

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

| | 2015 | 2014 |
|--|---------------------|---------------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess (deficiency) of revenue over expenses | \$ 748,872 | \$ (418,222) |
| Items not involving cash: | | |
| Accretion of asset retirement obligation | 610 | 609 |
| Amortization of deferred tenant inducements | (54,635) | (54,635) |
| Recognition of deferred rent | 19,185 | 27,711 |
| Amortization of capital assets | 356,805 | 333,384 |
| Loss on disposal of capital assets | 1,811 | - |
| Increase in accounts receivable | (19,016) | (1,566) |
| Decrease (increase) in prepaid expenses | 7,166 | (28,718) |
| Increase in accounts payable and accrued liabilities | 65,440 | 21,916 |
| Increase in deferred license, assessment, and continuing education fee revenue | 183,074 | 103,868 |
| | <u>1,309,312</u> | <u>(15,653)</u> |
| Capital activities: | | |
| Purchase of capital assets | (284,367) | (256,053) |
| Proceeds on sale of capital assets | 172 | 218 |
| | <u>(284,195)</u> | <u>(255,835)</u> |
| Increase (decrease) in cash and cash equivalents | 1,025,117 | (271,488) |
| Cash and cash equivalents, beginning of year | 5,573,234 | 5,844,722 |
| Cash and cash equivalents, end of year | <u>\$ 6,598,351</u> | <u>\$ 5,573,234</u> |

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2015

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Continuing Education Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets consisting of furniture and office equipment, leasehold improvements, computer equipment and software are recorded at cost, less accumulated amortization. Amortization is provided using the straight-line method over their estimated useful lives as follows:

| Asset | Rate |
|--------------------------------|---------------|
| Furniture and office equipment | 3 - 10 years |
| Computer equipment | 3 - 7 years |
| Computer software | 3 - 7 years |
| Leasehold improvements | Term of lease |
| Telephone equipment | 3 - 5 years |

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(f) Internally restricted net assets:

The Council has established internally restricted net assets in the amount of \$750,000 to fund capital asset additions and maintenance costs over the medium term.

(g) Contributed services:

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

(j) Future accounting standard pronouncements:

The following summarizes upcoming changes to public sector accounting standards issued by the Public Sector Accounting Standards Board. In 2016, the Council will continue to assess the impact and prepare for the adoption of these standards. While the timing of standards' adoption may vary, certain standards must be adopted concurrently. The requirements in Financial statement presentation (PS1201), Financial instruments (PS3450), Foreign currency translation (PS2601) and portfolio investments (PS3041) must be implemented at the same time.

| Public Sector Accounting Standard | Effective date (fiscal years beginning on or after) |
|---|--|
| PS2200-Related party transactions | April 1, 2017 |
| PS3420-Inter-entity transactions | April 1, 2017 |
| PS3210-Assets | April 1, 2017 |
| PS3320-Contingent assets | April 1, 2017 |
| PS3380-Contractual rights | April 1, 2017 |
| PS3430-Restructuring transactions | April 1, 2018 |
| PS1201-Financial statement presentation | April 1, 2019 |
| PS3450-Financial instruments | April 1, 2019 |
| PS2601-Foreign currency translation | April 1, 2019 |
| PS3041-Portfolio investments | April 1, 2019 |

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of \$5,906,541 (2014 - \$4,055,378) invested in the Consolidated Investment Trust Fund (the CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2015 was 0.92% (2014 - 1.19%).

3. Capital assets:

| | | | 2015 | 2014 |
|--------------------------------|---------------------|--------------------------|-------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Furniture and office equipment | \$ 447,021 | \$ 306,829 | \$ 140,192 | \$ 175,668 |
| Computer equipment | 683,666 | 461,242 | 222,424 | 189,133 |
| Computer software | 1,514,247 | 1,298,432 | 215,815 | 227,849 |
| Leasehold improvements | 1,063,221 | 687,124 | 376,097 | 446,850 |
| Telephone equipment | 17,756 | 2,940 | 14,816 | 4,265 |
| | <u>\$ 3,725,911</u> | <u>\$ 2,756,567</u> | <u>\$ 969,344</u> | <u>\$ 1,043,765</u> |

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

4. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of \$6,029 is included in amortization of capital assets, and the accretion expense in the amount of \$610 has been included with occupancy costs. The undiscounted asset retirement obligation is \$68,000 as at December 31, 2015.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is \$305,492 at December 31, 2015 (2014 - \$364,679).

5. Deferred license, assessment, and continuing education fee revenue:

| | 2015 | 2014 |
|----------------------|---------------------|---------------------|
| License | \$ 2,433,546 | \$ 2,248,560 |
| Assessment | 87,375 | 85,125 |
| Continuing education | 17,337 | 21,499 |
| | <u>\$ 2,538,258</u> | <u>\$ 2,355,184</u> |

A single annual renewal date of the terms of license was implemented effective July 1, 2014. The terms commence July 1 and remain in effect until June 30 of the following year.

6. Deferred rent and tenant inducements:

Deferred rent and tenant inducements consist of the following:

| | 2015 | 2014 |
|-----------------------------|-------------------|-------------------|
| Deferred rent | \$ 149,513 | \$ 130,328 |
| Deferred tenant inducements | 284,133 | 338,768 |
| | <u>\$ 433,646</u> | <u>\$ 469,096</u> |

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

7. Invested in capital assets and internally restricted net assets:

Invested in capital assets consists of the following:

| | 2015 | 2014 |
|-----------------------------------|-------------------|-------------------|
| Capital assets | \$ 969,344 | \$ 1,043,765 |
| Asset retirement obligation | (64,849) | (64,239) |
| Deferred tenant inducements | (284,133) | (338,768) |
| Invested in capital assets | \$ 620,362 | \$ 640,758 |

Internally restricted net assets consists of the following:

| | | |
|--|------------|------|
| Reserve for capital expenditures and maintenance | \$ 750,000 | \$ - |
|--|------------|------|

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

8. Manpower:

| | Full Time Employees | Salary ^(a) | Benefits and other ^(b) | 2015 Total |
|-------------------------|------------------------|-----------------------|--------------------------------------|---------------|
| Chief Executive Officer | 1 | \$ 245,737 | \$ 51,031 | \$ 296,768 |
| Chief Operating Officer | 1 | 200,000 | 37,418 | 237,418 |
| Other staff | 20 | 2,020,791 | 359,441 | 2,380,232 |
| | 22 | \$ 2,466,528 | \$ 447,890 | \$ 2,914,418 |

| | Full Time Employees | Salary ^(a) | Benefits and other ^(b) | 2014 Total |
|-------------------------|------------------------|-----------------------|--------------------------------------|---------------|
| Chief Executive Officer | 1 | \$ 263,915 | \$ 50,410 | \$ 314,325 |
| Chief Operating Officer | 1.4 | 309,260 | 154,858 | 464,118 |
| Other staff | 21.6 | 2,135,501 | 389,485 | 2,524,986 |
| | 24 | \$ 2,708,676 | \$ 594,753 | \$ 3,303,429 |

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay, and recruitment costs.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also not included in any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

9. Councils, Boards and Committees:

(a) The following amounts are included in Councils, Boards and Committees expenses:

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Councils and Council Committees | \$ 178,490 | \$ 257,797 |
| Appeal Boards | 70,921 | 63,093 |
| Continuing Education Accreditation Committee | 73,540 | 74,083 |
| | \$ 322,951 | \$ 394,973 |

The Minister of Finance, responsible for the Insurance Act, has appointed the Continuing Education Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Continuing Education Accreditation Committee.

(b) Per diem payments of Council Members:

The following amounts are included in Councils, Boards and Committee expenses:

| | Members # | 2015 ^(c) \$ | Members # | 2014 ^(c) \$ |
|--|--------------|---------------------------|--------------|---------------------------|
| Councils^(a) | | | | |
| Alberta Insurance Council - Chair ^(b) | 1 | 17,450 | 1 | 22,000 |
| Other - Chairs | 14 | 69,672 | 14 | 63,269 |
| Members | 43 | 131,197 | 41 | 154,153 |
| Total | | 218,319 | | 239,422 |

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Continuing Education Accreditation Committee.

(b) This includes per diem payments made for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(c) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses and continuing education course accreditation fees. This includes public members appointed by the Lieutenant Governor in Council, as well as Continuing Education Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

10. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years and thereafter are as follows:

| | | |
|------------|----|---------|
| 2016 | \$ | 412,188 |
| 2017 | | 423,626 |
| 2018 | | 432,152 |
| 2019 | | 440,678 |
| 2020 | | 449,204 |
| Thereafter | | 253,914 |

The Council is also responsible for its share of operating costs related to the office premise leases. These costs are not fixed within the lease and are subject to change on a year to year basis.

11. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2015 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2015.

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2015.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2015

11. Financial risks and concentration of credit risk (continued):

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2015.

12. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.