

# ALBERTA INSURANCE COUNCIL

## Financial Statements

DECEMBER 31, 2005

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## AUDITOR'S REPORT

### To the Members of Alberta Insurance Council

We have audited the statement of financial position of Alberta Insurance Council as at December 31, 2005 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at December 31, 2005, the results of its operations, the changes in its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta  
March 9, 2006

Pricewaterhouse Coopers LLP  
Chartered Accountants

## ALBERTA INSURANCE COUNCIL

**STATEMENT OF FINANCIAL POSITION**

As at December 31, 2005

|  | <b>2005</b>         | <b>2004</b>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| <b>Current assets</b>  |                     |                     |
| Cash (Note 3)  | \$ 2,995,419        | \$ 2,121,328        |
| Accounts receivable  | 24,905              | 8,005               |
| Prepaid expenses   | 29,857              | 34,894              |
|  | <u>3,050,181</u>    | <u>2,164,227</u>    |
| <b>Recoverable program development costs</b>                       | 1,757               | 4,415               |
| <b>Deferred program and examination development costs</b> (Note 4) | 26,074              | 136,382             |
| <b>Property and equipment</b> (Note 5)                             | 300,071             | 225,352             |
|  | <u>\$ 3,378,083</u> | <u>\$ 2,530,376</u> |
| <b>LIABILITIES</b>   |                     |                     |
| <b>Current liabilities</b>   |                     |                     |
| Accounts payable and accrued liabilities                           | \$ 158,580          | \$ 131,619          |
| Obligation under capital lease                                     | -                   | 4,500               |
| Deferred tenant inducement   | 4,336               | 9,067               |
| Deferred license and assessment fee revenue                        | 1,102,622           | 756,972             |
|  | <u>1,265,538</u>    | <u>902,158</u>      |
| <b>NET ASSETS</b>  |                     |                     |
| <b>Net assets</b>  |                     |                     |
| Invested in property and equipment                                 | 300,071             | 220,852             |
| Invested in program and development                                | 26,074              | 136,382             |
| Unrestricted   | 1,786,400           | 1,270,984           |
|  | <u>2,112,545</u>    | <u>1,628,218</u>    |
|  | <u>\$ 3,378,083</u> | <u>\$ 2,530,376</u> |

Approved by the Audit Committee

Nancy Stenson

Bob Ardiel

## ALBERTA INSURANCE COUNCIL

**STATEMENT OF CHANGES IN NET ASSETS**

For the Year Ended December 31, 2005

|   | Invested<br>in property<br>and<br>equipment | Invested<br>in program<br>and<br>examination<br>development | Unrestricted        | Total<br>2005       | Total<br>2004       |
|---|---|---|---------------------|---------------------|---------------------|
| <b>Balance - Beginning of year</b>                                    | \$ 220,852                                  | \$ 136,382  | \$ 1,270,984        | \$ 1,628,218        | \$ 1,335,177        |
| Excess (deficiency) of revenue<br>over expenditures                   | (140,993)                                   | (101,405)   | 726,725             | 484,327             | 293,041             |
| Invested in property and<br>equipment                                 | 220,212                                     | -   | (220,212)           | -                   | -                   |
| Investment in program<br>development                                  | -   | (8,903)   | 8,903               | -                   | -                   |
| <b>Balance - End of year</b>  | <b>\$ 300,071</b>                           | <b>\$ 26,074</b>  | <b>\$ 1,786,400</b> | <b>\$ 2,112,545</b> | <b>\$ 1,628,218</b> |
|   |   |   |                     | <b>2005</b>         | <b>2004</b>         |
| <b>Net assets invested in property<br/>and equipment consists of:</b> |   |   |                     |                     |                     |
| Property and equipment  |   |   |                     | \$ 300,071          | \$ 225,352          |
| Obligation under capital lease  |   |   |                     | -                   | (4,500)             |
|   |   |   |                     | <b>\$ 300,071</b>   | <b>\$ 220,852</b>   |

## ALBERTA INSURANCE COUNCIL

**STATEMENT OF OPERATIONS**

For the Year Ended December 31, 2005

|  | Budget<br>2005<br>(Unaudited) | 2005              | 2004              |
|--|-------------------------------|-------------------|-------------------|
| <b>Revenue</b>   |                               |                   |                   |
| License, assessment, examination and continuing education fees | \$ 3,127,800                  | \$ 3,334,205      | \$ 2,754,882      |
| Interest and other   | 50,000                        | 80,340            | 55,923            |
|  | <u>3,177,800</u>              | <u>3,414,545</u>  | <u>2,810,805</u>  |
| <b>Expenditures</b>  |                               |                   |                   |
| Salaries and benefits  | 1,700,000                     | 1,640,162         | 1,416,929         |
| Occupancy  | 255,000                       | 219,349           | 215,283           |
| Council meetings   | 220,000                       | 156,399           | 140,481           |
| Amortization of property and equipment                         | 160,000                       | 140,993           | 118,033           |
| Travel   | 90,000                        | 117,083           | 84,738            |
| Amortization of program development costs                      | 76,000                        | 101,405           | 105,202           |
| Software maintenance   | 110,000                       | 98,927            | 49,018            |
| Professional fees  | 90,000                        | 97,354            | 58,708            |
| Freight and postage  | 75,000                        | 61,100            | 73,776            |
| Printing and stationery  | 40,000                        | 46,138            | 32,815            |
| Office   | 26,000                        | 41,155            | 16,033            |
| Communications   | 50,000                        | 37,748            | 33,706            |
| Training   | 30,000                        | 37,733            | 20,677            |
| Accreditation committee  | 23,500                        | 24,160            | 20,290            |
| Insurance  | 22,000                        | 19,894            | 19,699            |
| Legal fees   | 65,000                        | 17,987            | 64,505            |
| Other  | 23,000                        | 16,802            | 10,259            |
| Promotion and publications                                     | 27,300                        | 16,297            | 13,829            |
| Special Project - General and Adjuster examination review      | 40,000                        | 13,550            | -                 |
| Appeal boards  | 45,000                        | 13,529            | 19,546            |
| Repairs and maintenance  | 10,000                        | 12,453            | 4,237             |
|  | <u>3,177,800</u>              | <u>2,930,218</u>  | <u>2,517,764</u>  |
| <b>Excess of revenue over expenditures</b>                     | <u>\$ -</u>                   | <u>\$ 484,327</u> | <u>\$ 293,041</u> |

## ALBERTA INSURANCE COUNCIL

**STATEMENT OF CASH FLOWS**

For the Year Ended December 31, 2005

|   | 2005                | 2004                |
|---|---------------------|---------------------|
| <b>Cash provided by (used in)</b>   |                     |                     |
| <b>Operating activities</b>   |                     |                     |
| Excess of revenue over expenditures   | \$ 484,327          | \$ 293,041          |
| Items not affecting cash  |                     |                     |
| Amortization of property and equipment  | 140,993             | 118,033             |
| Amortization of program development costs   | 101,405             | 105,202             |
| Amortization of deferred tenant inducement  | (4,731)             | (4,730)             |
|   | <u>721,994</u>      | <u>511,546</u>      |
| Net changes in non-cash working capital items                                     |                     |                     |
| (Increase) decrease in accounts receivable  | (16,900)            | 2,920               |
| Decrease (increase) in prepaid expenses   | 5,037               | (10,352)            |
| Increase in accounts payable and accrued liabilities                              | 26,961              | 12,512              |
| Increase in deferred license revenue  | 345,650             | 110,872             |
|   | <u>1,082,742</u>    | <u>627,498</u>      |
| <b>Investing activities</b>   |                     |                     |
| Purchase of property and equipment  | (215,712)           | (109,240)           |
| Repayment of capital lease  | (4,500)             | (4,500)             |
| Expenditures on deferred program and examination development -<br>net of recovery | 8,903               | (35,636)            |
| Decrease in recoverable program development costs                                 | 2,658               | 53,104              |
|   | <u>(208,651)</u>    | <u>(96,272)</u>     |
| <b>Increase in cash</b>   | 874,091             | 531,226             |
| <b>Cash - Beginning of year</b>   | 2,121,328           | 1,590,102           |
| <b>Cash - End of year</b>   | <u>\$ 2,995,419</u> | <u>\$ 2,121,328</u> |
| <b>Supplementary information</b>  |                     |                     |
| Interest received   | <u>\$ 69,862</u>    | <u>\$ 48,603</u>    |

ALBERTA INSURANCE COUNCIL

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005

### NOTE 1 AUTHORITY AND PURPOSE

The Alberta Insurance Council (the "Council") operates under the authority of the *Insurance Act*, Chapter I-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.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

#### 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 course submission. 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 license and assessment fee revenue.

#### Recoverable Program Development Costs

Costs incurred by the Council as a committee member of the Canadian Insurance Regulatory Organization ("CISRO") on behalf of other jurisdictions are expected to be recovered from those jurisdictions over the next years.

#### Deferred Program and Examination Development Costs

##### a) Deferred program development costs

Costs which have been incurred by the Council as a committee member of CISRO for the development of the Life License Qualification Program (the "LLQP" program) are deferred. Upon program implementation on January 1, 2003, these costs are amortized on a straight-line basis over a period of three years.

## ALBERTA INSURANCE COUNCIL

**Note 2 (continued)****b) Deferred examination development costs**

Costs which have been incurred by the Council for the development of LLQP examination questions have been deferred. Upon integration of these questions into the examination question data bank in January 2005, these costs, net of recoveries, are amortized on a straight-line basis over a period of three years.

**Property and Equipment and Amortization**

Property and equipment is recorded at cost and is being amortized over their estimated useful lives on a straight-line basis as follows:

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

**Deferred Tenant Inducement**

Deferred tenant inducement in the amount of \$4,336 (2004 - \$9,067) is recorded at amortized cost and is amortized over the eight-year lease term into occupancy expense.

**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.

**NOTE 3 CASH**

Included in cash is an amount of \$2,771,146 (2004 - \$1,934,127) invested in the Consolidated Cash Investment Trust Fund ("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.



## ALBERTA INSURANCE COUNCIL

**NOTE 4 DEFERRED PROGRAM AND EXAMINATION DEVELOPMENT COSTS**

|                   | <b>Cost</b>       | <b>Accumulated<br/>amortization</b> | <b>2005<br/>Net</b> | <b>2004<br/>Net</b> |
|-------------------|-------------------|-------------------------------------|---------------------|---------------------|
| Travel            | \$ 94,742         | \$ 94,742                           | \$ -                | \$ 31,580           |
| Professional fees | 176,359           | 176,359                             | -                   | 58,788              |
| Exam development  | 37,111            | 11,037                              | 26,074              | 46,014              |
|                   | <b>\$ 308,212</b> | <b>\$ 282,138</b>                   | <b>\$ 26,074</b>    | <b>\$ 136,382</b>   |

**NOTE 5 PROPERTY AND EQUIPMENT**

|   | <b>Cost</b>        | <b>Accumulated<br/>amortization</b> | <b>2005<br/>Net</b> | <b>2004<br/>Net</b> |
|---|--------------------|-------------------------------------|---------------------|---------------------|
| Leasehold improvements                                | \$ 151,966         | \$ 78,314                           | \$ 73,652           | \$ 10,328           |
| Furniture and office equipment<br>under capital lease | -                  | -                                   | -                   | 7,865               |
| Furniture and office equipment                        | 190,213            | 126,171                             | 64,042              | 36,688              |
| Computer equipment                                    | 198,715            | 171,407                             | 27,308              | 50,576              |
| Computer software                                     | 444,316            | 310,430                             | 133,886             | 113,980             |
| Telephone equipment                                   | 38,864             | 37,681                              | 1,183               | 5,915               |
|   | <b>\$1,024,074</b> | <b>\$724,003</b>                    | <b>\$ 300,071</b>   | <b>\$ 225,352</b>   |

## ALBERTA INSURANCE COUNCIL

**NOTE 6 LEASE COMMITMENTS**

The Council is committed to operating leases payments for business premises in accordance with an existing lease agreement and a new lease agreement finalized subsequent to year-end, as follows:

|      |           |
|------|-----------|
| 2006 | \$ 93,175 |
| 2007 | 105,055   |
| 2008 | 104,929   |
| 2009 | 89,787    |
| 2010 | 60,288    |
| 2011 | 55,264    |

**NOTE 7 FINANCIAL INSTRUMENTS**

The Council's financial instruments comprise cash, accounts receivable, recoverable program development costs and accounts payable and accrued liabilities. The carrying value of these financial instruments approximate fair value. The Council is potentially subject to concentrations of interest rate risk principally with its investment in the Consolidated Cash Investment Trust Fund. Credit risk is negligible as the majority of revenue is from license and assessment fees, which are billed in advance. There are no unrecorded financial instruments

**NOTE 8 COMPARATIVE AMOUNTS**

Certain comparative figures have been reclassified to conform with the current year presentation.

## ALBERTA INSURANCE COUNCIL

## SCHEDULE TO THE FINANCIAL STATEMENTS

## SCHEDULE OF SALARIES AND BENEFITS

Schedule 1

For the year ended December 31, 2005

## Per diem payments of Council Members

The following amounts are included in council meetings expenditures:

|                         | 2005 |            | 2004 |           |
|-------------------------|------|------------|------|-----------|
|                         | #    |            | #    |           |
| Councils <sup>(a)</sup> |      |            |      |           |
| Chairs                  | 5    | \$ 38,250  | 6    | \$ 40,575 |
| Council Members         | 22   | 62,250     | 24   | 45,825    |
| Total                   | 27   | \$ 100,500 | 30   | \$ 86,400 |

(a) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council and the Audit Committee.

## Salaries and benefits

|   | FTE's | Salary <sup>(b)</sup> | Benefits <sup>(c)</sup> | 2005<br>Total | FTE's <sup>(e)</sup> | 2004<br>Total |
|---|-------|-----------------------|-------------------------|---------------|----------------------|---------------|
|   | #     |                       |                         |               | #                    |               |
| Chief Executive Officer   | 1     | \$ 152,637            | \$ 40,886               | \$ 193,523    | 1                    | \$ 180,835    |
| Chief Operating Officer (formerly<br>Assistant General Manager) | 1     | 147,930               | 33,267                  | 181,197       | 1                    | 155,570       |
| Full-time staff <sup>(d)</sup>                                  | 18    | 1,007,330             | 186,115                 | 1,193,445     | 16                   | 1,011,217     |
| Part-time staff   | 2     | 61,039                | 10,958                  | 71,997        | 2                    | 69,307        |
| Total   | 22    | \$ 1,368,936          | \$ 271,226              | \$ 1,640,162  | 20                   | \$ 1,416,929  |

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

(c) Employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, dental coverage, group life insurance, long and short-term disability plans and vacation pay. Accrued vacation pay was \$31,923 (2004 - \$18,035).

(d) Full-time staff consists of all individuals working 29 hours or more per week. Average annual salary and benefits was \$65,324 (2004 - \$61,754).

(e) Prior year figures have been restated to reflect full time equivalents ("FTE's").

