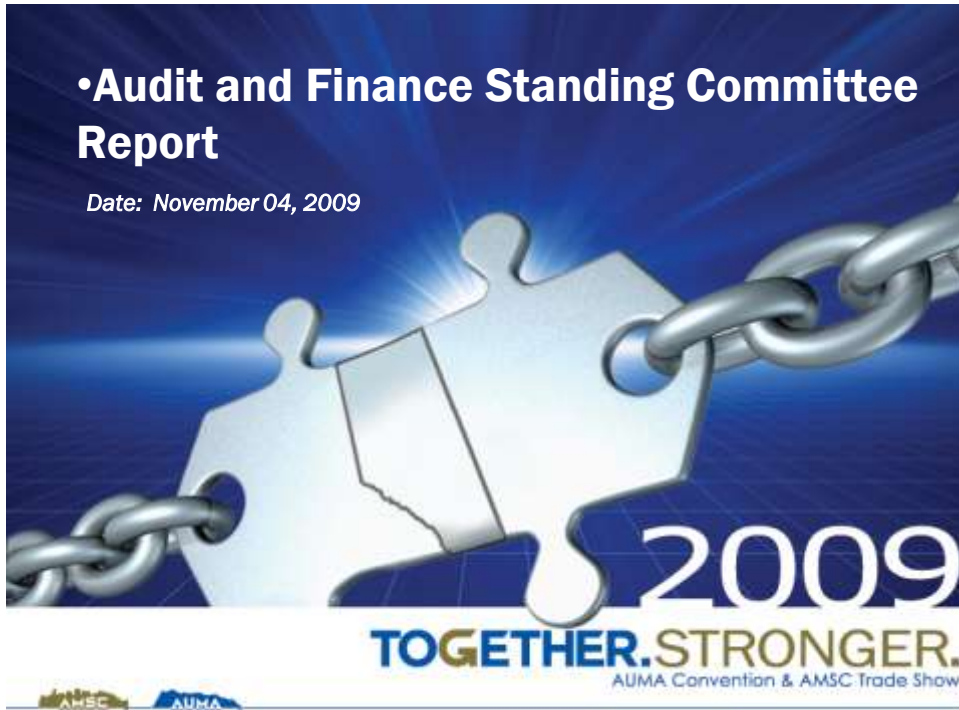


•Audit and Finance Standing Committee Report

Date: November 04, 2009





Audit and Finance Standing Committee
Report to the Convention

2009
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Committee Members

<ul style="list-style-type: none"> ▪ Reg Pointe, CA 	<p>Deputy Mayor (Committee Chair) SV of Yellowstone</p>
<ul style="list-style-type: none"> ▪ Rick McIver 	<p>Alderman, City of Calgary</p>
<ul style="list-style-type: none"> ▪ Wayne Elliott 	<p>Councilor, Town of Pincher Creek</p>
<ul style="list-style-type: none"> ▪ Ron Grainger, CMA 	<p>External Committee Member</p>
<ul style="list-style-type: none"> ▪ Therese Myndio, CMA 	<p>Assistant City Manager City of Wetaskiwin</p>
<ul style="list-style-type: none"> ▪ Dean Screpnek, CMA 	<p>GM, Corporate Services City of St. Albert</p>
<ul style="list-style-type: none"> ▪ Norbert Van Wyk, CMA 	<p>Director, APEX Pension Plan</p>





Audit and Finance Standing Committee
Report to the Convention

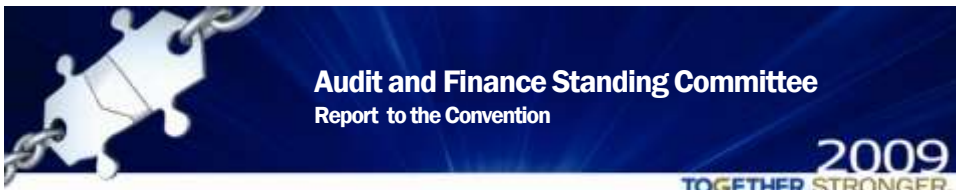

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A & F Committee Presentation

This is the 4th year that A & F has undertaken a Standing Policy Committee Session – separate from the AGM Report

Allows for:

- more detailed presentation of the Association's Financial Statements and activities of the Committee
- more intimate environment for Q/A discussion




Audit and Finance Standing Committee
Report to the Convention

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A & F Committee Presentation

Three Sections to Presentation

1. 2008 Audited Financial Statement Overview
2. 2008-09 Audit Committee Activities
3. KPMG Presentation – Best Practices of Audit Committees



Audit and Finance Standing Committee
Report to the Convention

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A & F Committee Presentation

2008 Audited Financial Statements

- Financial Statements are included within the Annual Report, which have been posted to the AUMA website www.auma.ca
- At the back of the room are the Financial Statement section of the Report

AUMA AMSC

Audit and Finance Standing Committee
Report to the Convention

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A & F Committee Presentation
Corporate Structure Chart

```

    graph TD
      AUMA["Alberta Urban Municipalities Association (AUMA)  
- Parent Corporation -"] --> AMSC["Alberta Municipal Services Corporation (AMSC)  
- Subsidiary Corporation -"]
      AMSC --> AMSCIS["AMSC Insurance Services Ltd. (AMSCIS)  
- Subsidiary Corporation -"]
      AUMA --- MUNIX["Alberta Municipal Insurance Exchange (MUNIX)"]
      MUNIX --- PPA["Pension Plan Administration"]
      PPA --- APEX["APEX Supplementary Pension Plan"]
  
```

- Advocacy
- Web Advertising
- Grant Administration
- Energy Aggregation
- Energy Management
- Membership Services
- Aggregated Investments
- Convention Operations
- General Insurance
- Group Benefits
- Property Coverage
- Liability Coverage

AUMA AMSC



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Report to the Convention



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2008 Audited Financial Statements

- The Annual Report and Financial Statement package you have, contains:

Three Sets of Statements

1. Consolidated Statements reporting the operations of AUMA, AMSC, and AMSC Insurance Services Ltd.
2. Alberta Municipal Insurance Exchange (MUNIX)
3. APEX Supplementary Pension Plan


Audit and Finance Standing Committee
Report to the Convention

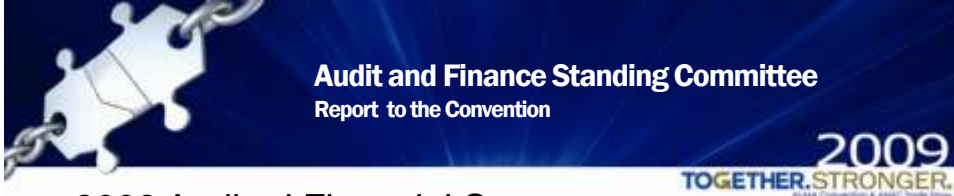
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2008 Audited Financial Statements

**Auditors' Report
of All Three Financial Statements**

- **Presented in accordance with Canadian generally accepted accounting principles (GAAP)**
- **“Unqualified Opinion”**







Audit and Finance Standing Committee
Report to the Convention

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2008 Audited Financial Statements

Generally Accepted Accounting Principles (GAAP)

- Requires that the financial position and operations of AUMA be presented in consolidation with that of AMSC and AMSCIS Ltd.
- Consolidation combines the financial balances of each of the 3 corporate entities, while at the same time eliminating the balances and transactions that have occurred between them

Audit and Finance Standing Committee
Report to the Convention


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Alberta Urban Municipalities Association

Consolidated Financial Statements Year Ended December 31, 2008

Statement of Financial Position (pg 2)

- Presents Assets, Liabilities, and Equity
- Highlights:
 - ✓ \$45M of Assets (\$28.7M in 2007)
 - ✓ \$17.3M of these Assets are restricted funds held as Grant Proceeds, or as reserves to ensure the continued health of the self-insured Benefits Program
 - ✓ New Office building \$15.5M and Bank Loan \$10.5M
 - ✓ the financial soundness of AUMA is evident by the \$11.3M of Unrestricted and Internally Restricted Net Assets (\$4.3M in 2006)





Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association



Consolidated Financial Statements Year Ended December 31, 2008

Statement of Operations (pg 3)

Presents Revenues, Expenses, and Net Income

Highlights:

- ✓ 2008 Consolidated Revenues are \$28.1M a 12% increase over the \$25M in revenues of 2007. Increase mainly attributed to growth in our Insurance business.
- ✓ Largest growth experienced in Group Benefits and General Insurance Programs.

Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association


Consolidated Financial Statements Year Ended December 31, 2008

Statement of Operations (pg 3)

Presents Revenues, Expenses, and Net Income

Highlights:

- ✓ Net Income of 3.8M of which \$3.3 was generated from our Group Benefits underwriting experience
- ✓ Digging below the surface of these consolidated figures, one would see that the Advocacy entity (AUMA) actual suffered a loss of \$288,000 and the AMSC businesses contributed to the Net Income by \$4M

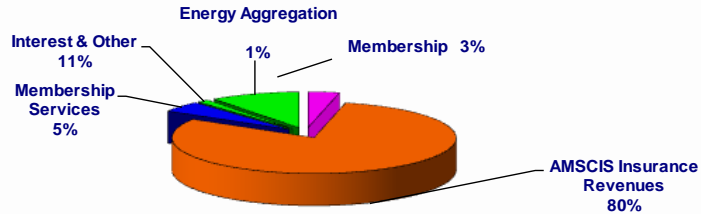




Alberta Urban Municipalities Association

Consolidated Financial Statements Year Ended December 31, 2008

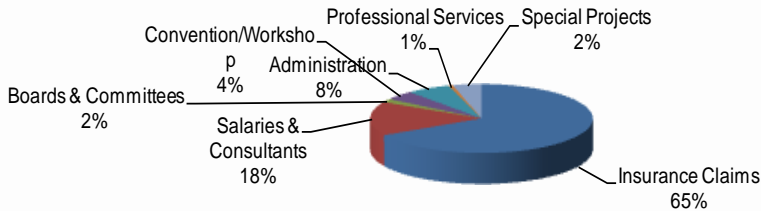
Revenues

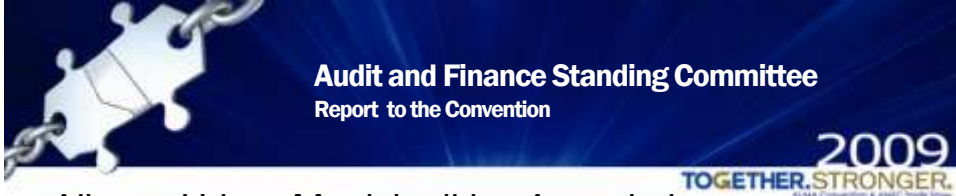


Alberta Urban Municipalities Association

Consolidated Financial Statements Year Ended December 31, 2008

Expenses





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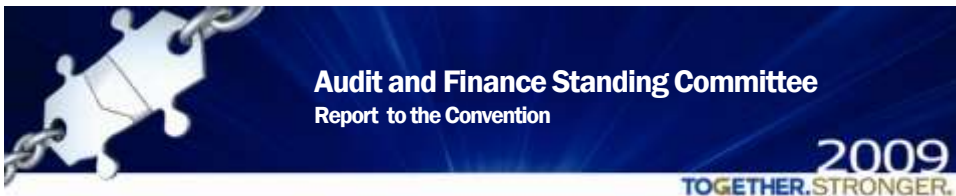
Alberta Urban Municipalities Association

Consolidated Financial Statements Year Ended December 31, 2008

Statement of Changes in Net Assets (pg 4)

Discloses the Equity position of the Association and the flow between Restricted and Unrestricted Equity

- ✓ Invested in capital assets - \$7M in 2008 compared to \$2M - change amount invested in new building

Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association


Consolidated Financial Statements Year Ended December 31, 2008

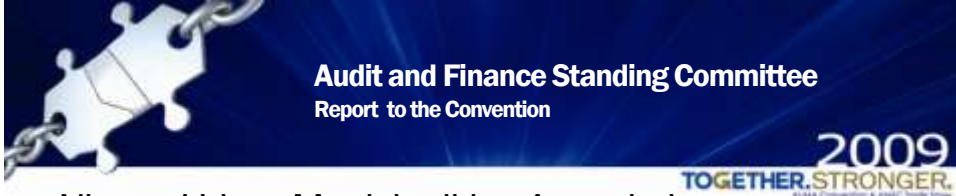
Statement of Cash Flows (pg 5)

Discloses the Net Cash Position and Change

Year over year cash decrease of \$2M attributed to:

- ✓ Internal equity used for building purchase – \$4.5M







Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association
Consolidated Financial Statements Year Ended December 31, 2008

Notes to the Financial Statements (pg 6 to 22)

- Significant Accounting Policies
- Cross-referenced to Specific Figures throughout the Statements
- Identifies AUMA's Commitments, Contingencies, and Related Party Transactions

Audit and Finance Standing Committee
Report to the Convention


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Alberta Urban Municipalities Association
Consolidated Financial Statements Year Ended December 31, 2008

Notes to the Financial Statements (pg 6 to 22)

2008 statements, there have been substantial changes to our Note Disclosures. Note highlights include:

- Notes 1(e) – Investments – Market Value
- Note 4 – Investments and write-down of Asset Back Commercial Paper Holdings
- Note 5 – Alberta Elected Officials Education Program Corporation





Audit and Finance Standing Committee
Report to the Convention



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Alberta Urban Municipalities Association

Consolidated Financial Statements Year Ended December 31, 2008

Notes to the Financial Statements (pg 25 to 41)

- Note 6 – Itemizes our Building acquisition cost.
- Note 11 – Long Term Debt – Bank Loan details
- Note 18 – Insurance Premiums and reporting of Net Commissions




Audit and Finance Standing Committee
Report to the Convention

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Alberta Municipal Insurance Exchange (MUNIX)

Audited Financial Statements Year Ended December 31, 2008
(Pg 23)





Audit and Finance Standing Committee
Report to the Convention


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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Highlight of Last Years' Activities

- Insurance Reciprocal's 6th Year of Operations
- Two Coverage Lines: Property & Liability
- In 2008 the annual loss aggregate was \$5.5M for Property and \$4.5M for Liability coverages and \$1.M per claim.
- Subscriber property losses totaled \$4M in 2008, which was a welcome relief after piercing the annual aggregate for the previous 3 years.
- Liability losses reached the annual aggregate in 2008, making it the 4th year of the past 5 that this has occurred.

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Report to the Convention

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Alberta Municipal Insurance Exchange (MUNIX)


Financial Statements Year Ended December 31, 2008

Balance Sheet (pg 25)

Strong – Balanced Financial Position

\$ 24.5M in assets

Surplus – comprised of Restricted and Unrestricted amounts reached \$5.5M at the end of 2008





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Report to the Convention

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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Balance Sheet (pg 25)

At the 2008 year end, MUNIX missed passing the Alberta Superintendent of Insurance's Funding test.

- Required Reserve Fund \$ 5.9M (50 per cent of 2008 Premiums) plus the Guarantee Reserve Fund \$19.1M (total liabilities) necessitated that :
 - ❖ Cash & Investments be at least \$ 25M – with actual at \$ 24.5M – thus leaving MUNIX with a \$.5M funding deficit

Audit and Finance Standing Committee
Report to the Convention

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Alberta Municipal Insurance Exchange (MUNIX)


Financial Statements Year Ended December 31, 2008

Balance Sheet (pg 25)

This deficit is the result of:

- Investment Income came in \$500K less than projected
- Wrote-down the MUNIX Commercial Paper (ABCP) by another \$592K in 2008
- High claims loss ratio in 2008 (91%)





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Report to the Convention

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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Balance Sheet (pg 25)

2009 actions to address this Funding Deficit:

- Added an additional \$600K to the 2009 Premium Rates
- Revisited the MUNIX Investment policies – looking to minimize risk while maximizing returns
- Focused on Risk Management of the problem subscribers

Audit and Finance Standing Committee
Report to the Convention


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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Income Statement (pg 26)

- Net Premiums \$ 11.9M – comprised of \$12.4M in billed gross premiums less the \$.5M of issued in Risk Management credits
- Actual Claims Reported Plus Actuarial Reserves for Incurred But Not Reported (IBNR) were \$ 10.8 Million (91 per cent Loss Ratio – 72% in 2007)
- Operating Expenses at 14 percent (11% in 2007)





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Report to the Convention



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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Statement of Comprehensive Income (pg 27)

- New statement introduced with the changes of reporting for Investments (Sections 3856 and 1530 of the CICA Handbook)
- Munix declared its reporting policy for Investments to follow the Available For Sale option, which is standard for Insurance Entities
- Changes to MV are recorded to Unrealized Gain or Losses and are recognized as Comprehensive Income in this statement, rather than Operating Income as reported on the Income Statement

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Report to the Convention


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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Notes to Financial Statements (pg 29 – 39)

- Significant Accounting Policies (Note 1)
- Roles and relationship between the Auditor and Actuary. The Actuarial Review completed by J.S. Cheng & Partners Inc. (Note 4)
- Related Party Transactions (Note 10)
- Investments – Commercial Paper valuation (Note 6)





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Report to the Convention



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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2008

Notes to Financial Statements (pg 29 – 39)

- Financial risk management – this is an entirely new section (Note 12), and identifies and discusses the following risks to the reciprocal:
 - ✓Underwriting
 - ✓Credit
 - ✓Liquidity
 - ✓Market





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APEX Supplementary Pension Plan

Audited Financial Statements Year Ended December 31, 2008
(Pg 40)





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Report to the Convention

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APEX Supplementary Pension Plan


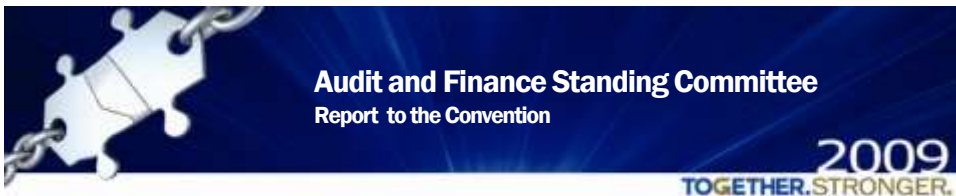
Financial Statements Year Ended December 31, 2008

Pension commenced operations on January 01, 2003

6th Year of Operations

Pension Reporting

- Statement of Net Assets & Accrued Pension Liability
- Statement of Changes in Net Assets Available for Benefits
- Statement of Changes in Accrued Benefits

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Report to the Convention


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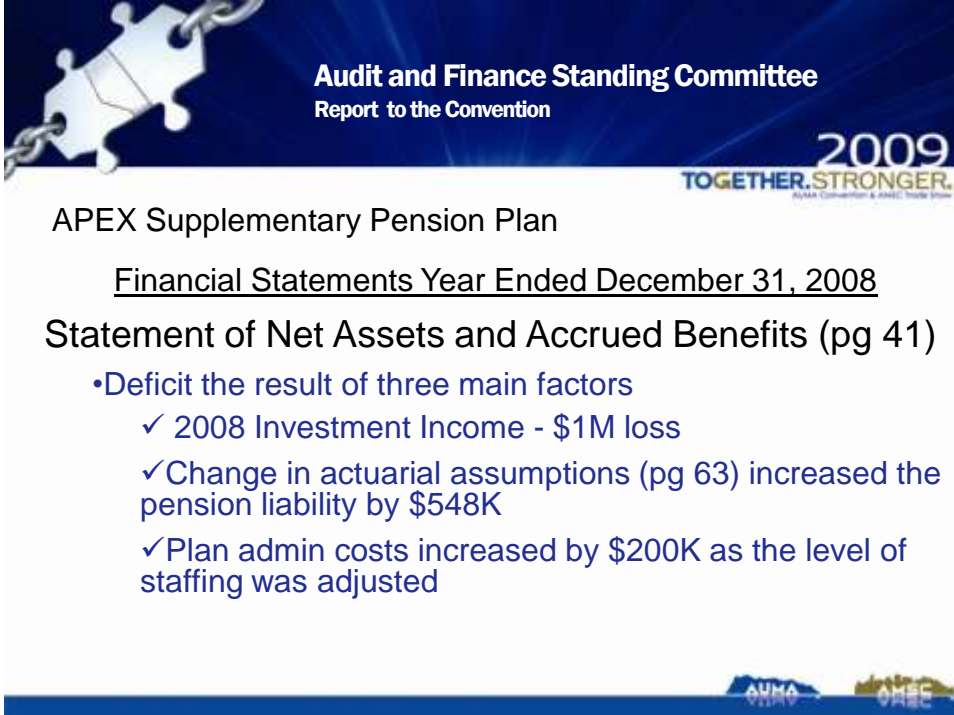
APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2008

Statement of Net Assets and Accrued Benefits (pg 41)

- Plan has reached \$9.2M in Net Assets
- Pension Plan had funding deficit of \$1M – first in the plans existence
- Funding Deficit of 11% of Net Assets Available for Benefits (was 113% funded in 2007) – 24% swing





Audit and Finance Standing Committee
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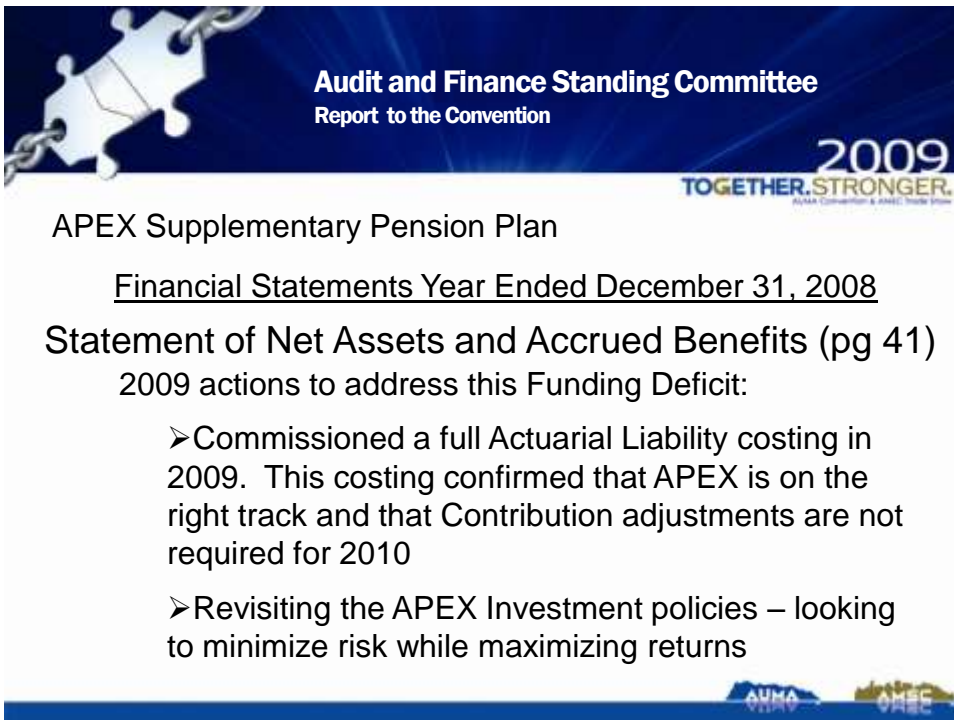
APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2008

Statement of Net Assets and Accrued Benefits (pg 41)

- Deficit the result of three main factors
 - ✓ 2008 Investment Income - \$1M loss
 - ✓ Change in actuarial assumptions (pg 63) increased the pension liability by \$548K
 - ✓ Plan admin costs increased by \$200K as the level of staffing was adjusted

AAMA AHEC



Audit and Finance Standing Committee
Report to the Convention

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APEX Supplementary Pension Plan


Financial Statements Year Ended December 31, 2008

Statement of Net Assets and Accrued Benefits (pg 41)

2009 actions to address this Funding Deficit:

- Commissioned a full Actuarial Liability costing in 2009. This costing confirmed that APEX is on the right track and that Contribution adjustments are not required for 2010
- Revisiting the APEX Investment policies – looking to minimize risk while maximizing returns

AAMA AHEC



Audit and Finance Standing Committee
Report to the Convention


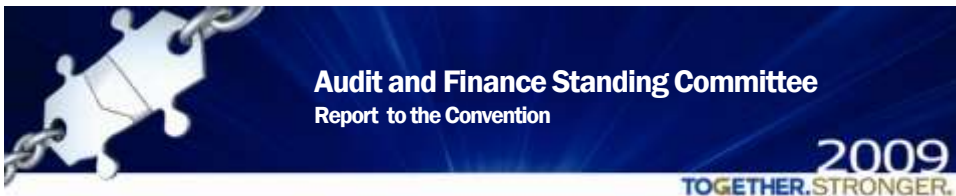
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APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2008

Statement of Changes in Net Assets Available
for Benefits (pg 41)

- 2008 Net Plan Contributions (contributions less Refunds)
totaled \$ 2.3M (\$ 2.2M in 2007)
- Plan Expenses are 22% of Net Contributions

Audit and Finance Standing Committee
Report to the Convention

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APEX Supplementary Pension Plan


Financial Statements Year Ended December 31, 2008


Statement of Changes in Accrued Pension Liability (pg 42)

Identifies benefit levels and the composition of the year
over year change

- + Benefits Earned
- Benefits Paid
- + or – Actuarial Adjustments

Actuarial Assumption change - \$548K





Audit and Finance Standing Committee
Report to the Convention


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APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2008

Notes to Financial Statements (pg 43 – 48)

- Significant Accounting Policies (note 2)
- Accrued pension liability – extrapolated and assumptions used for costing (note 3)
- Related Party Transactions (note 4)
- Financial Risks (note 5)
- Description of Investment (Schedule 1)
- Itemization of Administrative Expenses (Schedule 2)





Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association

Audit Committee Activities





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Alberta Urban Municipalities Association
Audit Committee Activities

Annual Directives of Committee are from 3 sources

1. Operational Measures – 3 year Business Plan
2. Operational Initiatives – Operations Plan
3. Governance Activities – Terms of Reference and Policy Documents




Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association
Audit Committee Activities

Operational Measures – 3 year Business Plan

1. **Financial Reporting Timeliness**
2. **Return on Investment**

2008 results reported in the Annual Report






Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association
Audit Committee Activities

Operational Initiatives – Annual Operations Plan
4 initiatives for 2008-09 year

1. Audit – engage external auditors and address outstanding Management Letter issues
2. Corporate Risk Management Model – ensure risks are being properly identified, monitored and addressed
3. Review and update Investment Policies as required
4. Investment Performance Measures – establish performance benchmarks and optimize returns
5. Develop funding policies for MUNIX and APEX




Audit and Finance Standing Committee
Report to the Convention

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Alberta Urban Municipalities Association
Audit Committee Activities

Governance Activities – Terms of Reference

1. External Audits and Actuarial Review
2. Audited Financial Statements
3. Business Plans and Budget
4. Investment Performance
5. Financial Reporting
6. Policy and Process Review






Audit and Finance Standing Committee
Report to the Convention

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Audit Committee Activities

Future of the A & F Committee

- Gravitate to a more Governance based Committee
- Review and implement Audit and Finance Committee Best Practices



Audit and Finance Standing Committee
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- KPMG – Audit Committee Best Practices
- Questions

Thank you

