

Leading
through 
Change

Audit and Finance Committee

Financial Report
2016



2017 AUMA Convention & AMSC Trade Show

November 22 - 24 | Calgary TELUS Convention Centre

Financial Report

2016 – 17 Audit and Finance Committee Members

➤ Peter Pellatt - Chair

Mayor – Summer Village of Sundance Beach

➤ Ed Sosnowski

Director, AUMA Board

➤ Elaine Noel-Bentley

Director, APEX Pension Plan

➤ Al Mondor, FCA

Director, AMSC Board

➤ Ron Grainger, CMA

External Committee Member

➤ Michael Minchin, CMA, CLGM

City of Lacombe

➤ Rob Coon

Strathcona County



Financial Report – A & F Committee Presentation

This is the 12th 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



Financial Report – A & F Committee Presentation

Two Sections to Presentation

1. 2016 Audited Financial Statement Overview
2. 2016-17 Audit Committee Activities



Financial Report – A & F Committee Presentation

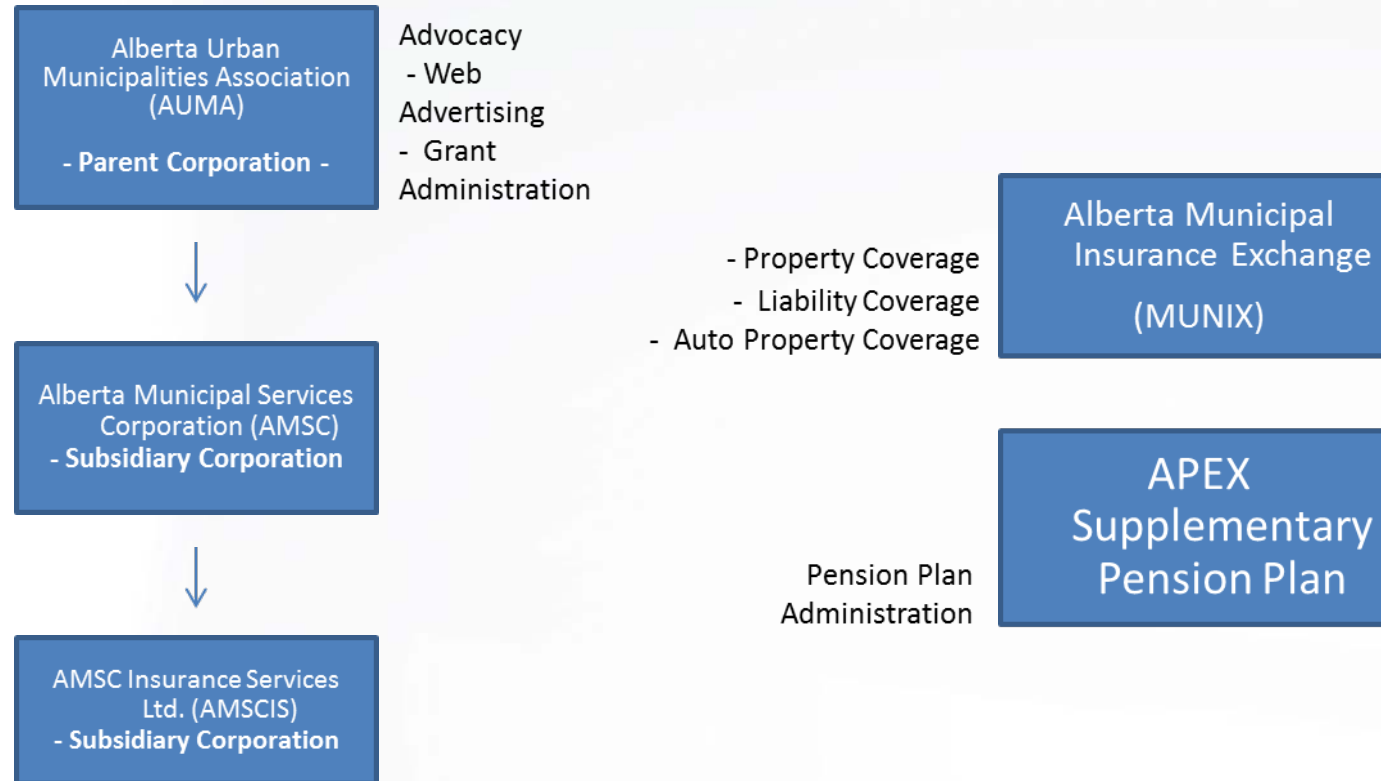
2016 Audited Financial Statements

- Financial Statements are included within the Annual Report, which have been posted to the AUMA website (www.auma.ca)
- The Financial Statements section of the Annual Report is available at the back of the room.



Financial Report – A & F Committee Presentation

Corporate Structure Chart



Financial Report – A & F Committee Presentation

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. (AMSCIS)
2. Alberta Municipal Insurance Exchange (MUNIX)
3. APEX Supplementary Pension Plan



Financial Report – A & F Committee Presentation

Auditors' Report of All Three Financial Statements

➤ **“Unqualified Opinion”**



Financial Report – A & F Committee Presentation

For AUMA Consolidated

- Presented in accordance with Canadian Accounting Standards for Not-for-Profit organizations (Part III of the CICA Handbook)

For MUNIX Insurance Reciporal

- Presented in accordance with International Financial Reporting Standards (IFRS)

For APEX Pension Plan

- Presented in accordance with Canadian Accounting Standards for Pension Plans



Financial Report – A & F Committee Presentation

Canadian Accounting Standards

- 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



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Financial Position (pg. 6)

Presents Assets, Liabilities and Equity

Highlights:

- ✓ \$94.2M of Assets (\$85.7M in 2015)
- ✓ \$38M of these Assets are restricted funds held as Grant Proceeds, or as reserves to ensure the continued health of the self-insured Benefits Program
- ✓ The fair value of investments increased by \$13.4 million which can be attributed to receipt of grants such as the Municipal Solar Program and WIC Action Partnership
- ✓ The financial soundness of AUMA is evident by the \$44M of Unrestricted and Internally Restricted Net Assets (\$4.3M in 2006)



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Operations (pg. 7)

Presents Revenues, Expenses and Net Income

Highlights:

- ✓ 2016 Consolidated Revenues are \$58.3M, a 5% increase over the \$55.7M in revenues of 2015.
- ✓ This \$58.3M in net revenues is generated from \$94M in Group Benefits and Property & Casualty insurance premiums and \$87M in energy retail (electricity and natural gas).



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Operations (pg. 7)

Highlights:

- ✓ Net Income of \$4.4M – a decrease from the \$11.5M generated in 2015
- ✓ Net surplus in disability benefits underwriting in 2016 was \$2.5M compared to the \$8.1M surplus in 2015
- ✓ Healthy surplus allowed AUMA/AMSC to rebate its loyal customers \$500K in 2016 and set aside another \$1M to rebate over the next two years



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Operations (pg. 7)

Highlights:

Digging below the surface of these consolidated figures:

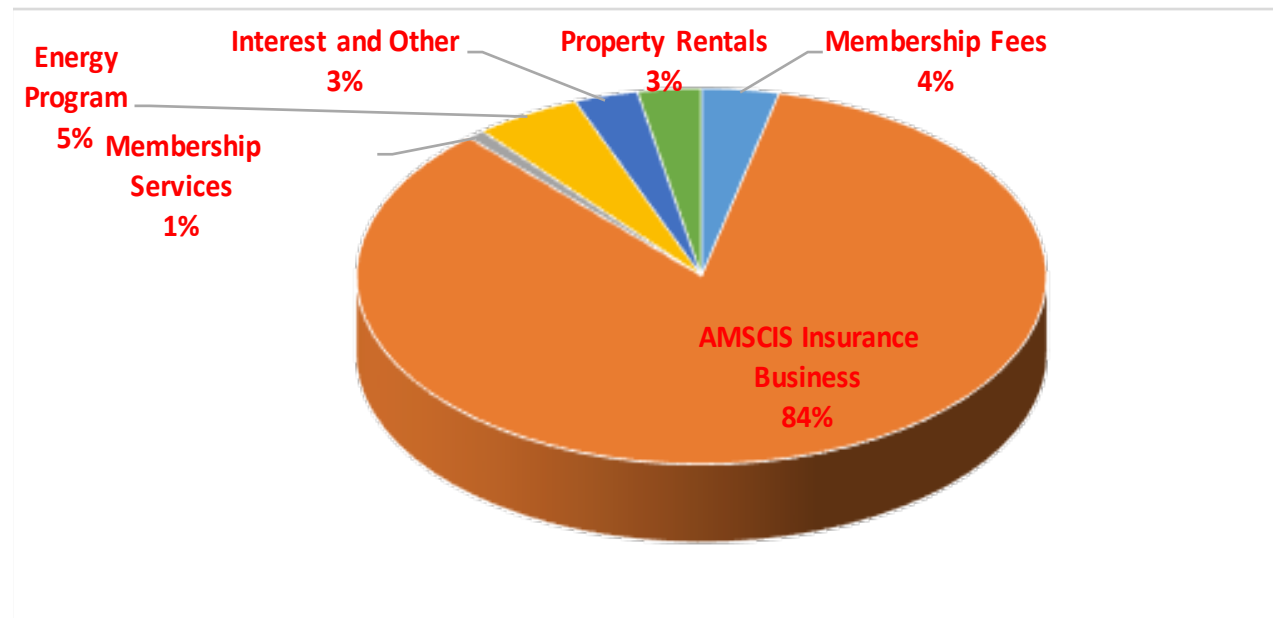
- ✓ One would see that the Advocacy entity (AUMA) operated with a small surplus of \$100K
- ✓ The AMSC insurance brokerage and underwriting business contributed to the net income totals of \$5.8M (\$12.6M in 2015) – on premiums of \$94M.
- ✓ The non-insurance business operated at a deficit of \$800K in 2016 and 2015.



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

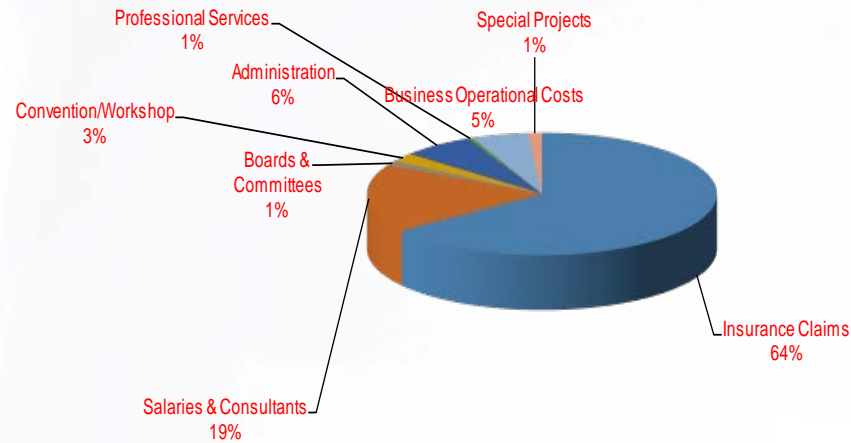
Statement of Operations (pg. 7)



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Operations (pg. 7)



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Statement of Changes in Net Assets (pg. 8)

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

- ✓ Discloses that total equity has increased to \$64M from \$60M
- ✓ Restricted assets - \$26M in 2016 compared to \$23M



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Consolidated Financial Statements Year Ended December 31, 2016

Statement of Cash Flows (pg. 9)

Discloses the net cash position and change

- ✓ Year over year cash decreased by \$3.6M – resulting from the decline in net income due to the increasing ASO claim costs



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 10 to 26)

- Significant Accounting Policies
- Cross – referenced to specific figures throughout the statements
- Identifies AUMA's Commitments, Contingencies and Related Party Transactions



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 10 to 26)

Note highlights include:

- Page 10 describes the activities of AUMA and its owned entities
- Note 1 – describes the significant accounting policies of AUMA
- Note 4 – Investments (Fair Value), types of investments and the AMSC MuniFunds program
- Note 6 – Alberta Elected Officials Education Program Corporation



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 10 to 26)

Note highlights include:

- Note 7 – Other Assets

- Note 8 – Capital Assets

- Note 13 – Listing of the Grants which AUMA administers

- Note 14 – Mortgage Loan

- Note 17 – Internal Reserve restrictions



Financial Report – A & F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 10 to 26)

Note highlights include:

- Note 18 – Insurance Premiums and reporting of Net Commissions
- Note 22 – Energy Retailing Fees
- Note 23 and 24 – Related Party Transactions and Commitments
- Note 26 – Financial and Credit Risks



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Audited Financial Statements Year Ended

December 31, 2016

(pg. 27)



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

- Classified as an Insurance Entity for reporting purposes
- 6th year having to comply with International Financial Reporting Standards (IFRS)
- Numbers haven't changed but financial statement disclosures increased threefold – note pages increased from 10 to 30



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

- Insurance Reciprocal's 15th year of operations
- Three coverage lines: Property; Liability and Auto Property
- 2015 is the first year that MUNIX used reinsurance to increase its aggregate



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Highlights:

- In 2015, the annual loss aggregate was \$7.25M for Property, \$5.0M for Liability and \$750K for Auto and \$1.0M per claim
- In addition, MUNIX purchased reinsurance to increase the property aggregate to \$12M and liability to \$10M
- In 2016, the reciprocal had Comprehensive Income of \$1.7M, down by \$1.1M compared to 2015
- 2016 claims decreased to \$11.7M – but \$700K is recoverable from reinsurers leaving a net claim cost of \$11.0M which is an increase from 2015.



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Statement of Financial Position (pg. 29)

Strong – balanced financial position

- \$52.3M in assets
- Surplus of \$19.1M at the end of 2015



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

At the 2016 year end, MUNIX passed the Alberta Superintendent of Insurance's Funding test.

- Required reserve fund \$10.5M (50% of 2016 Premiums) plus the Guarantee Reserve Fund \$39.1M (total liabilities) necessitated that:
 - ❖ Cash and investments be at least \$39.1M – with actual at \$49.6M – thus leaving MUNIX with a \$10.5M funding surplus

- The other regulator funding test is called the Minimal Capital Test (MCT) – requires MUNIX to have a funding ratio of 210% - with MUNIX' actual at 344%



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Statement of Comprehensive Income (pg. 30)

- Net premiums \$16.4M – down from \$17M in 2015
- Actual Claims Reported Plus Actuarial Reserves for Incurred But Not Reported (IBNR) were \$11.0M (67% loss ratio – compared to 2015: 64%, 2014: 74%, 2013: 73%, and 2012: 70%)
- Premium Taxes 4% of net premiums
- Operating Expenses were 20% of premiums compared to 21% in 2015



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Statement of Comprehensive Income (pg. 30)

- The higher investment returns resulted in the \$1.7M net comprehensive income, compared to \$2.8M in 2015
- Investment Income – 0.99% return (net of fees)
- Benchmark return is CPI plus 1% (2.52%)
- Earned on funds set aside as a reserve for future claim payments – this income reduced the need for premiums collected by subscribers by \$500K



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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Statement of Subscribers Surplus (pg. 31)

- Discloses the flow of equity



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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Statement of Cash Flows (pg. 32)

- Discloses the net cash position and change
- Year over year cash decreased by \$300K



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Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 33 to 56)

- Note 1 – Reporting entity

- Notes 2 and 3 – Basis of Presentation and Significant Accounting Policies

- Note 4 – Roles and relationship between the auditor and actuary. The actuarial review was completed by J.S. Cheng & Partners Inc.

- Note 5 – Investments

- Note 6 – Claims Liability



Financial Report – A & F Committee Presentation

Alberta Municipal Insurance Exchange (MUNIX)

Financial Statements Year Ended December 31, 2016

Notes to the Financial Statements (pg. 33 to 56)

- Note 7 – Financial Risk Management – identifies and discusses the following risks to the reciprocal:
 - ✓ Insurance
 - ✓ Market
 - ✓ Credit
 - ✓ Liquidity
 - ✓ Capital risk management

- Note 8 – Reinsurance

- Note 9 – Related Party Transactions



Financial Report – A & F Committee Presentation

APEX Supplementary Pension Plan

Audited Financial Statements Year Ended

December 31, 2016

(pg. 57)



Financial Report – A & F Committee Presentation

APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2016

Pension commenced operations on January 1, 2003

15th 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



Financial Report – A & F Committee Presentation

APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2016

Statement of Net Assets and Accrued Benefits (pg. 59)

- Plan has reached \$51.2M in Net Assets
- Pension Plan has funding deficit of \$2.3M comparative to a surplus of \$677K at the end of 2015
- Overall the Plan is healthy – growing at \$6M in Net Assets per year
- But because the plan is still in its infancy, volatility of surplus/deficit can occur year over year
- This was especially the case in 2015 when one of the actuarial assumptions changed, substantially increasing the pension liability



Financial Report – A & F Committee Presentation

APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2016

Statement of Changes in Net Assets Available for Benefits (pg. 60)

- 2016 Net Plan Contributions (contributions less withdrawals) totaled \$3.8M (\$3.3M in 2015)
- Plan Expenses are 15% of Gross Contributions – in both 2016 and 2015



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APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2016

Statement of Changes in Accrued Pension Liability (pg. 61)

- Identifies benefit levels and the composition of the year over year change
 - + Interest accrued on pension benefits (cost of living increases)
 - + Benefits earned
 - Benefits paid
 - + or – Actuarial adjustments



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APEX Supplementary Pension Plan

Financial Statements Year Ended December 31, 2016

Notes to Financial Statements (pg. 63 to 74)

- Note 1 – Description of Plan
- Note 2 and 3 – Basis of Presentation and Significant Accounting Policies
- Note 4 – Investment
- Note 5 – Accrued Pension Liability – extrapolated and assumptions used for costing
- Note 8 – Administrative Expenses
- Note 9 – Related Party Transactions
- Note 11 – Financial Instruments (Risks)



Audit Committee Activities



Financial Report – A & F Committee Presentation

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



Financial Report – A & F Committee Presentation

Operational Measures – 3 year Business Plan

1. Financial Reporting Timeliness
2. Return on Investment

2016 results reported in the Annual Report



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Audit Committee Activities

Operational Initiatives – Annual Operations Plan

Initiatives for 2016-17 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 approve the AUMA Corporate Taxable Exemption Policy
4. Develop and recommend equity policies for AUMA and AMSC



Financial Report – A & F Committee Presentation

Audit Committee Activities

Operational Initiatives – Annual Operations Plan

Governance Activities – Terms of Reference

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



Financial Report – A & F Committee Presentation

Audit Committee Activities

Future of the A&F Committee

- Become more proactive in understanding the control, stewardship issues of the various entities
- Expand on its developing role in the Enterprise Risk Management (ERM) process



Questions?

Thank you

