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# Audit and Finance Committee

## Financial Report

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## Financial Report

# 2015-16 Audit and Finance Committee Members

- **Kim Craig - Chair** Mayor - Town of Coaldale
- **Peter Pellatt** Director, AUMA Board
- **Norbert Van Wyk, CMA** 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



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## Financial Report - A &F Committee Presentation

This is the 11th 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



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## Financial Report - A &F Committee Presentation

### Two Sections to Presentation

1. 2015 Audited Financial Statement Overview
2. 2015-16 Audit Committee Activities



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## Financial Report - A &F Committee Presentation

### 2015 Audited Financial Statements

- Financial Statements are included within the Annual Report, which have been posted to the AUMA website [www.auma.ca](http://www.auma.ca)
- At the back of the room are the Financial Statement section of the Report



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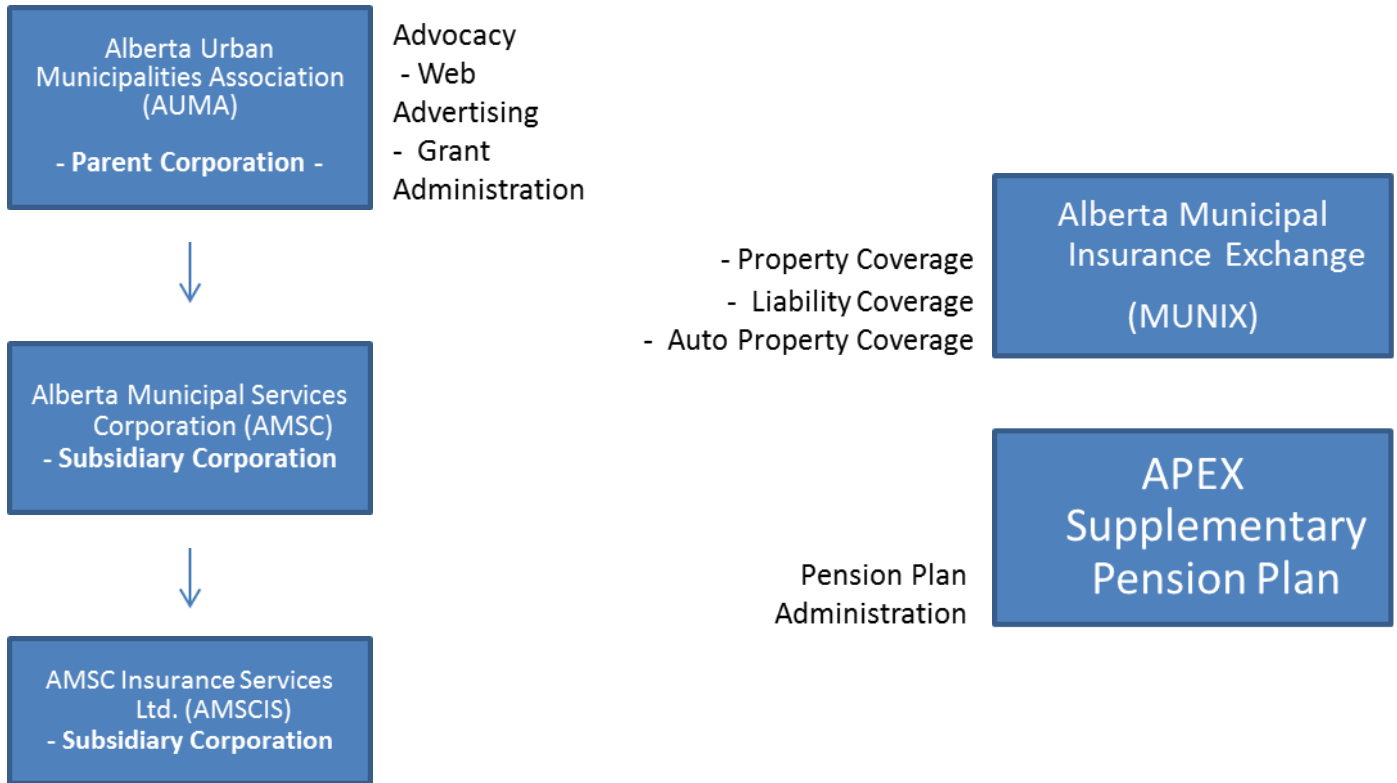
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## Financial Report - A &F Committee Presentation

# Corporate Structure Chart



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

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## Financial Report - A &F Committee Presentation

# Auditors' Report of All Three Financial Statements

➤ **“Unqualified Opinion”**



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### And for AUMA Consolidated

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

### For MUNIX Insurance Reciprocal

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

### For APEX Pension Plan

- Presented in accordance with Canadian Accounting Standards for Pension Plans



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### 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



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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Financial Position (pg. 39)

Presents Assets, Liabilities, and Equity

Highlights:

- ✓ \$85.7M of Assets (\$73.3M in 2014)
- ✓ \$30M 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 \$20M and Bank Loan \$3.3M
- ✓ the financial soundness of AUMA is evident by the \$37M of Unrestricted and Internally Restricted Net Assets (\$4.3M in 2006)

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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Operations (pg. 40)

Presents Revenues, Expenses, and Net Income

Highlights:

- ✓ 2015 Consolidated Revenues are \$55.7M a 16% increase over the \$47.9M in revenues of 2013. Increase mainly attributed to AMSC becoming an Energy Retailer in 2014.
- ✓ This \$55.1M in Net Revenues is generated from \$92M in insurance premiums that we sell of Group Benefits and Property & Casualty insurance. And \$88M of Energy Retail (electricity and natural gas)

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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Operations (pg. 40)

Highlights:

- ✓ Net Income of \$11.5M – a significant increase from the \$6.1M generated in 2014
- ✓ Net surplus in Disability benefits underwriting in 2015 was \$8.1M compared to the \$800K surplus in 2014
- ✓ Healthy surplus allowed AUMA/AMSC to rebate its loyal customers \$500K in 2016 and set aside another \$1M to rebate over the following two years



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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Operations (pg. 40)

Highlights:

Digging below the surface of these consolidated figures:

- ✓ one would see that the Advocacy entity (AUMA) operated with a small surplus of \$275K
- ✓ the AMSC insurance brokerage and underwriting business contributed to the Net Income totals of \$12.6M (\$7.1M in 2014) - on premiums of \$92M
- ✓ the non-insurance business operated at a deficit of \$800,000 in 2015 compared to a \$400,000 loss in 2014

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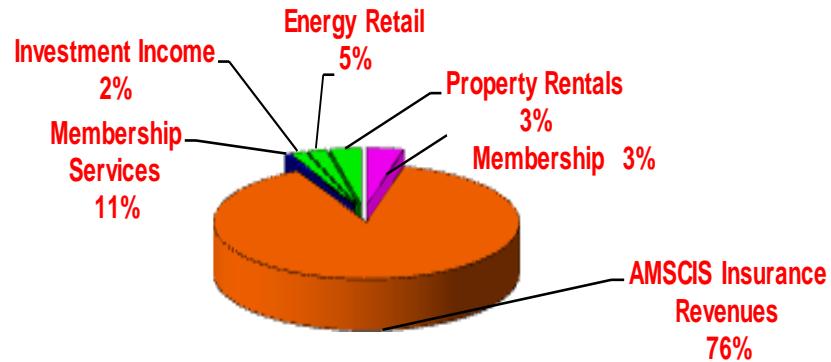
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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Operations (pg. 41)



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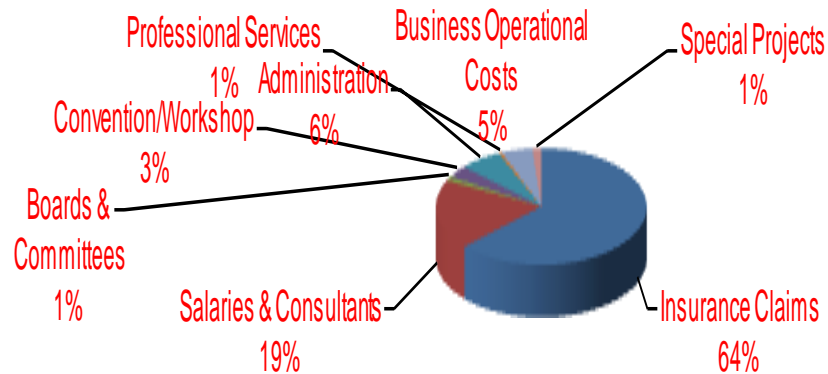
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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Operations (pg. 41)





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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Changes in Fund Balances (pg. 41)

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

- ✓ Discloses that while total equity has increased to \$59.7M from \$48M
- ✓ Restricted assets - \$22.8 in 2015 compared to \$18.3M - Group Benefits program and future customer rebates

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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Statement of Cash Flows (pg. 42)

Discloses the Net Cash Position and Change

Year over year cash increased by \$1.8 – resulting from the growth of the Energy Retailing business for AMSC



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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Notes to the Financial Statements (pg. 43 to 63)

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



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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Notes to the Financial Statements (pg. 43 to 63)

Note highlights include:

- Page 43 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



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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Notes to the Financial Statements (pg. 43 to 63)

Note highlights include:

- Note 7 – Other Assets
- Note 8 – Capital Assets
- Note 12 – Listing of the Grants, AUMA administers
- Note 13 – Long Term Debt – Bank Loan details
- Notes 16 – Internal Reserve restrictions

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## Financial Report - A &F Committee Presentation

Consolidated Financial Statements Year Ended December 31, 2015

### Notes to the Financial Statements (pg. 43 to 63)

Note highlights include:

- Note 17 – Insurance Premiums and reporting of Net Commissions
- Note 21 – Energy Retailing Fees
- Note 22 and 23 – Related Party transactions and Commitments
- Note 25 – Financial and Credit risks

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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Audited Financial Statements Year Ended December 31, 2015

(Pg. 64)



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

- Classified as an Insurance Entity for Reporting purposes
- 5th year having to comply with International Financial Reporting Standards (IFRS)
- Numbers haven't changed but financial statement disclosures increased three fold – note pages increased from 10 to 30



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

- Insurance Reciprocal's 14th Year of Operations
- Three Coverage Lines: Property, Liability, and Auto Property
- 2015 is the first year that MUNIX used Reinsurance to increase its aggregate



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Highlight of Last Years' Activities

- In 2015 the annual loss aggregate was \$8.0M for Property, \$5.0M for Liability coverage's, and \$ 750K for Auto Property and \$1.0M per claim
- In addition, MUNIX purchased reinsurance to increase the Property aggregate to \$12M and Liability to \$10M
- 2015 was a good year for the reciprocal with Comprehensive Income of \$2.8M
- 2015 claims did increase to \$12.4M – but \$1.6M is recoverable from reinsurers leaving a net claim cost of \$10.8M

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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Statement of Financial Position (pg. 66)

Strong – Balanced Financial Position

- \$ 49.3M in assets
- Surplus – comprised of Restricted and Unrestricted amounts \$17.4M at the end of 2015



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

At the 2015 year end, MUNIX passed the Alberta Superintendent of Insurance's Funding test.

- Required Reserve Fund \$ 8.5M (50 per cent of 2015 Premiums) plus the Guarantee Reserve Fund \$30.3M (total liabilities) necessitated that :
  - ❖ Cash & Investments be at least \$ 38.8M – with actual at \$ 47.4m – thus leaving MUNIX with a \$ 8.5M 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's actual at 307%

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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Statement of Comprehensive Income (pg. 67)

- Net Premiums \$ 17M – up from the \$15.5M in 2014
- Actual Claims Reported Plus Actuarial Reserves for Incurred But Not Reported (IBNR) were \$ 10.8 Million (70% loss ratio – compared to 73% in 2014 and 2013 70% in 2012 , 102% in 2011, 80% in 2010 - 46% )
- Premium Taxes 3% of net premiums
- Operating Expenses were 16 percent of premiums comparative to 2014 of 22% as MUNIX realized economies of scale as it increases its insurance limits
- The higher investment returns resulted in the \$2.8 Net Comprehensive Income, compared to \$1.3 in 2014

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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Statement of Comprehensive Income (pg. 67)

- Investment Income - 2.20% return (net of fees)
- Benchmark return is CPI plus 1% (2.62%)
- Earned on funds set aside as a reserve for future claim payments – this income reduced the need for premiums collected by subscribers by \$1M



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# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Statement of Subscribers Surplus (pg. 68)

- Discloses the flow of equity



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Statement of Cash Flows (pg. 69)

- Discloses the Net Cash Position and Change

Year over year cash increased by \$1.8M



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Notes to Financial Statements (pg. 70 to 100)

- Reporting Entity (Note 1)
- Basis of Presentation and Significant Accounting Policies (Notes 2 and 3)
- Roles and relationship between the Auditor and Actuary. The Actuarial Review completed by J.S. Cheng & Partners Inc. (Note 4)
- Investments – (Note 5)
- Claims Liability – (Note 6)



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## Financial Report - A &F Committee Presentation

# Alberta Municipal Insurance Exchange (MUNIX)

## Financial Statements Year Ended December 31, 2015

### Notes to Financial Statements (pg. 70 to 100)

- Financial Risk Management (Note 7) - identifies and discusses the following risks to the reciprocal:
  - ✓ Insurance
  - ✓ Market
  - ✓ Credit
  - ✓ Liquidity risk
  - ✓ Capital risk management
- Reinsurance (Note 8)
- Related Party Transactions (Note 9)

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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

Audited Financial Statements Year Ended  
December 31, 2015

(Pg. 101)



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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

## Financial Statements Year Ended December 31, 2015

**Pension commenced operations on January 01, 2003**

**14th 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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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

## Financial Statements Year Ended December 31, 2015

### Statement of Net Assets and Accrued Benefits (pg. 102)

- Plan has reached \$45.3M in Net Assets
- Pension Plan has funding surplus of \$677K comparative to a surplus of \$6.1M at the end of 2014
- 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 of year
- This was especially the case in 2015 when one of the actuary assumptions changed, substantially increasing the pension liability



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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

## Financial Statements Year Ended December 31, 2015

### Statement of Changes in Net Assets Available for Benefits (pg. 103)

- 2015 Net Plan Contributions (contributions less withdrawals) totaled \$3.3M (\$ 3.5M in 2014)
- Plan Expenses are 15% of Gross Contributions – 15% in 2014



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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

## Financial Statements Year Ended December 31, 2015

### Statement of Changes in Accrued Pension Liability (pg. 104)

- 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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## Financial Report - A &F Committee Presentation

# APEX Supplementary Pension Plan

## Financial Statements Year Ended December 31, 2015

### Notes to Financial Statements (pg. 106 to 119)

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





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## Financial Report - A &F Committee Presentation

# Audit Committee Activities

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## 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



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## Financial Report - A &F Committee Presentation

### Operational Measures – 3 year Business Plan

1. Financial Reporting Timeliness
2. Return on Investment

2015 results reported in the Annual Report



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## Financial Report - A &F Committee Presentation

### Audit Committee Activities

Operational Initiatives – Annual Operations Plan

Initiatives for 2015-16 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 of AUMA Corporate Structure
4. Determine and implement the Insurance Regulatory changes for MUNIX
5. MUNIX Funding Policy and APEX Employer Compliance Reporting

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## 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



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## 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



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## Financial Report - A &F Committee Presentation

## Alberta Urban Municipalities Association

# Questions

# Thank you



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