

ALBERTA RISK MANAGEMENT FUND

Financial Statements

YEAR ENDED MARCH 31, 2003

Auditor's Report	154
Balance Sheet	155
Statement of Operations	156
Notes to the Financial Statements	157

AUDITOR'S REPORT



To the Minister of Revenue

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2003 and the statement of operations for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Alberta
May 23, 2003

[original signed]

FCA
Auditor General

ALBERTA RISK MANAGEMENT FUND

BALANCE SHEET

March 31, 2003 (*thousands*)

	2003	2002
Assets		
Cash and cash equivalent (Note 3)	\$ 18,237	\$ 17,014
Accounts receivable (Note 4)	34	28
Accrued recoveries (Note 5)	147	827
	\$ 18,418	\$ 17,869
Liabilities and Net Assets		
Liabilities		
Payable to the Revenue Department	\$ 275	\$ 196
Liability for accrued claims (Note 6)	14,584	10,633
	14,859	10,829
Net Assets	3,559	7,040
	\$ 18,418	\$ 17,869

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

STATEMENT OF OPERATIONS

Year Ended March 31, 2003 (*thousands*)

	Budget	2003 Actual	2002 Actual
Income			
Insurance services			
Province of Alberta departments, funds and agencies	\$ 6,000	\$ 6,725	\$ 7,163
Other entities	550	363	385
Subrogation and salvage	-	278	927
Interest	650	564	646
	7,200	7,930	9,121
Expenses			
Insurance claims	5,206	8,560	3,813
Insurance premiums	1,400	1,770	1,103
Administration	939	881	703
Other services	240	200	305
	7,785	11,411	5,924
Net (loss) income	\$ (585)	(3,481)	3,197
Net assets at beginning of year		7,040	3,843
Net assets at end of year		\$ 3,559	\$ 7,040

The accompanying notes are part of these financial statements.

ALBERTA RISK MANAGEMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2003

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000.

The Fund facilitates the provision of risk management and insurance services to government departments, other entities within the Alberta Government, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of property and other losses in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The accounting policies of significance to the Fund are as follows:

- a) Claims provisions, including provisions for claims incurred but not reported, are based on estimates made by management. The provisions are adjusted in the period when more experience is acquired and as additional information is obtained.
- b) Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of claims provisions. The nature of the uncertainty in these items arises from several factors such as the effect of claims incurred but not reported and estimates of liability for outstanding claims.

- c) The fair values of cash and cash equivalents, accounts receivable, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.
- d) A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

ALBERTA RISK MANAGEMENT FUND

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. As at March 31, 2003, securities held by the CCITF have an average effective market yield of 3.23% (2002 2.58%) per annum and an average duration of 71 days (2002 68 days).

NOTE 4 ACCOUNTS RECEIVABLE

(thousands)

	2003	2002
Receivable from Province of Alberta departments, funds and agencies	\$ 30	\$ 18
Other	4	10
	\$ 34	\$ 28

NOTE 5 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 6 LIABILITY FOR ACCRUED CLAIMS

(thousands)

	2003	2002
Outstanding claims (a)	\$ 8,384	\$ 5,033
Incurred but not reported losses (b)	6,200	5,600
	\$ 14,584	\$ 10,633

a) Outstanding Claims

Liability for outstanding claims represents management's best estimates of outstanding losses which have been reported but are not yet closed, and expenses for claims if any. The amount reflects management's best estimate of the ultimate cost of settlement after discussion with legal counsel if required.

ALBERTA RISK MANAGEMENT FUND

NOTE 6 (continued)**(b) Incurred But Not Reported (IBNR) Losses**

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but have not yet been reported, including a provision for development of case reserves, a provision for reopened claims, and a provision for claims that have been reported but are not yet recorded in the books.

An actuarial review of the Fund's liability for IBNR losses was carried out as at March 31, 2001 by MMC Enterprise Risk Consulting Limited, an operating division of Marsh & McLennan Companies. Based on that review, management determined that \$6.2 million was an appropriate estimate of the Fund's liability for IBNR losses at March 31, 2003, taking into account the significant growth in claims and new claim types up to that date.

Liability for IBNR losses as at March 31, 2001 was determined using accepted actuarial practices, including selection of appropriate assumptions and methods, which include using weighted averages of estimated losses paid and reported.

Liability for IBNR losses represents the difference between the actuary's estimated ultimate incurred loss and the amount of incurred loss reported on the effective date of review, adjusted for the portion of any individual large claims ceded to third party insurers.

The Fund's future experience will inevitably differ, perhaps significantly, from the actuary's estimate due to the random occurrence of large losses and the outcome of future contingent events. Any differences between the actuary's estimate and future experience will emerge as gains or losses in future reviews and will affect the financial position of the Fund.

NOTE 7 CONTINGENCIES

At March 31, 2003, the Province was named as defendant in various legal actions relating to insurance claims. The resulting loss, if any from these claims and other potential claims cannot be determined.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Revenue.

