

# ALBERTA RISK MANAGEMENT FUND

## Financial Statements YEAR ENDED MARCH 31, 2004

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## AUDITOR'S REPORT

### To the Minister of Revenue

I have audited the balance sheet of the Alberta Risk Management Fund as at March 31, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*[Original Signed]*

Edmonton, Alberta  
May 21, 2004

Fred J. Dunn, FCA  
Auditor General

## ALBERTA RISK MANAGEMENT FUND

## BALANCE SHEET

March 31, 2004 (*thousands*)

	2004		2003
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 19,248	\$	18,237
Accounts receivable (Note 4)	33		34
Accrued recoveries (Note 5)	209		147
	<u>\$ 19,490</u>	\$	<u>18,418</u>
<b>Liabilities and Net Liabilities</b>			
Liabilities			
Payable to the Revenue Department	\$ 426	\$	275
Liability for accrued claims (Note 6)	25,255		14,584
	25,681		14,859
Net (Liabilities) Assets	(6,191)		3,559
	<u>\$ 19,490</u>	\$	<u>18,418</u>

*The accompanying notes are part of these financial statements.*

## ALBERTA RISK MANAGEMENT FUND

## STATEMENT OF OPERATIONS

Year Ended March 31, 2004 (*thousands*)

	Budget	2004 Actual	2003 Actual
<b>Revenues</b>			
Insurance services			
Province of Alberta departments, funds and agencies	\$ 6,000	\$ 6,284	\$ 6,725
Other entities	730	342	363
Subrogation and salvage	250	220	278
Interest	550	600	564
	7,530	7,446	7,930
<b>Expenses</b>			
Insurance claims	4,400	13,516	8,560
Insurance premiums	2,000	2,296	1,770
Administration	1,039	1,162	881
Other services	271	222	200
	7,710	17,196	11,411
<b>Net expense</b>	\$ (180)	(9,750)	(3,481)
<b>Net assets at beginning of year</b>		3,559	7,040
<b>Net (liabilities) assets at end of year</b>		\$ (6,191)	\$ 3,559

The accompanying notes are part of these financial statements.

## ALBERTA RISK MANAGEMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS

March 31, 2004

**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) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. 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 exists in the calculation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual values are known.

## ALBERTA RISK MANAGEMENT FUND

**NOTE 2 (continued)**

- 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 cash flows is not provided as disclosure in these financial statements is considered adequate.

**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 three years. As at March 31, 2004, securities held by the CCITF have an average effective market yield of 2.11% (2003 3.23%) per annum and an average duration of 142 days (2003 71 days).

**NOTE 4 ACCOUNTS RECEIVABLE**

(thousands)

	2004	2003
Receivable from Province of Alberta departments, funds and agencies	\$ 33	\$ 30
Other	-	4
	\$ 33	\$ 34

**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)

	2004	2003
Outstanding claims case reserves (a)	\$ 12,955	\$ 8,384
Incurred but not reported losses (b)	12,300	6,200
	\$ 25,255	\$ 14,584

**a) Outstanding Claims Case Reserves**

Liability for outstanding claims case reserves 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. The amount includes 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, 2004 by Mercer Oliver Wyman Actuarial Consulting Limited (which is a part of Mercer Oliver Wyman, an operating division within Marsh & McLennan Companies). The actuary's estimate of the Fund's liability for IBNR losses at March 31, 2004 amounts to \$12.3 million, taking into account the significant growth in claims and new claim types up to that date.

Liability for IBNR losses as at March 31, 2004 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, 2004, 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.

