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COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

APPLICANT

ALBERTA LOCAL AUTHORITIES
RECIPROCAL INSURANCE EXCHANGE

RESPONDENTS

Alberta Beach, Alberta Capital Region
Wastewater Commission, Alberta Municipal
Health and Safety Association, Alberta
Recreation & Parks Association, and
others – see Schedule "A"

DOCUMENT

EXPERT'S REPORT

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

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EXPERT REPORT OF LISA MAJEAU GORDON, CPA, CA-IFA, CFF, CFE, CFI, CICA

- (a) My professional qualifications are set out in my Curriculum Vitae, which is attached as Schedule "B" and forms part of this Expert Report. I am a Partner with the accounting and consulting firm MNP LLP. I specialise in Investigative and Forensic Accounting.
- (b) Information and assumptions on which my expert opinion is based are contained in the body of my report dated June 30, 2016 which is attached as Schedule "C".
- (c) A summary of my expert opinion is contained in the body of my report dated June 30, 2016, which is attached as Schedule "C".
- (d) Schedule 6, Schedule 7, and Schedule 8 referred to in my report are attached in electronic form on a CD as they are bulky electronic spreadsheets.
- (e)

DATE: August 5, 2016



LISA MAJEAU GORDON, CPA, CA-IFA, CFF,
CFE, CFI, CICA



Schedule "A" - Respondents

Alberta Beach	Capital Region Southwest Water Services Commission	County of Barrhead No. 11
Alberta Capital Region Wastewater Commission	Cardston County	County of Forty Mile No. 8
Alberta Municipal Health and Safety Association	Chinook's Edge School Division No. 73	County of Grande Prairie No. 1
Alberta Recreation & Parks Association	Christ The Redeemer CS Regional Division No. 3	County of Minburn No. 27
Alberta School Boards Association	City of Airdrie	County of Newell
Alberta Urban Municipalities Association	City of Brooks	County of Northern Lights
Aspen View Public School Division No. 78	City of Camrose	County of Paintearth No. 18
Battle River Regional Division No. 31	City of Chestermere	County of St. Paul No. 19
Beaver County	City of Cold Lake	County of Stettler No. 6
Big Country Waste Management	City of Fort Saskatchewan	County of Two Hills No. 21
Big Hay Lakes Drainage District	City of Grande Prairie	County of Vermilion River
Birch Hills County	City of Lacombe	County of Warner No. 5
Black Gold Regional Division No. 18	City of Leduc	County of Wetaskiwin No. 10
Brazeau County	City of Lloydminster	Cypress County
Buffalo Trail PS Regional Division No. 28	City of Red Deer	East Central Alberta CSSR Division No. 16
Calgary RCSSD No. 1	City of Spruce Grove	Edmonton Catholic Separate School District No. 7
Camrose County	City of St. Albert	Elk Island CS Regional Division No. 41
Canadian Rockies Regional Division No. 12	City of Wetaskiwin	Elk Island PS Regional Division No. 14
Capital Region Northeast Water Services Commission	Clear Hills County	Evergreen CSR Division No. 2
	Clearview School Division No. 71	Evergreen Regional Waste Management Services Commission
	Clearwater County	Flagstaff County
	Community Futures West Yellowhead	
	County of Athabasca	

Schedule "A" - Respondents

Foothills School Division No. 38	Lac La Biche County	Municipal District of Bonnyville No. 87
Fort McMurray RCSSD No. 32	Lac Ste. Anne County	Municipal District of Fairview No. 136
Fort Vermilion School Division No. 52	Lacombe County	Municipal District of Foothills No. 31
Golden Hills School Division No. 75	Lakeland RCSSD No. 150	Municipal District of Greenvue No. 16
Grande Prairie RCSSD No. 28	Lamont County	Municipal District of Lesser Slave River No. 124
Grande Yellowhead Public School Division No. 77	Landing Rural Electrification Association	Municipal District of Opportunity No. 17
Grasslands Regional Division No. 6	Leduc County	Municipal District of Peace No. 135
Greater North Central Francophone Education Region No. 2	Lethbridge County	Municipal District of Pincher Creek No. 9
Greater St. Albert RCSSD No. 734	Lethbridge School District No. 51	Municipal District of Provost No. 52
Henry Kroeger Regional Water Services Commission	Living Waters Catholic Regional Division No. 42	Municipal District of Ranchland No. 66
High Prairie School Division No. 48	Livingstone Range School Division No. 68	Municipal District of Smoky River No. 130
Holy Family Catholic Regional Division No. 37	Mackenzie County	Municipal District of Spirit River No. 133
Holy Spirit RCS Regional Division No. 4	Medicine Hat Catholic Board of Education No. 20	Municipal District of Taber
Horizon School Division No. 67	Metis Settlements General Council	Municipal District of Wainwright No. 61
Improvement District No. 12 (Jasper National Park)	Miyo Wahkohtowin Community Education Authority	Municipal District of Willow Creek No. 26
Irma Agricultural Society	Mountain View County	Municipality of Crowsnest Pass
John S. Batiuk Regional Water Commission	Municipal District of Acadia No. 34	Municipality of Jasper
Kneehill County	Municipal District of Big Lakes	
	Municipal District of Bighorn No. 8	

Schedule "A" - Respondents

Northern Gateway Regional Division No. 10	Rocky View School Division No. 41	Summer Village of Castle Island
Northern Lights School Division No. 69	Saddle Hills County	Summer Village of Crystal Springs
Northern Sunrise County	Siksika Nation Board of Education	Summer Village of Ghost Lake
Northland School Division No. 61	Smoky Lake County	Summer Village of Golden Days
NorthWest Francophone Education Region No. 1	St. Albert Public School District No. 5565	Summer Village of Grandview
Palliser Regional Division No. 26	St. John's School of Alberta	
Parkland County	St. Mary River Irrigation District	Summer Village of Gull Lake
Parkland School Division No. 70	St. Paul Education Regional Division No. 1	Summer Village of Half Moon Bay
Peace Library System	St. Thomas Aquinas RCS Regional Division No. 38	Summer Village of Horseshoe Bay
Peace River School Division No. 10	Starland County	Summer Village of Island Lake
Peace Wapiti School Division No. 76	Strathcona County	Summer Village of Island Lake South
Pembina Hills Regional Division No. 7	Strathcona-Dweedsmuir School	Summer Village of Jarvis Bay
Ponoka County	Sturgeon County	Summer Village of Kapasiwin
Prairie Land Regional Division No. 25	Sturgeon School Division No. 24	Summer Village of Lakeview
Prairie Rose School Division No. 8	Summer Village of Argentia Beach	Summer Village of Larkspur
Red Deer County	Summer Village of Betula Beach	Summer Village of Ma-Me-O Beach
Regional Municipality of Wood Buffalo	Summer Village of Birch Cove	Summer Village of Mewatha Beach
Rocky Christian School	Summer Village of Birchcliff	Summer Village of Nakamun Park
Rocky View County	Summer Village of Bondiss	Summer Village of Norglenwold
	Summer Village of Burnstick Lake	

Schedule "A" - Respondents

Summer Village of Norris Beach	Summer Village of Waiparous	Town of Calmar
Summer Village of Parkland Beach	Summer Village of West Baptiste	Town of Canmore
Summer Village of Pelican Narrows	Summer Village of West Cove	Town of Cardston
Summer Village of Poplar Bay	Summer Village of Whispering Hills	Town of Carstairs
Summer Village of Ross Haven	Summer Village of Yellowstone	Town of Castor
Summer Village of Sandy Beach	The Alberta Association of Municipal Districts and Counties	Town of Claresholm
Summer Village of Seba Beach	Thorhild County	Town of Coaldale
Summer Village of Silver Beach	Town of Athabasca	Town of Coalhurst
Summer Village of Silver Sands	Town of Banff	Town of Cochrane
Summer Village of South Baptiste	Town of Barrhead	Town of Coronation
Summer Village of South River	Town of Bashaw	Town of Crossfield
Summer Village of Sunbreaker Cove	Town of Bassano	Town of Daysland
Summer Village of Sundance Beach	Town of Beaumont	Town of Devon
Summer Village of Sunrise Beach	Town of Beaverlodge	Town of Didsbury
Summer Village of Sunset Beach	Town of Bentley	Town of Drayton Valley
Summer Village of Sunset Point	Town of Black Diamond	Town of Drumheller
Summer Village of Sunset Point	Town of Blackfalds	Town of Eckville
Summer Village of Sunset Point	Town of Bon Accord	Town of Edson
Summer Village of Sunset Point	Town of Bonnyville	Town of Elk Point
Summer Village of Sunset Point	Town of Bow Island	Town of Fairview
Summer Village of Sunset Point	Town of Bowden	Town of Falher
Summer Village of Val Quentin	Town of Bruderheim	Town of Fort MacLeod
		Town of Fox Creek
		Town of Gibbons
		Town of Grande Cache

Schedule "A" - Respondents

Town of Granum	Town of Oyen	Town of Sylvan Lake
Town of Grimshaw	Town of Peace River	Town of Taber
Town of Hanna	Town of Penhold	Town of Three Hills
Town of Hardisty	Town of Picture Butte	Town of Tofield
Town of High Level	Town of Pincher Creek	Town of Trochu
Town of High Prairie	Town of Ponoka	Town of Turner Valley
Town of High River	Town of Provost	Town of Two Hills
Town of Hinton	Town of Rainbow Lake	Town of Valleyview
Town of Innisfail	Town of Raymond	Town of Vauxhall
Town of Irricana	Town of Redcliff	Town of Vegreville
Town of Killam	Town of Redwater	Town of Vermilion
Town of Lamont	Town of Rimbey	Town of Viking
Town of Legal	Town of Rocky Mountain House	Town of Vulcan
Town of Magrath	Town of Sedgewick	Town of Wainwright
Town of Manning	Town of Sexsmith	Town of Wembley
Town of Mayerthorpe	Town of Slave Lake	Town of Westlock
Town of McLennan	Town of Smoky Lake	Town of Whitecourt
Town of Milk River	Town of Spirit River	Townsite of Redwood Meadows
Town of Millet	Town of St. Paul	Trivillage Regional Sewage Services Commission
Town of Morinville	Town of Stavelly	Village of Acme
Town of Mundare	Town of Stettler	Village of Alix
Town of Nanton	Town of Stony Plain	Village of Alliance
Town of Okotoks	Town of Strathmore	Village of Amisk
Town of Olds	Town of Sundre	Village of Andrew
Town of Onoway	Town of Swan Hills	

Schedule “A” - Respondents

Village of Arrowwood	Village of Donnelly	Village of Loughheed
Village of Barnwell	Village of Duchess	Village of Mannville
Village of Barons	Village of Edberg	Village of Marwayne
Village of Beiseker	Village of Edgerton	Village of Milo
Village of Berwyn	Village of Elnora	Village of Morrin
Village of Bittern Lake	Village of Ferintosh	Village of Munson
Village of Boyle	Village of Foremost	Village of Myrnam
Village of Breton	Village of Forestburg	Village of Nampa
Village of Carbon	Village of Girouxville	Village of Nobleford
Village of Carmangay	Village of Glendon	Village of Paradise Valley
Village of Caroline	Village of Glenwood	Village of Rockyford
Village of Cereal	Village of Hay Lakes	Village of Rosalind
Village of Champion	Village of Heisler	Village of Rosemary
Village of Chauvin	Village of Hillspring	Village of Rycroft
Village of Chipman	Village of Hines Creek	Village of Ryley
Village of Clive	Village of Holden	Village of Spring Lake
Village of Clyde	Village of Hughenden	Village of Standard
Village of Consort	Village of Hussar	Village of Stirling
Village of Coutts	Village of Hythe	Village of Thorsby
Village of Cremona	Village of Innisfree	Village of Veteran
Village of Czar	Village of Irma	Village of Vilna
Village of Delburne	Village of Kitscoty	Village of Wabamun
Village of Delia	Village of Linden	Village of Warburg
Village of Dewberry	Village of Lomond	Village of Warner
Village of Donalda	Village of Longview	Village of Waskatenau

Schedule "A" - Respondents

Village of Willingdon

Village of Youngstown

Vulcan County

Westlock County

Westwind School Division
No. 74

Wetaskiwin Regional Division
No. 11

Wheatland County

Wild Rose School Division
No. 66

Wolf Creek School Division
No. 72

Woodlands County

Yellowhead County

Curriculum Vitae 2016

Lisa Majeau Gordon, CPA, CA•IFA, CFE, CFI, CFF, CICA
Partner, Investigative and Forensic Services

Lisa Majeau Gordon is the Partner responsible for MNP's Investigative and Forensic Services practice in Northern Alberta and the Territories. Lisa has specialized in Investigative and Forensic Accounting since 1996. Lisa is a Chartered Accountant, a Certified Public Accountant, and is certified as a Specialist in Forensic and Investigative Accounting by the Canadian Institute of Chartered Accountants. She holds multiple professional designations related to fraud and forensics, investigations, and internal controls.



Professional Qualifications

- 1994 Bachelor of Commerce degree (B.Comm.) Specialization in Accounting. University of Alberta, Minor in Native Studies
- 1997 Chartered Accountant designation (CA), Institutes of Chartered Accountants of Alberta (ICAA) and Canada (CICA)
- 1998 Certified Fraud Examiner designation (CFE), International Association of Certified Fraud Examiners, USA
- 2001 Designated a Specialist in Investigative and Forensic Accounting (CA•IFA) within the CA profession, by the Alliance for Excellence in Investigative and Forensic Accounting of the Canadian Institute of Chartered Accountants
- 2001 Certified Forensic Investigator designation (CFI), Canadian Association of Certified Forensic Investigators
- 2004 Graduate, Leadership Development Program, Centre of Executive Development, University of Alberta
- 2008 Joined the National Alliance for Excellence in Investigative and Forensic Accounting Member Services Board, Canadian Institute of Chartered Accountants
- 2012 Accepted as Member of Canadian Association of Professional Access and Privacy Administrators (CAPAPA)
- 2013 Certified Internal Controls Auditor (CICA) by the International Institute for Internal Controls
- 2014 Credentials accepted to be Certified in Financial Forensics (CFF) by the American Institute of CPA's.
- 2015 Appointed as the Canadian Representative to the American Fraud Task Force of the American Institute of CPA's
- 2015 Chartered Accountants in Alberta awarded the Chartered Professional Accountants' designation (CPA)
- 2016 Designated the CPA Canada Liaison to the Forensic and Valuation Services Education Team of the American Institute of CPA's

Practice History

- 1991 – 1998 PricewaterhouseCoopers Chartered Accountants (and legacy firm Coopers & Lybrand LLP)
- 1998 – 2006 Western Canada Manager, Forensic Accounting Management Group, Government of Canada
- 2006 – 2008 KPMG LLP and KPMG Forensic Inc.
- 2009 – 2016 MNP LLP Investigative and Forensic Services Practice

Professional Associations

Canadian Representative, American Institute of Certified Public Accountants Fraud Task Force
Canadian Representative, American Institute of Certified Public Accountants' Forensic Education Committee
National Board Committee Member, CICA Alliance for Excellence in Investigative and Forensic Accounting
Member in Good Standing, Institute of Chartered Accountants of Alberta (now CPA Alberta)
Member in Good Standing, Canadian Institute of Chartered Accountants/ CPA Canada
Member, Canadian Association of Forensic Investigators
Member, Privacy and Access Council of Canada
Chapter Member, Edmonton, Institute of Internal Auditors
Chapter Member, Edmonton, Association of Certified Fraud Examiners
Level 2 "SECRET" Clearance, Government of Canada

Relevant Professional Experience

- Financial investigator and frequent author of expert financial investigation reports on:
 - Employee wrongdoing/misconduct and mismanagement
 - Fraudulent investment schemes
 - Vendor or contractor fraud
 - Court appointment as Inspector under the Business Corporations Act
 - Minority-shareholder oppression and shareholder disputes
 - Marital dissolution and asset misappropriation
 - Breach of contract
 - Fraud risk management
 - Procurement fraud
 - Enduring Power of Attorney and estate matters
- Investigator of unreported or unlawful income sources, money laundering, and asset accumulation for policing clients, for ten years including:
 - RCMP Integrated Proceeds of Crime sections across Canada
 - RCMP Commercial Crime sections in Western Canada and Ottawa
 - Edmonton Police Service
 - Ontario Provincial Police
 - RCMP Integrated Market Enforcement Team, Calgary
 - RCMP Integrated National Security Enforcement Team, Vancouver
 - RCMP/FBI Joint Forces Operations
- Author of approximately 60 forensic accounting reports on Organized Crime activities, including narcotics trafficking, prostitution, money laundering, and terrorist financing from 1996 to 2006

- Advisor to federal and provincial Crown prosecutors related to financial criminal offences and prosecutions, 1996 to 2006
- Author of more than 150 reports on fraud, regulatory breaches, ethical violations, shareholder disputes, risk management, conflicts of interest, estate matters, and litigation support matters from 2006 to 2016
- Worked with over 25 First Nations, Metis, and Aboriginal Organizations financial investigations in Alberta, BC, NWT, and Saskatchewan from 2008 to 2016 on behalf of Chief and Council or senior managers
- Completed multiple financial investigations involving charities, religious institutions, and other non-profit organizations, 2006 to 2016
- Completed several financial investigations of oil and gas joint venture projects, 2009 to 2015
- Completed several large-scale investigations for Municipalities in Alberta, 2010 to 2015
- Completed multiple internal investigations for post-secondary institutions and school boards, 2010 to 2015
- Completed five large engagements regarding Alberta aboriginal child welfare organizations, 2011 to 2015
- Completed anti-fraud program and controls reviews for large organizations in Alberta, 2009 to 2014
- Author of Code of Conduct, Ethics, Privacy, and Anti-Fraud policies for Universities and other Post-Secondary Institutions in Alberta
- Consultant on privacy matters and information/records management, 2011 to 2016
- Completed anti-money laundering compliance regime review for credit unions and money service businesses in Canada in 2009 and 2010
- Led a review of the Women's Enterprise Initiative for the federal Ministry Western Economic Diversification in four provinces in 2008
- Led a review of the governance and management practices of an Alberta healthcare organization for the Minister of Health and Wellness in 2008

Teaching and Advisory Engagements

- Lecturer on fraud perpetrated on Non Profit Organizations, RBC Conference, 2016
- Author of articles in Aboriginal Management Magazine, 2015
- Lecturer on Procurement Fraud to the National Aboriginal Financial Officers' Association Conference in 2015
- Lecturer on fraud against Aboriginal Organizations, Incite Conference, 2015
- Lecturer on small business fraud to the Edmonton Chamber of Conference, 2015
- Developer of a fraud risk management best practices program for Aboriginal Organizations related to project management and procurement, 2014
- Created *Vantage North*, a free conference for Dene Chiefs in Yellowknife to educate them on financial, legal and governance matters, 2012
- Lecturer on Fraud Risk Management to dozens of industry and professional conference audiences from 2009 to 2015
- Lecturer on Employee Misconduct and Fraud, Institute of Internal Auditors, Edmonton – March 2009
- Lecturer on Electronic Data Discovery and Information Management, Workplace Investigations Conference – December 2008

- Fraud Awareness session presented to Western Economic Diversification, Audit, Evaluation, and Ethics Branch - September 2008
- Lecturer on Entity Level Controls and Fraud Risk Management, CGA Association of Alberta - 2008
- Lecturer on Privacy Risk Management, Rotary Clubs - 2007
- Lecturer on Identity Theft and Privacy, KPMG - 2007
- Lecturer on Identity Theft and Privacy, Certified Fraud Examiners and Certified Internal Auditors joint sessions – 2006
- Lecturer on Proceeds of Crime and Criminal Investigations, University of Toronto, Diploma in Investigative and Forensic Accounting (DIFA) program, Rotman School of Business – 2004
- Board member of Steering Committee for National Practice Standards, Forensic Accounting Management Group – 1999-2006
- Author of FAMG national forensic accounting practice standards, 2006
- Forensic Accounting presentations to Proceeds of Crime and Commercial Crime investigators 2001-2004
- Forensic Accounting courses taught to field representatives of the Seized Property Management Directorate – Ottawa, 1999-2000
- Financial Profiling courses taught to RCMP Proceeds of Crime investigators at RCMP Depot – Regina, 1999-2003

Selected Additional Education

- In-depth Financial Fraud Investigation Training, American Department of Homeland Security, 2000
- University of Alberta Access and Privacy training, 2007
- Trained in KPMG's Fraud Risk Management global methodology, 2007
- Trained in KPMG's Global Investigative Methodology, 2008
- Private Sector Privacy Law training, 2008
- CICA Investigative and Forensic Accounting Conference, 2001, 2003, 2005, 2009, 2011, 2013
- Anti-Money Laundering training, 2006
- Numerous training sessions on forensic accounting, fraud, investigations, organized criminal groups, and analytical techniques from 1996 to 2015
- International Fraud Risk Management conference, 2010
- International Internal Auditors training conference, 2011 and 2012
- AICPA Fraud and Valuation Professionals Training, 2013, 2014, 2015
- CFE International Conference, 2012 and 2013

Testimony and Court Use of Reporting

Lisa Majeau Gordon has testified at a preliminary hearing for *R vs. Kevin Thomas and Debbie Thomas* in 2014.

Over the last 19 years, Lisa's reports have been used numerous times in criminal and civil litigation for:

- Agreed Statements of Facts
- Pre-trial Settlements
- Restitution and Sentencing
- Obtaining Anton Piller Orders (civil matters) and search warrants (criminal matters)
- Marieva Injunctions and Attachment orders (civil matters) and asset seizure, restraint and forfeiture orders (criminal matters)



ABOUT MNP

MNP is one of the largest chartered accountancy and business consulting firms in Canada. For more than 65 years, we have proudly served and responded to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a cost-effective approach to doing business and personalized strategies to help you succeed.

It's knowing your vision, your business and you.



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Praxity, AISBL, is a global alliance of independent firms. Organised as an international not-for-profit entity under Belgium law, Praxity has its administrative office in London. As an alliance, Praxity does not practice the profession of public accountancy or provide audit, tax, consulting or other professional services of any type to third parties. The alliance does not constitute a joint venture, partnership or network between participating firms. Because the alliance firms are independent, Praxity does not guarantee the services or the quality of services provided by participating firms.



ALBERTA LOCAL AUTHORITIES RECIPROCAL INSURANCE EXCHANGE EQUITY DISTRIBUTION - INVESTIGATIVE FORENSIC ACCOUNTING REPORT

PRIVATE AND CONFIDENTIAL

PREPARED FOR: ALBERTA LOCAL AUTHORITIES RECIPROCAL INSURANCE EXCHANGE
205, 23012 TOWNSHIP ROAD 521
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ATTENTION: ALAN WOOD

PREPARED BY: MNP LLP
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DATE: JUNE 30, 2016

TABLE OF CONTENTS

1.0	TERMS OF REFERENCE	1
2.0	BACKGROUND & ENGAGEMENT SCOPE	2
2.1	INTRODUCTION	2
2.2	SCOPE OF ENGAGEMENT	3
2.3	LIMITATIONS	4
2.4	INDEPENDENCE AND OBJECTIVITY	5
3.0	ORIGIN AND HISTORY OF ALARIE	6
4.0	SUMMARY OF FINDINGS	10
5.0	DETAILED FINDINGS	12
5.1	THE SUBSCRIBER AGREEMENT	12
5.2	ANNUAL BUSINESS WITH SUBSCRIBERS	15
5.3	HOW ALARIE OPERATED	19
5.4	ALARIE'S FINANCIAL RESULTS	22
5.5	ALARIE'S INSURANCE CLAIM RESULTS	27
5.6	MNP ANALYSIS AND VERIFICATION	29
5.7	DISSOLUTION CONSIDERATIONS AND CALCULATIONS	31
6.0	RESTRICTIONS AND LIMITATIONS	36
7.0	SCHEDULES	37
8.0	APPENDICES	38

1.0 TERMS OF REFERENCE

MNP LLP (“MNP”, “we”, “us” or “our”) was engaged by the Alberta Local Authorities Reciprocal Insurance Exchange (“ALARIE” or the “Exchange”) on March 16, 2015 to provide forensic and investigative accounting services regarding the orderly wind up of the Exchange and the equitable distribution of remaining funds in accordance with the provisions of the governing Reciprocal Insurance Exchange Agreement (the “Agreement”) and other relevant acts and regulations.

In particular we were instructed to locate, obtain, and review the financial and business records of and related to ALARIE that may be reasonably available, from the start of operations in 1990 to the date of this report, to determine:

1. The ending equity that is to be distributed to the ALARIE eligible Subscribers¹ on dissolution of the Exchange, and
2. The most appropriate method for calculating the amount to be distributed to each eligible Subscriber, giving due regard to the governing Agreement, other appropriate distribution protocols, the business intention and the actual operations of ALARIE.

and to prepare a report on our analysis, observations and findings that may provide comfort to the Court that the distribution methodology determined, the calculations and analyses, are reasonable and reliable and supported by the best evidence available.

We were also instructed to work in association with Ogilvie LLP as legal counsel retained by ALARIE for this purpose.

¹ Under the Agreement, **Subscribers** must be members of the Alberta Association of Municipal Districts and Counties (“AAMDC”), the Alberta Urban Municipalities Association (“AUMA”) or the Alberta School Board Association (“ASBA”, formerly Alberta School Trustees Association).

2.0 BACKGROUND & ENGAGEMENT SCOPE

2.1 INTRODUCTION

ALARIE was established in 1990 to provide necessary affordable commercial general liability insurance for its Subscribers and to provide a vehicle for obtaining additional insurance using group insurance arrangements.

Between 1990 and 2002, ALARIE collected premiums which were used to purchase a base \$10,000 of insurance coverage, per incident, for Subscribers. ALARIE also collected additional funds, in the form of “Capital Premiums”, from its Subscribers, which were intended to be used to build a reserve from which additional affordable insurance could be collectively obtained. However, collecting these additional funds ceased in 1996 when it was recognized that building a sufficiently large reserve would not be possible.

ALARIE also helped secure additional “Excess Coverage” for Subscribers through group (pooled) insurance policies. These Excess Coverage contracts were directly between the Subscriber and insurer and did not include ALARIE. However, ALARIE collected and forwarded the related premiums to the insurer, and arranged a claims management agreement with the insurer to handle claims arising from both the ALARIE Basic Coverage and the other Excess Coverage.

In 2002 a motion was passed by the ALARIE Board to discontinue operations. However, the nature of insurance is such that pre-existing loss claims can take many years to resolve or be reported by the claimant, and therefore, despite not facilitating new insurance policies after 2002, ALARIE continued to administer claims arising before that date, until the last claim was settled in 2015. With its liabilities cleared and no more business to transact, ALARIE found itself in a position to determine its final equity² and to distribute that equity to its eligible Subscribers.

This report provides an analysis and summary of ALARIE’s operations for approximately 25 years from 1990 to 2015 covering two distinct operating periods:

1. From 1990 to 2002, being the period that ALARIE had active insurance issuance and management operations;
2. From 2002 to 2015, being the period after active insurance operations had ceased and its only remaining activity was related to settling pre-existing claims.

In addition, this report determines the funds available for distribution and the amount that, in our opinion, is considered to be the most reasonable and appropriate for each of the eligible Subscribers, given the governing Agreement, acts, regulations, financial and business information available for review.

² We refer to final or closing “Equity” throughout the report. This term is interchangeable with the term “Net Assets”, which is the term used in the Agreement.

2.2 SCOPE OF ENGAGEMENT

In preparing this report we relied upon the following key information:

- a. Document titled “a Brief to the Honourable Minister of Municipal Affairs on the subject of the proposed “Alberta Local Authorities Reciprocal Insurance Exchange””, undated but circa 1988;
- b. ALARIE Business plans dated 1989;
- c. Various emails, and file notes related to the history and business operations of ALARIE and the ALARIE Attorney in Fact Ltd.³;
- d. Reciprocal Insurance Exchange Agreement dated January 1, 1990⁴;
- e. ALARIE audited financial statements for the years ended December 31, 1990 to December 31, 2002⁵;
- f. ALARIE Attorney in Fact Ltd. audited financial statements for the years ended December 31, 1990 to December 31, 2002⁶;
- g. Auditor working paper file extracts for the above noted audited financial statement periods;
- h. Copies of annual Subscriber Statements of participation for all Subscribers⁷;
- i. Copies of annual Statements of Deposit for all Subscribers⁸;
- j. Various EXCEL worksheets tracking premiums and claims history by Subscriber over the years and other miscellaneous operational information;
- k. Copies of Insurance company claims worksheets and summaries;
- l. Bank account statements and bank reconciliations;
- m. Investment account statements;
- n. ALARIE Board and ALARIE Attorney in Fact Ltd. meeting minutes and reports;
- o. Premium tax returns and supporting calculation summaries;
- p. Alberta Association of Municipal Districts and Counties Joint Venture Agreement and Alberta Urban Municipalities Association Joint Venture Agreement⁹;

³ ALARIE Attorney in Fact Ltd. is the entity established as “Attorney” or trustee under the Agreement, to oversee the operations of the Exchange and under a Power of Attorney to sign and execute documents or conduct business as the Board of ALARIE may determine.

⁴ Copy attached as **Appendix A**

⁵ A summary of the ALARIE financial statements are attached as **Schedule 1**

⁶ A summary of ALARIE Attorney in Fact Ltd financial statements are attached as **Schedule 2**

⁷ Example copy of such statement is attached as **Appendix B**

⁸ Example copy of such statement is attached as **Appendix C**

⁹ Example copies of the Joint Venture Agreements are attached as **Appendix E**. The AAMDC Joint Venture Agreement includes the Alberta School Boards Association.

- q. Documents related to insurance purchased through Aon Reed Stenhouse from Scottish & York by Subscribers - facilitated by ALARIE;
- r. General business documentation, claims information and miscellaneous correspondence contained in 23 bankers' boxes;
- s. Correspondence between Ogilvie LLP and the office of Alberta's Superintendent of Insurance; and
- t. *The Alberta Insurance Act, Part 1, Subpart 3¹⁰.*

In addition, we issued letters to a sample of Subscribers requesting copies of any financial records they had related to the activities of ALARIE and made follow-up calls and emails related to this request.

We also had discussions and interviews with:

- a. Mr. Alan Wood, Manager of ALARIE during the wind-up period 2002 to 2015;
- b. Ogilvie LLP, legal counsel for ALARIE for the purpose of the dissolution;
- c. Ms. Laurie Balfour, Senior Manager Prudential Supervision Alberta Treasury Board and Finance, Financial Sector Regulation and Policy;
- d. Original management of ALARIE including Tony Wadsworth, Lawrence Tymco and Kit Hrushowy;
- e. Representatives of AUMA, ASBA, AAMDC, responsible for record keeping and business of ALARIE; and
- f. The current Board members of ALARIE.

A detailed list of the documents relied upon is attached as **Appendix D**.

2.3 LIMITATIONS

Significant efforts were made to identify and secure the financial information related to ALARIE business operations, especially the collection of premiums, the settlement of claims, and the determination of the closing equity and its distribution. However, due to the prolonged time period from commencement of operations in 1990 to 2015 (25 years), many records could not be located because they had been destroyed or misplaced over time. Our analysis has therefore been restricted as a result. In periods where financial information was missing we attempted to extrapolate based on information around the missing periods and other information contained in partial reports or memoranda. In cases where insufficient information was available to complete

¹⁰ Attached as **Appendix F**

extrapolation we have noted in the report the limitation and its impact, if any, on the final determinations.

The reader is cautioned that selecting portions of the analysis contained in this report, without considering all factors and analysis in the calculations could result in the misinterpretation of comments and conclusions drawn.

We have not audited or otherwise verified the financial information referred to in this report in accordance with Canadian Auditing Standards¹¹ and offer no audit opinion in that regard. Any verification procedures that may have been completed on the information during our analysis are specifically noted in the report. We reserve the right to review all calculations included or referred to in our report and, if we consider it necessary, to revise our calculations in light of any new information which becomes known to us after the date of the report.

2.4 INDEPENDENCE AND OBJECTIVITY

This report was prepared in conformity with the *Standard Practices for Investigative and Forensic Accounting Engagements* of CPA Canada, formerly the Canadian Institute of Chartered Accountants, in doing so the author acted independently and objectively.

¹¹ Formerly referred to as Generally Accepted Auditing Standards (GAAS)

3.0 ORIGIN AND HISTORY OF ALARIE

It appears from documents we reviewed that during 1987/88 the AUMA, AAMDC and ASBA (the “Associations”) received numerous complaints from their members about the escalating cost of liability insurance arising from an unstable world liability insurance market. To address these concerns, the Associations and the Government of Alberta (“GoA”) at the time decided that some form of self-insurance might provide a solution.

The *Alberta Insurance Act* (the “Act”) allowed¹² Reciprocal Insurance Exchanges to be formed as an alternate insurance provider for members of specific groups or associations. The Act permitted a group to exchange reciprocal contracts of indemnity with each other through a principal attorney. The principal attorney acts as trustee for and is authorized to manage an Exchange and sign reciprocal insurance contracts on behalf of its Subscribers.

The Associations decided to form a Reciprocal Insurance Exchange called ***The Alberta Local Authorities Reciprocal Insurance Exchange (“ALARIE”)*** and also incorporated the ***ALARIE Attorney in Fact Ltd.*** as the principal attorney for this purpose. The day to day administration of ALARIE was initially delegated to AAMDC and its subsidiary Jubilee Insurance Agencies (“Jubilee”) under the governance of ALARIE Attorney in Fact Ltd, whose Board of Directors is comprised of a representative of each of the Associations. Jubilee was the broker for many of the Subscribers prior to the formation of ALARIE. ALARIE’s offices, for most of its operational life, were physically located at Jubilee. Jubilee’s staff were used for some of the administrative and operational requirements of ALARIE. During the life of ALARIE Jubilee was officially the broker for ALARIE; however, the active execution of this role was delegated to Aon Reed Stenhouse.

ALARIE was formed on October 1, 1990 to provide affordable commercial general liability insurance to its Subscribers¹³. The original intention was to provide up to \$1 Million of insurance but the capital base of the Exchange did not allow for this, so a lower limit was initially set at a maximum loss claim of \$10,000 for any one loss (the “Base Coverage”¹⁴).

In addition to the Base Coverage, ALARIE provided a vehicle for Subscribers to purchase additional insurance under a group insurance policy, which provided at least \$2 Million “Excess of \$10,000 policy” (“Excess Coverage”) for all Subscribers and additional limits for those that required more. These Excess Coverage contracts were written between the Subscribers and the insurance company and were not ALARIE contracts. Despite ALARIE’s insurance limits being only for the \$10,000 Base Coverage, for administrative efficiency, premiums for the Excess Coverage were included along with the premiums for the Base Coverage on the Jubilee Insurance invoices sent to the Subscribers and when paid were passed through to the insurer. In short, ALARIE acted as facilitator for all liability insurance policies purchased from the insurance company by the Subscribers, but its own responsibility was capped at \$10,000 per liability incident.

¹² Sub Part 3 the Insurance Act RSA 2000 previously S487 the Insurance Act of Alberta RSA 1980

¹³ **Subscribers** are members of AAMDC, AUMA and ASBA as described more fully at footnote 1 above.

¹⁴ Also referred to as the Self Insured Retention or “SIR”

Since neither ALARIE nor Jubilee had the expertise to adjust claims, a Management Agreement was reached between ALARIE Attorney in Fact Ltd. and the “Excess Insurer” (initially Scottish and York) to manage and adjust both the Base Coverage and Excess Coverage claims, the funds for which were provided by ALARIE to the insurer in accordance with a formula. Documents reviewed noted that it was not the intention of ALARIE to be involved in any administration of the Excess Coverage, but at the time it appeared that this arrangement was the most efficient.

We understand that ALARIE wanted to increase the Base Coverage (up to \$10,000) to \$1 Million as quickly as possible, and to make this happen, established a “Capital Premium”¹⁵ levy for Subscribers. This Capital Premium was primarily based on the difference between the higher insurance premiums the Subscribers were paying before ALARIE was formed, and the lower ALARIE obtained premiums. Put another way, the Capital Premium was equivalent to the savings the Subscriber enjoyed as a result of the formation of ALARIE, if the level of coverage remained the same. This Capital Premium was used to build up a reserve that was planned to later accommodate \$1 Million of “Base” insurance coverage. By 1995, however, documents examined suggest it had become apparent that ALARIE could not reach a sufficiently large reserve base for this to occur, and the decision was made to stop collecting these amounts. These Capital Premiums, which were not used to purchase insurance, were deposited into ALARIE’s investment accounts, which continue to earn interest to the present time.

Between 1990 and 1999, the first layer of Excess Coverage was subject to two distinct but identical Joint Venture Agreements between the Associations¹⁶ and the Insurer (aka “Joint Venture Agreement” or “JVA”), which essentially provided for the insurance premiums to be treated as deposit premiums, being adjusted for future claims as they were settled. The terms and conditions of these agreements meant that individual Subscribers could be charged additional premiums, or refunded premiums, based on their loss experience. The administration of this agreement appeared to be confusing and while these adjustments should have resulted in additional amounts paid to and by each Subscriber individually, for administrative simplicity they were commingled with the ALARIE loss claims for the Base Coverage, which resulted in ALARIE paying and receiving adjusted amounts for the Excess Coverage as a group using ALARIE accumulated cash reserves. However we note that all premiums, loss claims and premium adjustments were accounted for in worksheets that tracked each Subscribers account¹⁷. ALARIE management in their explanations to us were very clear that each Joint Venture Agreement was to be treated as a distinct “pool” of experience, such that no individual Subscriber was to be rewarded or charged for its individual claims experience in any given year, rather the “pools”, one AAMDC/ASBA, and one AUMA, were to absorb the effects of collective two-way retroactive claims experience for every insurance year.

¹⁵ The Capital Premium was also referred to in the records reviewed as a “levy” or “surcharge”

¹⁶ One Joint Venture Agreement was between the AAMDC/ASBA and Scottish & York, facilitated by Aon Reed Stenhouse. The other Joint Venture Agreement was identical but applied to AUMA and its Subscriber members instead.

¹⁷ **Schedule 4** attached provides a summary of the Subscribers accounts

ALARIE is a not for profit entity, which is not subject to Canadian income taxes, although taxes were payable on insurance premiums under Part 9 of the Alberta *Corporate Tax Act*, as described further in **Section 5.4** below.

In 2001/02 we understand that each of AUMA, AAMDC and ASBA decided that it would be in their best interests to operate their own reciprocal insurance entities and therefore ALARIE was no longer needed. In 2002 a resolution to dissolve the Exchange was passed by the ALARIE Advisory Board, however it was necessary to postpone winding up the Exchange until all outstanding claims had been resolved.

At December 31, 2002, ALARIE reported in its audited financial statements \$16.8 Million in assets, and equity of \$13.8 Million, but had several hundred open claims and additional claims were later made for the insured years retroactively. While no more insurance contracts were written, nor premiums accepted, ALARIE continued to administer and settle the claims for the covered years up until 2015 when the final claim was settled.

After 2007, we note \$37,889 in claims were paid directly from the ALARIE bank account. Bank statements for the general account could not be located for the period 2003 to 2008, and cannot be retrieved from financial institutions directly as it has been over seven years and the information has not been retained. As a result, we cannot determine the specific transactions occurring in this timeframe. At June 30, 2016 the bank and investment statements of ALARIE (**Appendix G** and **Appendix H**, respectively) report \$13,895,327 million in assets, which remain to be distributed to Subscribers, less any final windup expenses.

We reviewed the investment account statements for the period of 2002 to 2016 and have noted that the changes in the balance are due to income earned on the investments less funds divested and transferred to the general account.

For the period of 1990 to 2002 we analyzed the audited financial statements, audit working papers, bank statements, and bank reconciliations. We found that the activity reported in this period was consistent with the business of ALARIE, although we noted that the transactions appear to have been recorded in ALARIE's periodic financial statements to reflect the combined cash flow through ALARIE, rather than separately disclosing the ALARIE basic insurance operations and the non ALARIE Excess Coverage arranged between the Subscribers and the insurer. This meant that the premium revenue and loss claim expenses reported in the financial statements did not match the transactions in the Subscriber accounts¹⁸ and there was insufficient information available in the records to reconcile the amounts. We did not note anything that appeared to be outside the normal course of business in the financial statements and we did not identify in the analysis performed any issues with the resulting net cash flow of ALARIE.

For the period of 2008 to 2016 we have reviewed the bank statements and negotiated cheques for the general account and summarized this activity. We noted that all transactions in this period were consistent with the business of ALARIE. We did not note anything that appeared to be

¹⁸ The Subscriber accounts were updated for certain transactions at different times than would have been reflected in the financial statements.

outside the normal course of business. We have attached a summary of the banking activity for this period as **Schedule 5**.

4.0 SUMMARY OF FINDINGS

MNP conducted an in-depth examination of ALARIE's operations over its 25-year life, including all transactions and contracts with Subscribers, insurance providers/adjudicators, brokers, and the Associations. What follows is a summary of our detailed findings discussed in greater detail later in this report:

1. ALARIE provided liability insurance services to 520 municipal and school board Subscribers beginning 1990 until 2002. Operations ceased in 2002. The last claims relating to the operational period have recently been settled in late 2015.
2. ALARIE's operations with its Subscribers were governed by a Subscriber Agreement, executed by all parties in 1990. The Subscriber Agreement described how the Exchange was to operate. This Agreement is the only legal contract between ALARIE and its Subscribers. Subscribers also had separate agreements with their insurance providers for pooled insurance in excess of \$10,000, which ALARIE was not a party to.
3. In 1996, a reorganization of rural school boards and municipalities occurred in Alberta. Some entities were combined, dissolved, or split, such that school boards and rural municipalities were different entities going forward. At this point a total of 499 Subscribers of the original 520 had an equity balance. Of ALARIE's 499 Subscribers with an equity balance before the reorganization, there remained 434 with an equity balance after the reorganization. We understand the re-allocation of assets within ALARIE was based upon the GoA's allocation of all assets between the impacted entities, but we have not been able to confirm this, due to lack of records. There were no new Subscriber Agreements signed as a result of or after this reorganization. Any entities arising from the reorganization carried on with the allocated equity and subsequent new entity premium billings and loss claims.
4. ALARIE's operations over time evolved to include activities not originally contemplated in the Subscriber Agreement. These activities were fully considered and supported by ALARIE's management, its Board of Directors, and the Associations.
5. Our work involved verification of ALARIE's operational and financial results from extensive records and data. Our calculations herein are a result of this work.
6. The time has come to wind down ALARIE as an entity, and distribute its remaining equity to its Subscribers. We were unable to find any information related to this process having been undertaken in Canada before, so there may not be any legal precedent to guide this process. Based on the Agreement, ALARIE's operations, and its transactions during the past 25 years, we calculate there will be approximately \$13,500,000 to distribute to its Subscribers once wind-down fees are paid.

7. Our analysis determined that, due to a lack of clarity in the governing Agreement and that ALARIE operations took on a much different form to that anticipated when the Agreement was formed, there are three distribution calculation methods that should be contemplated by ALARIE's Board of Directors. The three methods produce different results; the differences are largely based upon each Subscriber's experiences with claims. The first method ("Base Calculation") reflects the literal interpretation of the Subscriber Agreement but does not contemplate the impact of Capital Premiums or other ALARIE activity not addressed in the Subscriber Agreement. The second method ("Capital Calculation") is based solely on Capital Premiums to acknowledge that without the Capital Premiums there would be no cash left to distribute. The final calculation ("Comprehensive Calculation") includes consideration of all of ALARIE's activities and all funds received from or paid on behalf of Subscribers. This option provides a calculation that incorporates all Subscriber activities related to ALARIE's operations and transactions.

We recommend the Comprehensive Calculation method as the most appropriate in the circumstances.

5.0 DETAILED FINDINGS

5.1 THE SUBSCRIBER AGREEMENT

On forming ALARIE, an Agreement¹⁹ was executed with each of the participating Subscribers. The Agreement outlined the purpose of the Exchange and provided the provisions under which it would operate and also had provisions for its termination.

We understand that the attached (**Appendix A**) Agreement dated January 1, 1990, was the only agreement prepared and no amendments were made to it.

The Agreement also provided the authority for the Advisory Board - and the Attorney - and was effective “...from and after April, 1990 and shall continue in full force and effect until terminated in accordance with Article 9.00 hereof ...” [Article 2.05].

Other Agreement provisions with specific relevance to this report include:

Article 4.03 Member’s Accounts – *Individual accounts²⁰ shall be kept showing each Member’s participation in the operations and the operating results of the Exchange”*

Article 4.04 Annual Reports – *Within ninety (90) days after the end of the annual accounting period, the Advisory Board shall furnish to each Subscriber an annual report²¹ on the operations of the Exchange consisting of: (a) A summary of levies received during the year; (b) A summary of claims made during the year; (c) A summary of occurrences during the year; (d) A summary of claims paid during the year; (e) A statement of the financial position of the Exchange at the end of such year; and (f) Any additional information that the Advisory Board, the Subscribers or the Superintendent may require. The said financial statements shall be audited.*

Article 5.00 – *The Attorney - covering the appointment, powers and duties, liability and indemnity related thereto.*

Article 6.01(d) – *Subscription Application. Subscription of an applicant shall commence upon the Advisory Board notifying it in writing of the acceptance of its application for subscription.*

Article 6.02(c) – *Subscription Termination. Upon termination or resignation the Subscriber acknowledges that it:*

...(ii) Shall be eligible to receive a return of some or all of its equity share subject to settlement of all liability claims incurred during the period of its subscription. Application for a subscriber’s refund of equity share must be made in writing and received at the address of the Attorney within one (1) year from the effective date of the subscriber’s withdrawal.

¹⁹ The Reciprocal Insurance Exchange Agreement dated January 1, 1990

²⁰ Our investigation identified various accounting worksheets that tracked the premiums paid and claims history for each Subscriber basis although we noted gaps in the information for reasons stated in **Section 2.3** above

²¹ Our investigation identified various documents that indicated the required information had been prepared on a regular basis although we noted gaps in the information for reasons stated in **Section 2.3** above

Article 9.01(c) *Termination Upon termination, the assets of the Exchange after payment of all obligations, and after setting aside an adequate reserve for future claims, shall be returned to the current Subscribers, i.e. those who are Subscribers at the time when the termination takes place. The distribution of the net assets to each such Subscriber shall be in proportion to the amounts by which the cumulative annual premiums paid by such Subscriber to the Exchange exceed the cumulative claims paid by the Exchange to or on behalf of such Subscriber.*

We considered the Agreement including the above Articles in determining the net assets (equity) remaining to be distributed on termination and the appropriate method of distribution to the Subscribers.

While Article 9.01 appears clear regarding how any final net assets (equity) are to be distributed, the way ALARIE conducted its business did present some challenges with the application of this provision. In particular, we understand that the Agreement was written at a time when the intention was for ALARIE to handle Basic Coverage only and not any Excess Coverage or collect Capital Premiums. If ALARIE had only handled Basic Coverage, then any ending net assets would have been the result of only the Basic Coverage insurance activity. In such a scenario it makes sense to distribute any resulting net assets using the basis stated in Article 9.01. Specifically, it would be reasonable to distribute based on a pro rata accounting for relative individual Subscriber premium and loss claims history.

However, ALARIE did handle Excess Coverage and collect Capital Premiums. ALARIE accumulated additional funds through Capital Premiums to build up a reserve for potential future insurance. These funds were not actually used as insurance premiums. ALARIE also administered funds in relation to the Excess Coverage. The ending net assets to be distributed includes commingled funds arising from all of these activities in addition to the Basic Coverage activity and collective earned interest. If these additional activities are not also considered, then the actual contribution by each Subscriber may not be appropriately recognized and the amount distributed to each Subscriber may also not be appropriate.

Our initial analysis suggested that the majority of the remaining net assets resulted only from the additional activities and not the Basic Coverage. The Base Coverage was, we understand, intended to work on a break-even basis and result in no net assets to distribute.

This raised a question as to how to apply the provisions in Article 9.01 to ensure an equitable distribution in the reality of ALARIE's actual activities. This prompted us to closely review the impact on the individual Subscriber accounts for each of the Basic, Excess and Capital reserve fund movement and in particular how the different activities were allocated to the individual Subscriber accounts if actual amounts could not be specifically attributed to the Subscriber.

The following tables illustrate the potential differences in return to each Subscriber arising from this issue, using fictitious Subscribers 1 to 5:

Table 1 - Theoretical net asset distribution - Basic insurance activity

	A	B	C=A-B Net 0 - \$10k insurance activity	D=C/Total C Article 9.01 basis	E=Dx\$1,000 Net asset distribution
Subscriber	Premiums	Loss claims			
1	1,000	900	100	4%	40
2	1,200	1,000	200	8%	80
3	800	300	500	20%	200
4	700	0	700	28%	280
5	1,300	300	1,000	40%	400
	5,000	2,500	2,500	100%	1,000

Table 1 above shows a simple distribution of remaining net assets using only the ALARIE insurance premium and claim activity.

Table 2 below shows a theoretical distribution to the same fictitious Subscribers if capital reserve deposits and non ALARIE Excess Coverage JVA activity are incorporated into the calculation. Note that as a result of this, Subscriber accounts could result in a negative balance more frequently in this scenario, which technically means those Subscribers would need to pay ALARIE to ensure the other Subscribers receive what they are due under the strict pro rata calculation of Article 9.01 ("Pro rata basis 2"). This, however, does not make practical sense and was not, we understand, the intention of the "pooling" nature of operating the Exchange. Correspondingly, we have provided our calculations on the basis that negative balances result in a zero distribution for that Subscriber ("Pro rata basis 1"). Negative balances are further addressed in **Section 5.5**, below.

Table 2 - Theoretical net asset distribution - All activities

Subscriber	Net as above	Capital reserve contributions	Excess Insurance activity (JVA Adjustments)	Net Subscriber balance all activities	Pro rata basis 1	Net asset distribution	Pro rata basis 2	Net asset distribution
1	100	200	(400)	(100)	-	0	-1%	(9)
2	200	500	200	900	8%	80	8%	83
3	500	100	(1,000)	(400)	-	0	-4%	(37)
4	700	3,000	300	4,000	35%	354	37%	370
5	1,000	5,000	400	6,400	57%	566	59%	593
	2,500	8,800	(500)	10,800	100%	1,000	100%	1,000
			Positive balance total	11,300				

Table 3 below summarizes the potentially significant difference in amounts to each Subscriber that could arise by using different applications of Article 9.01 and illustrates why additional consideration was warranted.

Table 3 - Comparison of theoretical different net asset distribution amounts

Subscriber	Basic coverage	All activity excluding negative balances	All activity
1	40	0	(9)
2	80	80	83
3	200	0	(37)
4	280	354	370
5	400	566	593
	1,000	1,000	1,000

This is further described in **Section 5.6** below.


5.2 ANNUAL BUSINESS WITH SUBSCRIBERS

Subscribers received annual “Statements of Participation” in ALARIE. These statements were essentially annual invoices for the period of September 1 to September 1 of the following year, a 366 day period. We understand a 366 day period is common in the insurance industry as the one day of overlap ensures no lapse in insurance coverage. The statements indicate a total fee for the year, broken down into “layers” of insurance, and the capital (equity) portion. An example of this for one example Subscriber is as follows:

Table 4 - Example Statement of Participation

Subscriber X: September 1, 1992 to September 1, 1993			
Layer of Coverage	Annual Levy in Total	Insurance Premium Portion	Capital (Equity) in ALARIE Portion
\$0 to \$10,000		315.75	
\$10,000 to \$2,000,000		947.25	
\$2,000,000 to \$7,000,000		2,365.00	
A. Subtotal to \$7M	4,643.00	3,628.00	1,015.00
B. \$7,000,000 to \$12,000,000	1,115.00	957.00	158.00
C. \$12,000,000 to \$17,000,000	650.00	552.00	98.00
D. \$17,000,000 to \$20,000,000	413.00	413.00	NIL
Total of Above	6,821.00	5,550.00	1,271.00

The Statements of Participation looked like this, for that same Subscriber:



THE ALTERNATIVE

ALBERTA LOCAL AUTHORITIES
RECIPROCAL INSURANCE EXCHANGE

STATEMENT OF PARTICIPATION

I Participation Number: [REDACTED]

II Subscriber: [REDACTED]

III Address of Subscriber: [REDACTED]

IV Category of Local Authority: School ☒ Rural ☐ Urban ☐

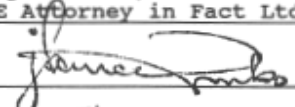
V Participation Period: From: September 1, 1992
To: September 1, 1993
12:01 a.m. Local Time at the above address

VI Annual Levy: \$ 6,821.00

This document evidences that the Subscriber named above has in force a policy or policies of Liability Insurance on their own behalf, the details of which have been received and approved by the Alberta Local Authorities Reciprocal Insurance Exchange.
As a result of this approval, the Annual Levy noted above has been assessed and the Advisory Board has directed that this Levy be allocated on behalf of the Subscriber named on the following basis:

ALARIE ANNUAL LEVY ALLOCATION			
LAYER OF COVERAGE	ANNUAL LEVY \$	PREMIUM EXPENDED TO BUY INSURANCE \$	EQUITY RECLAIMED IN ALARIE \$
A. \$ 0 to \$ 7,000,000 structured as follows:	4,643.00		
\$ 0 to \$ 10,000		315.75 }	
\$ 10,000 to \$ 2,000,000		947.25 }	1,015.00
\$ 2,000,000 to \$ 7,000,000		2,365.00 }	
B. \$ 7,000,000 to \$12,000,000	1,115.00	957.00	158.00
C. \$12,000,000 to \$17,000,000	650.00	552.00	98.00
D. \$17,000,000 to \$20,000,000	413.00	413.00	NIL
TOTAL OF ABOVE	6,821.00	5,550.00	1,271.00

Signed for and on behalf of the Attorney-in-Fact,
ALARIE Attorney in Fact Ltd.

Date :October 13, 1992 Per: 

12310 - 105 AVENUE, EDMONTON, ALBERTA T5N 0Y4 TELEPHONE (403) 425-2743 FAX (403) 482-5659

For this particular Subscriber in 1992-1993, \$20M in liability insurance cost \$5,550 (\$315.75 to ALARIE for Base Coverage up to \$10,000, and \$5,234.25 to Scottish & York for coverage between \$10,000 and \$20M). Although ALARIE collected the Scottish & York premiums and

remitted them via Aon Reed Stenhouse (insurance brokerage), they were not ALARIE funds. Only the \$315.75 remitted for coverage up to \$10,000 was premium payable to ALARIE itself for coverage it provided Subscribers. Payments were made directly to ALARIE's office, and were deposited into ALARIE's only bank account. The Scottish & York premiums then "flowed through" to the ultimate insurer.

The Subscriber, in this example, was also obligated to pay \$1,271 for Capital Premiums into ALARIE. This Capital Premium was calculated, as we understand, based upon the difference between what ALARIE management calculated as the required premiums for each Subscriber, and what each Subscriber would have paid on an open market outside of the Exchange in 1987/88. In this case, the Capital Premium levied was 18.6% of the total ALARIE bill for 1992-93.

As mentioned previously, premiums for insurance coverage between \$10,000 and \$1M were subject to the Joint Venture Agreements; the results of which collectively, on a net basis for each of the two agreements, were paid from/to ALARIE's sole bank account. Liability insurance coverage in excess of \$1M was largely discretionary to each Subscriber, and would be selected by the Subscriber based upon the Subscriber's past history of claims, its size, and other factors. We understand from our examination of records, and in speaking to past and current ALARIE management, every Subscriber elected to obtain at the very least \$2M in liability insurance annually.

Subscribers also received annually a "Statement of Deposits", which was a summary of equity in ALARIE attributable to each Subscriber at the end of every calendar year, reconciled to the year prior. The December 31, 1992 Summary of Deposits for the Subscriber in our example, above, is as follows:

Table 5 - Example Statement of Deposit

Subscriber X: December 31, 1992	
Funds on Deposit December 31, 1991 (Opening Balance)	3,769.77
Deposit – 1992/1993 ALARIE Equity Levy (<i>Per Statement of Participation, above</i>)	1,271.00
Deposit – contribution from AAMDC 1991/1992 Dividend	1,130.60
Deposit – contribution from AAMDC 1992/1993 Dividend	975.27
Total Deposits in Year	7,146.64
Interest Earned	346.56
Funds on Deposit December 31, 1992 (Closing Balance)	7,496.20

The Association dividend (in this example, AAMDC) is a result of the insurance broker, Aon Reed Stenhouse, sharing some of its brokerage fees with each Association annually as a “dividend” according to an agreement it had with the Associations. The Associations decided to allocate their “dividend” funds to each of their Subscribers, based on a pro rata ratio of total premiums paid, and remit the funds to ALARIE for safekeeping. ALARIE kept track of these individually for each Subscriber in its database of Subscribers’ premiums, claims experience, equity, and interest.

The actual Summary of Deposits for our example Subscriber is shown below.

**SUMMARY OF DEPOSITS MADE
AS AT DECEMBER 31, 1992**

SUBSCRIBER

:

CATEGORY

:

School

:

PARTICIPATION NO.

:

FOR INFORMATION PURPOSES ONLY

The Alberta Local Authorities' Reciprocal Insurance Exchange was established on October 1, 1990. As at December 31, 1992, ALARIE had just entered the 3rd year of operation, and was holding a surplus fund of \$ 6,900,000.00 for its member Subscribers.

The following is a summary of the deposits which have been made on behalf of your jurisdiction during the past 12 month period, and which have been designated towards the level of funding desired to sustain future "self-insurance" operations as laid down in the ALARIE Business Plan:

Funds deposited on your behalf as at December 31, 1991	\$ 3,769.77
Deposit - 1992/1993 ALARIE Equity Levy	\$ 1,271.00
Deposit - Contribution from AAMD&C 1991/1992 Dividend	\$ 1,130.60
Deposit - Contribution from AAMD&C 1992/1993 Dividend	\$ 975.27
Total Deposits	\$ 7,146.64
Interest Earnings Allocated to your Jurisdiction during period January 1, 1992 to December 31, 1992	\$ 349.56
TOTAL FUNDS AND INTEREST DEPOSITED ON YOUR BEHALF as at December 31, 1992	\$ 7,496.20

NOTE : This notification is for your information only. The nature of these funds is such that you are not required to declare them as "assets" in your audited Annual Fiscal Return. The Government has requested that they be treated as an item of "Insurance Expense" in your Financial Statement. This is because their "asset-value" will not be realizable until some indeterminate time in the future.

It should be noted that we examined and recorded every available Statement of Participation and Summary of Deposits for each Subscriber from 1990 to 2002, and analyzed them in a large database, including recalculation of totals and confirmation of opening and closing balances, in a verification exercise for each Subscriber in each year.

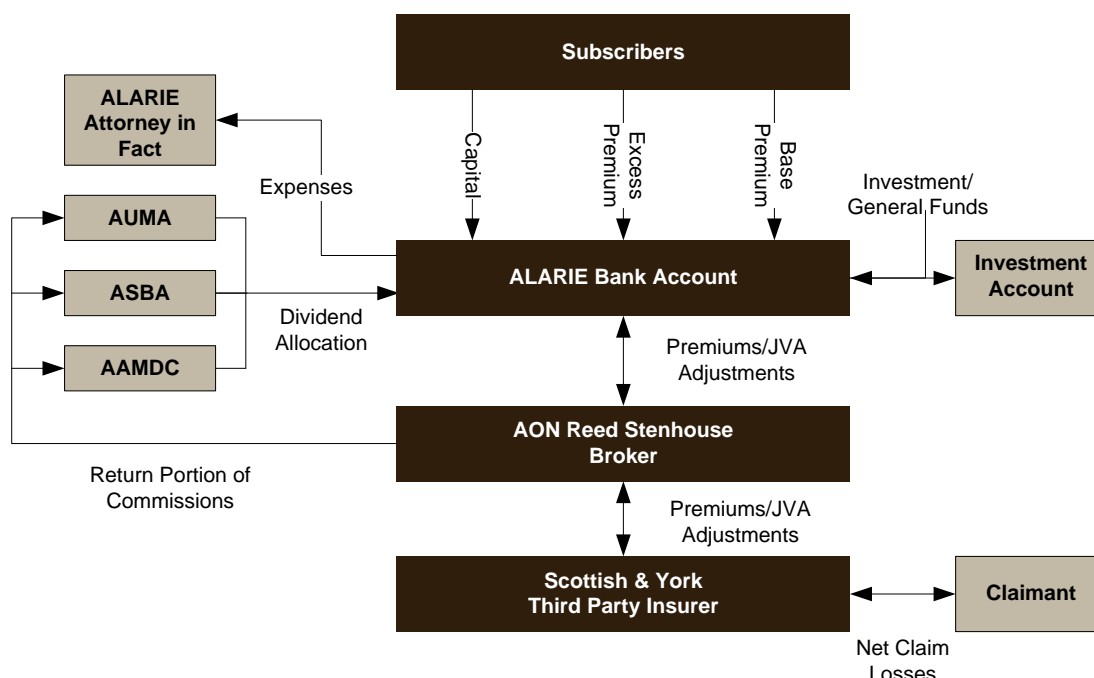
In total, this exercise encompassed the review of approximately 2,500 Statements of Participation and 2,500 Statements of Deposits. The statements available covered the period 1990 to 1995. For each set of statements reviewed we confirmed six pieces of information against the database provided by the ALARIE manager. This represents approximately 15,000 data points. Through this review process we identified and corrected approximately 375 errors in the source database.

For data for 1996 to 2002, for which there were no statements available, we further reviewed information against databases originally provided by third parties (i.e. AON Reed Stenhouse and/or Scottish & York). The review of these electronic files was to corroborate approximately 3,500 data points in the premiums database. This process resulted in approximately 150 errors or omissions being identified and corrected. In total, well over 5,000 rows of data were evaluated through this process.

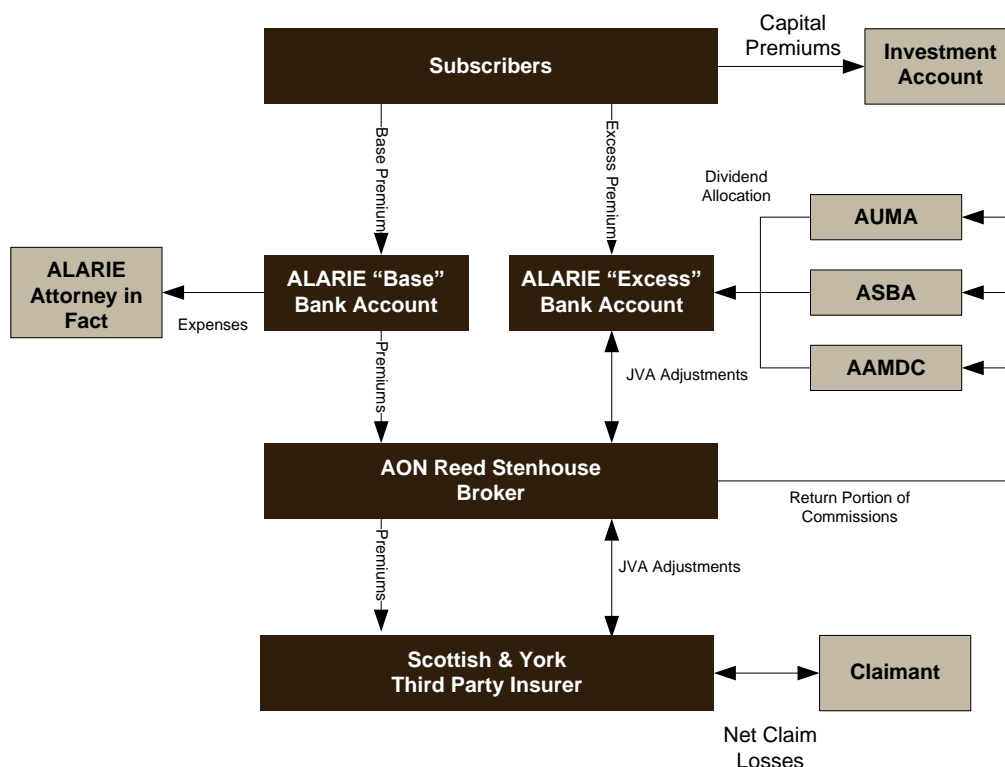
During our review and analysis we re-calculated and verified every cell that was formula based and assessed the formula to ensure it was the most logical and appropriate method of calculation. We further analyzed whether the resulting numbers were indicative of underlying errors by running trend and variance analysis on the figures. Where possible, we compared totals to information in the ALARIE financial statements. A detailed listing of our verification process is discussed in **Section 5.6**.

5.3 HOW ALARIE OPERATED

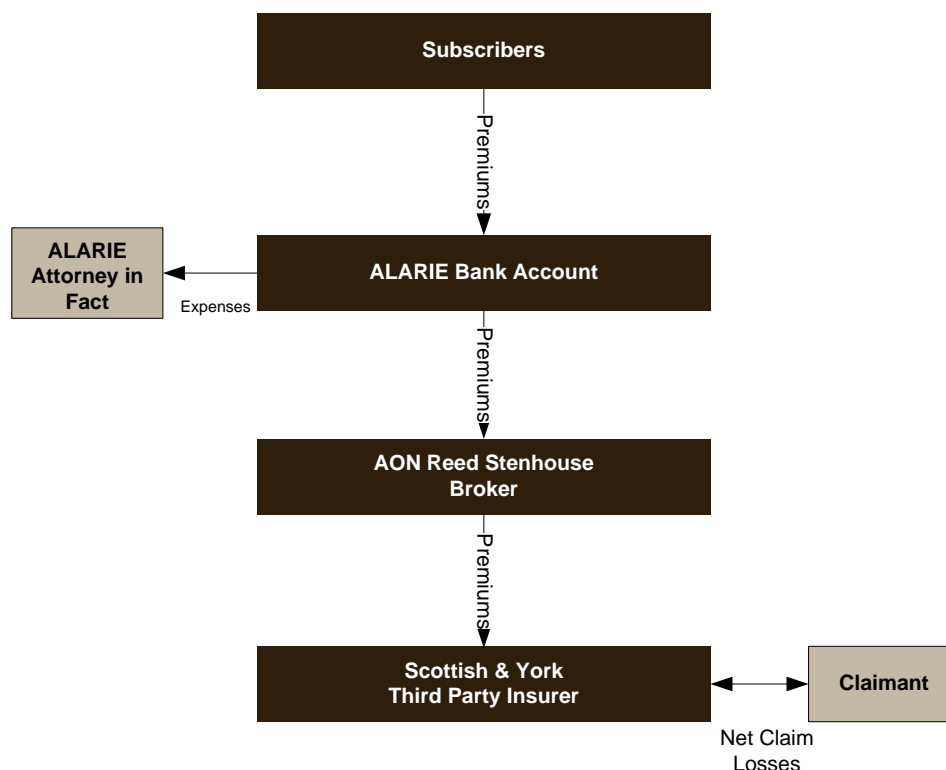
The following flowchart depicts the flows of funds into and out of ALARIE for its operations.



The following flowchart shows how ALARIE's operations would have functioned if separate bank accounts had existed for the base operations and other activities.



The following flowchart shows how ALARIE's operations would have functioned if ALARIE was only involved in the base operations.



Jubilee's staff were used to assist ALARIE Attorney in Fact Ltd. managers to prepare the annual Statements of Participation (i.e. invoices) and Summaries of Deposit (i.e. deposits statements) for each Subscriber. The invoices covered a 366-day period to September 1 of each year, and the deposits statement covered a twelve month period to December 31.

Inflows of Funds

Subscribers would pay their invoices directly to ALARIE, where all funds collected for all purposes were commingled in one general bank account. AON Reed Stenhouse acted as the insurance broker for all insurance coverage > \$10,000, and had facilitated insurance policies with Scottish & York for all Subscribers. As discussed above in **Section 5.2**, a portion of the fees for this service collected by AON Reed Stenhouse, as brokerage revenue, were shared with the Subscribers' parent Associations according to an agreement they had made. The Associations deposited their share of the brokerage fees into ALARIE to be allocated on a pro rata basis to their individual Subscribers' equity accounts.

In rare circumstances, the net effect of the Joint Venture Agreements was favourable to ALARIE and funds were received back (or credited on account) from Scottish & York to be distributed amongst the Subscribers for a Joint Venture Agreement in a particular year.

Interest was earned on the general bank account and investment account, and was deposited into these accounts from the financial institution.

Outflows of Funds

ALARIE would provide lump-sum payments regularly to AON Reed Stenhouse, typically upon request, so that it could pay Scottish & York for both policies and claims. ALARIE relied upon Scottish & York to adjudicate all of its Subscribers' claims – both less than and greater than \$10,000 – and therefore would from time to time need to pay claims for its self-funding portion.

ALARIE maintained an investment account, and funds were transferred to and from the investment account and the general bank account, as required to manage cash flows. The investment account had more favourable rates of interest, so where possible, funds were deposited there.

In almost all years subject to the Joint Venture Agreement, the net effect of the agreement required ALARIE to pay Scottish & York monies outstanding per the Joint Venture Agreement. ALARIE paid these funds from its general bank account in a single payment, although in fact there were two Joint Venture Agreements governing these claims (technically necessitating two pools instead of one, each based on its own claims' experience). Sometimes, it would take many years for claims for a policy year to be settled.

ALARIE Attorney in Fact Ltd., the management company for ALARIE, was paid management fees from ALARIE's general bank account. Beginning in 2002, 1041405 Alberta Ltd. received consulting fees from the general bank account for providing the services of the ALARIE manager. Other transactions conducted through the bank account included:

- Legal fees (appeared reasonable given the nature of ALARIE's business);
- Conference call costs;
- General office and administrative expenses;
- Bank fees; and
- License renewal fees (ALARIE was required to annually renew their license to act as a Reciprocal).

Banking activity was conducted by the manager of ALARIE, and monitored by the Board of Directors of ALARIE Attorney in Fact Ltd. Annual financial statement audits of the two entities were conducted until 2002, when general operations ceased.

5.4 ALARIE'S FINANCIAL RESULTS

Schedule 1 and Schedule 2, appended to this report, provide a summary of the audited financial statements for each of ALARIE and ALARIE Attorney in Fact Ltd. for the operating period from commencement in 1990, to 2002 when ALARIE stopped providing new insurance. While the two entities are legally separate, for the purposes of this report we have combined the results and treated them as if they are one entity. **Schedule 3** shows this combination. **Table 6** below summarizes the combined results.

Table 6 - ALARIE & ALARIE Attorney in Fact Ltd. - Summary of Combined Operations

Item Description	1990 to 2001	2002 to 2007	2008 to 2016	Total Life of ALARIE
	Operating Period	Non-Operating Period		
Insurance and Capital Premiums paid by Subscribers	\$ 26,907,749		\$ -	\$ 26,907,749
Interest and other investment earnings	9,018,649		1,460,491	10,479,140
Refund from Scottish & York for Management Fund Balance	-		203,110	203,110
Government Grants	66,446		-	66,446
Net activity - 2002 to 2007		298,558		298,558
	35,992,844	298,558	1,663,601	37,955,003
Loss claims paid and related expenses	\$ 20,140,363		\$ 1,171,078	\$ 21,311,441
Premium taxes	915,000		-	915,000
Professional fees	407,375		273,861	681,236
Consulting fees	318,819		163,770	482,589
Director fees & expenses	133,816		-	133,816
Other office and administration costs	376,916		4,300	381,216
Wind up costs	-		-	-
	22,292,289	-	1,613,009	23,905,298
Excess of funds received over expenses	\$ 13,700,555	\$ 298,558	\$ 50,592	\$ 14,049,705
Note 1				

Note 1 - Financial information was not available for the period of 2002 to 2007. Financial institutions did not retain this information and it could not be provided. We have used the ending asset balance to calculate the net activity necessary to arrive at this financial position. The result is a net increase in funds which we have included as interest and other investment earnings on the basis that it is the most plausible source of funds in the non-operating period.

The Operating Period: 1990 – 2002

In the 12 year “operating period” from 1990 to 2002, insurance premiums and Capital Premiums contributed by Subscribers totaled \$26.9M and loss claims paid totaled \$20.1M.

Note that any premiums paid by Subscribers for Excess Coverage were comingled in ALARIE, and flowed through to the insurer. As a result some Excess Coverage premiums may have been recognized as “ALARIE Contributions” in the financial statements. In addition some expenses and other adjustments related to the Excess Coverage were also recorded in ALARIE as part of the Joint Venture Agreement. This is further discussed below.

Funds from base premiums and Capital Premiums were also invested and earned \$9M in interest during the operating period. These investment earnings provided further funds from which claim losses were paid, in addition to providing funds to pay for the administration of ALARIE and the ALARIE Attorney in Fact Ltd. Combined administration costs totaled \$1.2 Million (3.4% of total funds received). Premium taxes of \$914,813 were also paid. These are further discussed below.

Therefore, by December 31, 2002 ALARIE and the ALARIE Attorney in Fact Ltd. had a combined net surplus of funds received in excess of expenses of \$13.7M.

During this period annual financial statements were prepared which were audited by an independent accountant who attached unqualified audit reports each year. Unqualified audit reports essentially mean that the auditor found the financial statements to be correctly presented and complete and accurate as tested in accordance with Generally Accepted Auditing Standards.

Further, the auditor would have been reviewing the financial information closer to the date the transactions occurred and would also likely have been reviewing more complete records than are available today. We were also provided access to auditor year end working paper files which we have also reviewed and considered.

Premium taxes

Premium taxes relate to Part 9 of the Alberta *Corporate Tax Act* and are payable at 3% of the amount of insurance “premiums receivable” during the year by an insurer. Reciprocal Insurance Exchanges are included as insurers for this purpose. Section 87(1) of this Act states that “premiums receivable” is defined as gross premiums receivable less an amount equal to the premiums returned during the taxation year.

ALARIE had paid premium taxes each year until 1996 based on the premiums received in connection with the ALARIE Basic coverage insurance (Premium taxes paid of \$177,582 on accumulated premiums of \$5,912,000). In 1997, we understand, although we could not find any supporting documentation to verify, that the “taxing authorities” required the tax to also be paid on the Subscriber Capital Premiums as “insurance premiums”. A catch up tax payment was therefore made on the additional Capital Premiums which had accumulated at that time to \$16.1M. In addition, interest earnings of \$3.2M were added as additional “insurance premiums” bringing the total to \$19.3M resulting in additional taxes of approximately \$580,000 which was paid in 1997.

We found little documentation related to this extra payment and as we became more familiar with the actual business of ALARIE we started to question the validity of this additional tax. It is our understanding, which is supported by a definition of “insurance” in the Alberta *Corporate Tax Act* that the tax is only levied on premiums if they are used for insurance, that is “...the undertaking by one person to indemnify another person against the loss or liability for loss in respect of a certain risk or peril...” Based on the documentation and discussions with current and former management of ALARIE, the Capital Premiums, while referred to as “premiums” in some internal documentation, were not actually insurance premiums as they were not used to “indemnify” or insure, rather they were collected with a view that at some time down the road they would be used for that purpose, but in fact, they never were and indeed now form part of the net assets that are being returned to Subscribers. We also note that these Capital Premiums were specifically described as “equity” in the annual Subscriber statements (example copies attached as **Appendix B**) and not as “premiums” which was the description used on the annual statements for the other insurance related payments made by Subscribers.

What this means is that there is a possibility that the tax paid on these Capital Premiums should either not have been paid in the first place, or in the alternative, because the premiums are now being returned to the Subscribers and were never used for insurance purposes, a refund of tax is due ALARIE, which in turn should also be returned to the Subscribers.

Currently, ALARIE has not discussed this issue with the Government of Alberta, nor solicited a return of taxes paid on Capital Premiums.

The Post-Operating Period: 2002 – 2015

The Post-Operating Period can be further divided into the period for which we could obtain bank statements for the general account and the period for which we could not obtain bank statements for the general account. For the period 2002 to 2007 the bank statements were not found in the records obtained from ALARIE and the financial institution was no longer able to reproduce them. For the period of 2008 to 2016 the ALARIE manager was able to request and obtain the bank statements directly from the financial institution.

As of September 1, 2008 the opening balance in the general bank account was approximately \$97,000. Starting from this date we have reviewed and categorized all of the transactions in the account until June 30, 2016. We found the transactions conducted to be consistent with the limited activities of ALARIE during the Post-Operating Period and consistent with the inflows and outflows historically occurring in this account.

The transactions were summarized into categories comparable to those used in the ALARIE financial statements, as shown in **Table 7**:

Table 7 - Summary of General Bank Account Transactions - 2008 to 2016

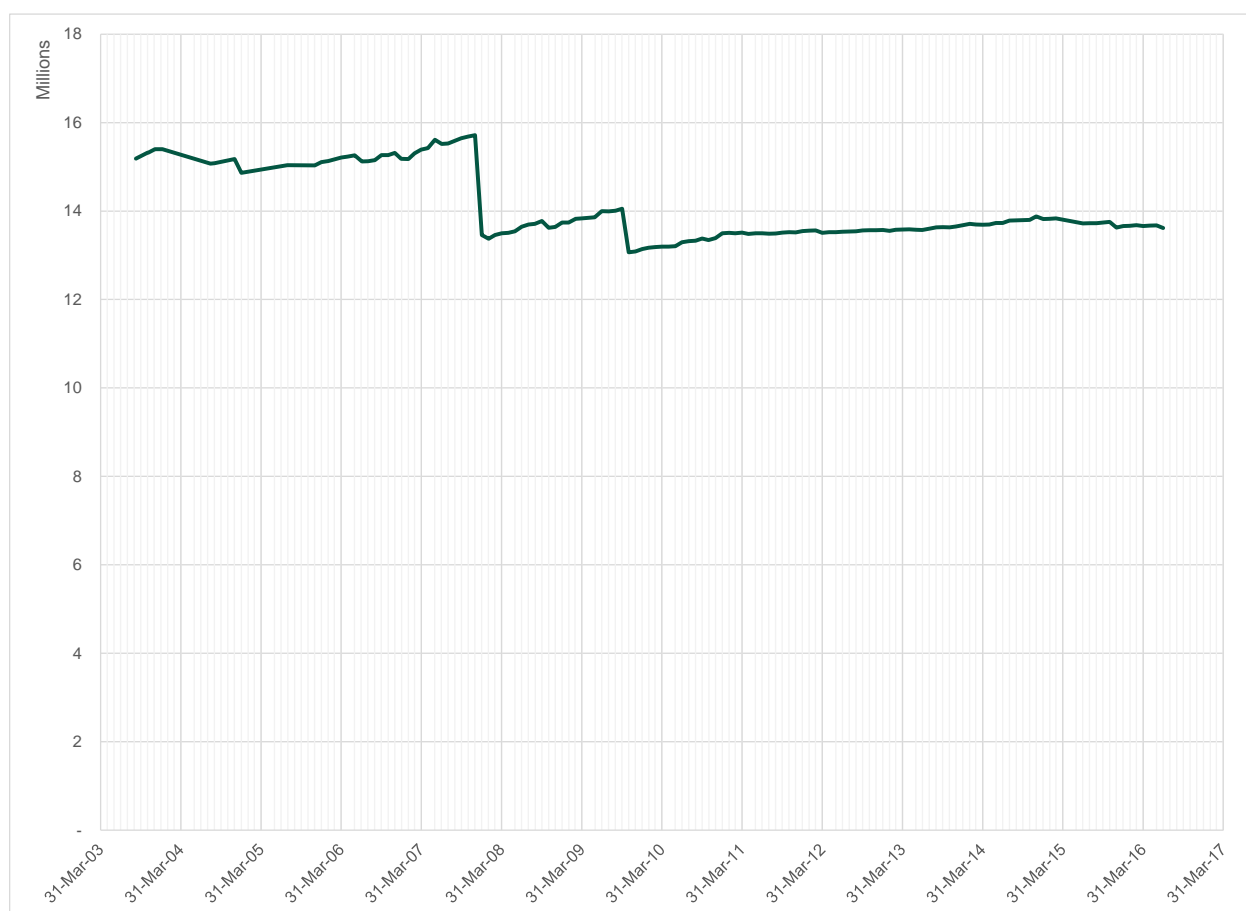
Opening Balance - September 1, 2008	96,861
From investment account	1,460,017
Refund of management fund balance from S&Y	203,110
Interest and other investment earnings	474
Subtotal - Inflows	1,663,601
Premium adjustments	(1,133,189)
Professional fees	(273,861)
Consulting fees	(163,770)
Loss claims paid and related expenses	(37,889)
Other office and administration costs	(4,300)
Subtotal - Outflows	(1,613,009)
Closing Balance - June 30, 2016	147,453

Premium adjustments represent payments that were made to Scottish & York to ensure that the management fund had sufficient resources to pay claims and premiums as required. The balance remaining in the management fund was refunded when it was determined it was no longer required. Transfers from the investment account into the general account coincided with the required payments to Scottish & York. It appears that investments were converted to cash and transferred to the general account to fund these payments.

Consulting fees consist of payments to 1041405 Alberta Ltd. for providing the services of the ALARIE manager. Professional fees consist of payments to MNP LLP, Ogilvie LLP, and Brownlee LLP primarily related to the dissolution process.

For the investment account we reviewed the statements available and entered the closing balances for each period to a spreadsheet we designed. We then reviewed any significant changes in the balance to determine the cause of the change. The movement of the investment account balance is shown below in **Chart 1**:

Chart 1 - Investment Account Balance



The investment account balance remained relatively consistent over the period of 2003 to 2016 with increases and fluctuations that appeared consistent with market rates at the time; however, there were two sharp declines in the balance. One occurred in December 2007 and the other in October 2009. Both of these declines were verified as investment divestures and subsequent transfers to the general account. The funds were used to pay Scottish & York for purposes of increasing the management fund Scottish & York used to pay claims and premiums.

5.5 ALARIE'S INSURANCE CLAIM RESULTS

ALARIE Subscribers enjoyed lower premiums for liability insurance claims between \$10,000 and \$1M due to the effects of the joint venture agreements and its two-way retroactive adjustment clauses. In almost every year but 1993/94, ALARIE ended up paying additional premiums to Scottish & York for each pool, as shown in the table below. This means that individual Subscribers and their counterparts in the same pool initially enjoyed lower rates for each year, and collectively bore the burden of higher claims experience when the retroactive calculations were applied per the agreement.

Subscribers of ALARIE overall claims' experience in the joint ventures is summarized in **Table 8**:

Table 8 - Summary of Joint Venture Agreement Amounts

Period Start	Period End	AAMDC/ASBA	AUMA	Total
01-Jan-91	01-Sep-91	338,243	152,526	490,769
01-Sep-91	01-Sep-92	249,345	172,039	421,384
01-Sep-92	01-Sep-93	502,014	287,193	789,207
01-Sep-93	01-Sep-94	(337,809)	279,087	(58,722)
01-Sep-94	01-Sep-95	51,432	326,569	378,001
01-Sep-95	01-Sep-96	526,212	177,198	703,410
01-Sep-96	01-Sep-97	424,525	452,359	876,884
01-Sep-97	01-Sep-98	322,896	445,587	768,483
01-Sep-98	01-Sep-99	577,132	551,502	1,128,634
01-Sep-99	01-Sep-00	76,656	98,532	175,188
01-Sep-00	31-Dec-01	Note 1	156,505	156,505
01-Jan-01	01-Jan-02	217,115	Note 2	217,115
01-Jan-02	31-Dec-02	(144,128)	Note 2	(144,128)
Total		2,803,633	3,099,097	5,902,730

Note 1 - JVA calculations for this period are included in the period January 1, 2001 to January 1, 2002.

Note 2 - No JVA for AUMA in this year as AUMA had switched to an alternate insurer for excess insurance over the \$10,000 base.

ALARIE was solely responsible for claims less than \$10,000 for each Subscriber. In our analysis of claims paid and premiums collected for <\$10,000 liability claims, we note that ALARIE did not have sufficient premiums on these claims to pay them. Put another way, ALARIE was required to either invoice Subscribers for additional premiums or use some of the capital/equity it collected annually from Subscribers to pay all of the claims under \$10,000 it was obligated to pay for the operating period. The Base \$10,000 insurance was therefore operating at a loss.

In several of these years ALARIE elected to use the capital/equity funds on hand to pay for the JVA premium adjustments due. We understand this decision was made on the basis that ALARIE

management did not believe the Subscribers would be pleased to pay additional premiums when they had already provided funds in excess of the required premiums.

Table 9 summarizes premium and claims experience for <\$10,000 insurance claims, from analysis of the financial statement results, and the Subscriber database results:

Table 9 - Summary of ALARIE Premiums and Claims for <\$10,000 Base Coverage

	Amount
Total Contributions	22,028,511
Less: Capital Payments	(8,443,654)
Non-Capital Contributions	13,584,857
Less: Loss Claims	(15,947,669)
Financial Position Before Interest and Expenses	(2,362,812)

In strict economic terms, ALARIE's Base Coverage operations were operating at a deficit.

Had ALARIE not collected premiums for the Excess Insurer in a "flow-through" that occasionally helped its cash flow²², and/or collected Capital Premiums from all Subscribers annually to 1996, it would not have been able to pay all its obligations. This means that the net assets (equity) remaining in ALARIE now – for distribution to its Subscribers – cannot have arisen from just ALARIE's business of providing Base liability insurance in a reciprocal model.

We attempted to verify the total premiums and loss expenses recorded in the Subscriber accounts by reconciling the amounts to those reported in ALARIE's audited financial statements. We were not able to reconcile all the differences between the two due to a lack of supporting information. In addition the Subscriber accounts were being continually updated over the period which meant that historical balances at specific past points of time could not be determined, for comparison to the financial statements.

We also noted in the reconciliation process that ALARIE financial statements appeared to have been prepared on a cash basis, namely they reported all the cash flowing through ALARIE and did not record the ALARIE Base Coverage operations separately from the non ALARIE Excess Coverage activity, nor did they pick up premium credits (referred to as Dividend premiums) held by the insurer on ALARIE's behalf, but not paid to ALARIE in cash. This does not make any difference to the overall ending cash position of ALARIE, but did result in transaction timing differences between the financial statements and the Subscriber accounts. The Subscriber accounts have recorded each of these items correctly and therefore provide an accurate basis for the final distribution of net assets.

²² ALARIE collected premiums annually from its Subscribers for Excess Coverage. These funds were not immediately remitted to the insurer via the brokerage Aon Reed Stenhouse, but held until the brokerage made a "cash call" to ALARIE. This means that ALARIE's own cash flow was often temporarily bolstered by funds it collected for another entity.

5.6 MNP ANALYSIS AND VERIFICATION

MNP performed multiple analysis and verification activities in this engagement to ensure:

- The information we collected was the best available data;
- Data could be verified and confirmed with source documents;
- The operations, financial results, and claims experience of ALARIE were consistent with what we had been told from its former and current managers and with the cash flow reported in the bank and investment account statements; and
- Management's intent in respect of operations was consistent with what actually happened, if not with the terms and condition of the Subscriber Agreement.

To do this, we performed the following:

1. Analyzed ALARIE audited financial statements and auditor working papers
2. Analyzed ALARIE bank statements and transactions
3. Analyzed ALARIE investment account statements
4. Created ALARIE Subscriber database for 465 Subscribers, and recorded/verified data for each Subscriber:
 - Premiums for each category, in each year from 1990 to 2002
 - Equity accumulation each year, from 1990 to 1996
 - Dividends allocated each year, from 1990 to 2002
 - Claims experience each year (JVA) from 1990 to 2002
 - Interest allocated each year, from 1990 to 2002
5. Recalculated split of calculations for each School Board Subscriber when rural school boards and counties reorganized in 1996; attempted to verify equity splits with the Government of Alberta
6. Reconciled financial results per financial statements and bank statements to the Subscriber database results
7. Confirmed payments from ALARIE to AON Reed Stenhouse from 1990 to 2015
8. Confirmed payments to and from Scottish & York to ALARIE from 1990 to 2015
9. Determined the "pool effect" of Joint Venture Agreements on claims \$10,000 > \$1M for each distinct pool of Subscribers (AAMDC/ASBA and AUMA) for the period 1990 to 2015

10. Confirmed the current existence and history of Subscribers with the three Associations and allocated distribution amounts for Subscribers who no longer exist as a legal entity to Subscribers with which they amalgamated

We note that some information in the 25-year period of examination was missing. For example, we may have examined Statements of Participation for Subscribers for most years, but were missing statements for the period September 1, 1995 to December 31, 2001. For these years we identified through discussion with ALARIE's manager the best available source of information for the insurance premiums and Capital Premiums paid by each Subscriber. This information was in the form of spreadsheets. We reviewed the spreadsheets and conducted analytics to show the consistency of premiums for each Subscriber with premiums in previous years. The information in the spreadsheet was verified against source reports originally provided to ALARIE by AON Reed Stenhouse.

For the period September 1, 1995 to August 31, 1996 we did not have information available that identified the specific Capital Premiums paid by each Subscriber. However, we did have information that identified the total Capital Premiums made for this period. We allocated the total to each Subscriber based on the percent of the total Capital Premiums paid by each in the preceding year.

We performed an allocation process to account for the reorganization of school boards and rural municipalities in 1996. We were provided with a document that detailed which Subscribers merged, which discontinued, and which were created. For each Subscriber that would not be continuing post reorganization the percentage that would go to the continuing Subscribers was provided. We used this information to create a spreadsheet that takes the existing equity immediately prior to the reorganization and allocates it to the Subscribers continuing on after the reorganization. This process has been used in each of the calculation scenarios. We contacted the Government of Alberta and other parties to request information on the reorganization (including which entities joined, were discontinued, or were created); however, this inquiry did not result in additional information being provided due to the lack of documents retained for that length of time.

We performed research on public records, consulted with the three Associations, and consulted with the ALARIE Manager to determine which Subscribers are presently active entities. This review identified several Subscribers who no longer exist. Through this process we identified those Subscribers which no longer exist and were not amalgamated into an existing Subscriber. These Subscribers do not have an equity amount allocated to a specific existing Subscriber. If these Subscribers contributed net positive funds to ALARIE, these funds are being distributed to all remaining Subscribers according to the respective methodology of each the three calculation options. We also identified Subscribers who amalgamated with other Subscribers or underwent a change of name. In these cases, equity amounts were allocated to the current existing Subscriber.

5.7 DISSOLUTION CONSIDERATIONS AND CALCULATIONS

At this time, our estimation of funds remaining to distribute to all Subscribers is \$13,500,000 per **Section 5.4** of this report. This figure may change based on the final closing and windup costs for ALARIE, which are ongoing, and whether a return of premium taxes (as discussed in **Section 5.4**) is pursued.

The bank balance of funds for ALARIE and ALARIE Attorney in Fact Ltd. at June 30, 2016 is \$13,895,327 (\$147,453 in the general account and \$13,747,874 in the investment account). Copies of the June 30, 2016 general account statements and investment account statement are attached as **Appendix G** and **Appendix H**, respectively.

Our work on this engagement can be summarized under two key questions:

1. Are the ending net assets of ALARIE and Subscriber transaction histories reasonably supported by financial records, reports and documents?
2. How do we fairly and equitably calculate the net assets to be distributed to each Subscriber?

The answer to Question 1 is **Yes**. In our review of the available records, databases, and other information, we believe we have identified the most accurate detailed information on every Subscriber, in every year. This information is summarized in **Schedule 4**. Almost all of this data has been confirmed with source documents from ALARIE and from external parties including AON Reed Stenhouse, Scottish & York, Royal Bank of Canada, National Bank Financial, audited financial statements and original databases maintained by ALARIE during its operational years.

Question 2 is more difficult to answer. From our analysis, discussions with legal counsel, ALARIE's current and former management, we identified three possible distribution methods:

1. A calculation based solely on premiums and claims experience as defined in Article 9.01 of the Subscriber Agreement, as written²³ ("**Base Calculation**")
2. A calculation based only on the Subscriber's Capital Premiums, as compared to its peers ("**Capital Calculation**")
3. A calculation based on the Subscriber Agreement with consideration of Base and Capital Premiums, and taking into account the results of the Joint Venture Agreement adjustments in each pool, dividends and interest ("**Comprehensive Calculation**").

To explain each of the calculations in detail, we created a legend of the variables used in each calculation:

²³ The Subscriber Agreement provides no specific guidance on how a Subscriber's distribution should be effected if their premiums less claims is negative.

Variable	Description
A	Premiums – all premiums for <\$10,000 coverage paid by Subscribers
B	Claims – all <\$10,000 claims for each Subscriber
C	Capital Premiums – all Capital Premiums paid into ALARIE for each Subscriber
D	Dividends and other payments from associations for each Subscriber.
E	JVA Adjustments – these were calculated annually once all claims were closed for the year. They are calculated for each pool (i.e. AUMA and AAMDC/ASBA) in total. Amounts are then allocated to Subscribers based on their premiums paid in the year as a percent of the total premiums paid by Subscribers in the same pool multiplied by the total JVA Adjustment.
F	Distribution Assets – this represents the total dollars that are available to be distributed. This will be calculated before the final calculations are performed.

1. Base Calculation

$$[A - B \text{ (each Subscriber)}] / \text{Total of all Subscribers} = \% \times F$$

The Base Calculation is designed to follow Article 9.01 of the Subscriber Agreement, the only legal document governing the relationship between ALARIE and each Subscriber.

The Agreement, at Article 9.01(c), states that “*the distribution of the net assets to each such Subscriber shall be in proportion to the amounts by which the cumulative annual premiums paid by such Subscriber to the Exchange exceed the cumulative claims paid by the Exchange to or on behalf of such Subscriber.*”

The wording of this excerpt makes it clear the intention when premiums exceed claims; however, it provides no guidance on the impact to a Subscriber’s potential distribution if premiums are less than claims.

In executing the Base Calculation, we included all premiums paid for ALARIE Base Coverage only, and then deduct all claims, for each Subscriber. Once we arrive at this net figure, the Subscribers are allocated a percentage of the total equity based on their pro rata share.

This calculation has been attached as **Schedule 6**.

2. Capital Calculation

$$C \text{ (each Subscriber)} / \text{Total } C = \% \times F$$

In executing the Capital Calculation, we calculate each Subscriber's Capital Premiums as a percentage of total Capital Premiums and divide the Net Assets accordingly pro rata.

The Capital Calculation is based on the following:

- ALARIE's operations (Base Coverage to \$10,000) did not generate any surplus;
- Excess Coverage payments went to the actual Excess Insurer, and did not remain in ALARIE; and
- Therefore, what must be left in ALARIE is capital collected from Subscribers and interest earned thereon.

This calculation has been attached as **Schedule 7**.

3. Comprehensive Calculation

$$(A + C + D - B \pm E) / \text{Total for all Subscribers} = \% \times F$$

for each Subscriber

The Comprehensive Calculation takes into account all financial transactions involving Subscribers:

- Premiums < \$10,000 liability;
- Claims < \$10,000 liability;
- Capital Premiums;
- Dividends; and
- Impact of the JVA Adjustments for each pool.

This calculation arrives at a net figure for each Subscriber that represents all ALARIE Subscriber transaction activity, and a pro rata percentage is applied to each Subscriber's net figure to calculate its portion of the equity remaining.

This calculation is attached as **Schedule 8**.

Applying each calculation method produces different results. In **Table 10** below, we show each method applied to the "top 15" Subscribers who paid the largest amount of premiums plus capital during ALARIE's operating period.

Table 10 - Top 15 Subscribers Comparison

Subscriber Key	Total Base Premiums and Capital Paid into ALARIE	Base Calculation Equity	Distribution - Base Calculation	Distribution - Capital Calculation	Comprehensive Calculation Equity	Distribution - Comprehensive Calculation
195	987,522	76,662	733,517	820,132	414,910	1,079,545
378	681,996	(232,374)	-	343,068	(62,846)	-
368	606,611	17,556	167,980	545,035	119,894	305,736
384	412,342	(9,515)	-	474,960	139,707	362,350
362	376,569	(105,911)	-	152,094	(69,218)	-
326	356,796	4,912	46,996	263,292	51,648	130,554
392	328,517	(198)	-	282,425	64,793	166,198
219	326,716	(679,807)	-	205,036	(614,149)	-
340	323,958	(53,934)	-	178,289	(11,629)	-
108	323,789	(75,993)	-	177,725	(67,137)	-
350	318,528	(113,059)	-	245,460	(18,025)	-
379	256,739	(124,030)	-	203,564	(29,128)	-
336	232,982	20,472	195,880	142,822	54,400	138,641
347	215,681	9,590	91,763	138,675	38,670	97,991
357	203,347	(39,096)	-	89,802	(30,842)	-

In **Table 10** above, of the fifteen Subscribers who paid the highest Base premiums/Capital Premiums overall, only five of them would participate in equity distribution under the **Base Calculation**. This is because the other 10 experienced claims at least as high as the premiums they paid for claims under \$10,000, according to the exact terms of the Agreement. In the **Capital Calculation**, each Subscriber would see a return of Capital Premiums plus interest, but not necessarily equivalent to what it actually paid, but relative to the other Subscribers contributions. The **Comprehensive Calculation** would again result in some Subscribers receiving no return of equity because their total claims history was higher and their contributions (base premium, JVA adjustments and Capital Premiums) lower relative to the other Subscribers. It is possible for a Subscriber to receive more than the base premiums and Capital Premiums they contributed. This scenario would arise when a Subscriber has a low claims experience but large total contributions. The investment funds of ALARIE earned interest at times when market interest rates were in the range of 20%. In some cases the interest allocation to a Subscriber can be significant.

Analysis

We searched public records and made inquiries of individuals involved in the industry but were unable to locate any documents or information to suggest a dissolution of a reciprocal exchange, like ALARIE, has occurred before in Canada. As a result, we had little guidance on how our analysis should proceed in these circumstances.

The governing Subscriber Agreement did not contemplate many of the operational activities of the Exchange that factor into its remaining equity, such as the Joint Venture Agreement adjustments; the Capital Premiums, interest earned, and/or the “dividends” credited by the

Associations. However, the Agreement was clear that funds to be returned to Subscribers be contemplative of its claims experience, which is sensible to us, as revenues (premiums) matched to related expenses is a fundamental accounting principle in measuring net performance.

Article 9.01 of the Subscriber Agreement states that the distribution of net assets should only include Subscribers who were active Subscribers at the termination date. We understand the Subscribers listed as “WITHDREW” in **Schedule 9** withdrew prior to the termination and did not apply for or receive a return of their account balance at the time of withdrawal. We also identified Subscribers who underwent name changes and/or amalgamation with another Subscriber. In these cases we have identified the Subscriber these entities are now a part of or the current name. The amounts for the original Subscriber are attributed to the identified Subscriber.

Former and current managers of ALARIE understand that the Subscriber Agreement is silent on many of the Exchange’s actual activities. However, they did explain to us that the operations of ALARIE were carefully planned and with full consent of the Board. That is, ALARIE’s operations were intentional and not by accident.

Despite actual activity in ALARIE evolving from the intent explicit in the Agreement we believe that the Agreement cannot be completely ignored, as it would be under the **Capital Calculation** noted above. So while this calculation captures the activity that effectively creates the remaining net assets, this calculation method also ignores the claims experience, dividends, and joint-venture agreements that formed key parts of ALARIE’s operations.

As a result of the foregoing, it is our opinion that the Comprehensive Calculation is the most appropriate manner to distribute the remaining equity of ALARIE, as it acknowledges the claims experience of each Subscriber, as well as all of the operational flow of funds while remaining true to the intent of ALARIE’s Subscriber Agreement and the spirit of its operations.

Table 11 below shows the number of Subscribers with an equity balance before the school board and county reorganization in 1996, after the reorganization, the number of Subscribers receiving an amount under each calculation method, and the range of minimum to maximum distribution amounts under each calculation method.

Table 11 - Summary of Subscribers and Range of Values

Description	Count	Low End (> 0)	High End
Subscribers with equity balance before reorganization	499		
Subscribers with equity balance after reorganization	434		
Subscribers receiving funds: Base Calculation	188	2,275	733,517
Subscribers receiving funds: Capital Calculation	362	1,133	820,132
Subscribers receiving funds: Comprehensive Calculation	227	93	1,079,545

In each of the calculation methods there are Subscribers who would receive no distribution amount. The “Low End” value provided in **Table 11** shows the next lowest value after zero.

6.0 RESTRICTIONS AND LIMITATIONS

This Report was prepared for ALARIE in relation to an examination of the activities and outcomes of ALARIE over the period 1990 to 2015. This Report is not to be used for any other purpose and we specifically disclaim any responsibility associated for losses or damages incurred through its use for a purpose other than described in this paragraph. This Report should not be reproduced in whole or in part without our express written permission.

We reserve the right, but will be under no obligation, to review and/or revise the contents of this Report in light of information which becomes known to us after the date of this Report.

Yours truly,

MNP LLP

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and cursive.

Lisa Majeau Gordon, CPA, CA•IFA, CFE, CFI, CICA, CFF
Partner, Investigative & Forensic Services

7.0 SCHEDULES

Schedule	Description
Schedule 1	Summary of ALARIE Financial Statements – December 31, 1990 to 2002
Schedule 2	Summary of ALARIE Attorney in Fact Ltd. Financial Statements – December 31, 1990 to 2002
Schedule 3	Combined Summary of ALARIE and ALARIE Attorney in Fact Ltd. Financial Statements – December 31, 1990 to 2002
Schedule 4	Summary of Subscriber Accounts – All Transactions
Schedule 5	ALARIE Banking Activity – 2008 to 2016
Schedule 6	Funds Distribution: Base Calculation
Schedule 7	Funds Distribution: Capital Calculation
Schedule 8	Funds Distribution: Comprehensive Calculation
Schedule 9	Summary of Subscribers that Withdrew, Amalgamated, or Changed Names

8.0 APPENDICES

Appendix	Description
Appendix A	Reciprocal Insurance Exchange Agreement dated January 1, 1990
Appendix B	Example Annual Subscriber Statement of Participation
Appendix C	Example Annual Statement of Deposit
Appendix D	Detailed Listing of Documents Relied Upon
Appendix E	Example Two Joint Venture Agreements
Appendix F	<i>Alberta Insurance Act, Part 1, Subpart 3, Licensing of Reciprocal Insurance Exchanges</i>
Appendix G	June 30, 2016 General Account Statement
Appendix H	June 30, 2016 Investment Account Statement
Appendix I	Scottish & York Agreement



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