

# Agriculture Financial Services Corporation

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Financial Statements

For the Year Ended  
March 31, 2008

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Financial Statements

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## CONTENTS

125	Auditor's Report
126	Statement of Financial Position
127	Statement of Operations
128	Statement of Cash Flows
129	Notes to the Financial Statements
139	Schedule of Operations
141	Schedule of Administration Expense
142	Schedule of Salaries and Benefits



To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the statement of financial position of the Agriculture Financial Services Corporation as at March 31, 2008 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*[Original Signed by Fred J. Dunn, FCA]*

Auditor General

Edmonton, Alberta  
May 28, 2008

*The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.*

Agency – continued  
**Agriculture Financial Services Corporation – Financial Statements 2007-2008**

**Statement of Financial Position as at March 31, 2008**

(in thousands)

	2008	2007 (Restated) (Note 2(k))
<b>Assets</b>		
Cash	\$ 267,451	\$ 316,020
Accounts receivable (Note 4)	79,724	121,222
Due from Province of Alberta	26,603	48,069
Due from Government of Canada	212,704	303,247
Loans receivable (Note 5)	1,073,056	1,009,293
Investments (Note 6)	438,592	423,144
Property and equipment (Note 7)	36,350	34,395
	<b>\$ 2,134,480</b>	<b>\$ 2,255,390</b>
<b>Liabilities and Surplus</b>		
Accounts payable and accrued liabilities	\$ 13,912	\$ 13,843
Indemnities payable (Note 8)	344,390	591,091
Due to Crop Reinsurance Fund of Canada for Alberta	210	1,847
Allowance for losses on loan guarantees (Note 13)	652	856
Notes payable (Note 9)	1,006,719	931,371
Unearned revenue (Notes 2(k), 10)	6,576	6,411
	<b>1,372,459</b>	<b>1,545,419</b>
Surplus	762,021	709,971
	<b>\$ 2,134,480</b>	<b>\$ 2,255,390</b>

Contingencies and commitments (Note 13)

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

Original signed by:

Barry Holmes, Chair of Audit Committee

Harry Haney, Chair of the Board

**Statement of Operations for the Year Ended March 31, 2008**

*(in thousands)*

	2008 Budget (Note 3(a))	2008 Actual (Schedule 1)	2007 Actual (Restated) (Note 2(k))
<b>Revenue</b>			
Premiums from insured persons	\$ 180,535	\$ 146,101	\$ 132,412
Interest	77,231	67,598	68,257
Contribution from Province of Alberta	315,050	261,816	613,249
Contribution from Government of Canada	311,255	136,157	244,537
Investment income	23,192	37,196	28,589
Fees and other income	18,242	12,907	21,192
	<b>925,505</b>	<b>661,775</b>	<b>1,108,236</b>
<b>Expense</b>			
Indemnities	670,333	462,411	719,055
Administration (Schedule 2)	70,264	73,242	70,418
Interest	51,125	46,488	45,190
Reinsurance	20,651	15,698	16,829
Farm loan incentives	3,171	3,574	4,552
Provision for doubtful accounts and for losses (Note 12)	2,745	6,190	2,527
Selling commissions	2,568	2,122	2,075
	<b>820,857</b>	<b>609,725</b>	<b>860,646</b>
Surplus for the year	<b>\$ 104,648</b>	<b>52,050</b>	<b>247,590</b>
Surplus at beginning of year		709,971	462,381
<b>Surplus at end of year</b>		<b>\$ 762,021</b>	<b>\$ 709,971</b>

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

**Statement of Cash Flows for the Year Ended March 31, 2008**

(in thousands)

	2008	2007
<b>Operating Transactions:</b>		
Surplus for the year	\$ 52,050	\$ 247,590
Non-cash items included in Surplus	14,205	(14,356)
Changes in assets and liabilities relating to operations	(88,616)	110,652
<b>Net cash (utilized) provided by operating activities<sup>(1)</sup></b>	<b>(22,361)</b>	<b>343,886</b>
<b>Investing Transactions</b>		
Proceeds from repayments of loans receivable and sale of properties	179,785	176,347
Loan disbursements	(253,805)	(218,971)
Purchase of investments	(285,766)	(969,420)
Proceeds on disposal of investments	270,644	784,674
Purchase of property and equipment	(9,469)	(9,417)
Proceeds on disposal of property and equipment	32	548
<b>Net cash utilized by investing activities</b>	<b>(98,579)</b>	<b>(236,239)</b>
<b>Financing Activities</b>		
Borrowing from the Province of Alberta	791,031	832,348
Repayment of borrowing from the Province of Alberta	(718,660)	(796,051)
Government of Canada funding for property and equipment	-	3,138
Province of Alberta funding for property and equipment	-	5,523
<b>Net cash provided by financing activities</b>	<b>72,371</b>	<b>44,958</b>
<b>Net (decrease) increase in cash from operating, investing and financing activities</b>	<b>(48,569)</b>	<b>152,605</b>
Cash at beginning of year	316,020	163,415
<b>Cash at end of year</b>	<b>\$ 267,451</b>	<b>\$ 316,020</b>

<sup>(1)</sup> Net cash provided by operating activities includes \$43,940 (2007 \$45,190) of interest paid.

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

**Notes to the Financial Statements for the Year Ended March 31, 2008**

(in thousands)

**Note 1 Authority and Purpose**

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

The Corporation provides income stabilization, disaster assistance, production insurance, and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

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**Note 2 Significant Accounting Policies and Reporting Practices**

These financial statements are prepared primarily in accordance with generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

**(a) Cash**

Cash consists of balances in accounts with the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of funds.

**(b) Investments**

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

**(c) Notes Payable**

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

**(d) Fair Value of Assets and Liabilities**

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities, indemnities payable and Due to Crop Reinsurance Fund of Canada for Alberta. Fair values of Investments and Notes payable are disclosed in their respective notes.

**(e) Reinsurance**

The Corporation carries reinsurance to cover production insurance risks through the two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the production insurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 16). In addition, the Corporation carries reinsurance through private insurance companies. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are not netted against indemnities; they are separately disclosed under revenue. Reinsurance expenses are not netted against premiums from insured persons or contributions from the Province and Government of Canada; they are separately disclosed under expenses.

**(f) Loan Discounting**

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster Program, and amounts previously deferred under the Indexed Deferral Plan are discounted when they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

**Note 2 Significant Accounting Policies and Reporting Practices (continued)**

**(g) Revenue Recognition**

All revenues including Contributions from the Government of Alberta and Canada are recognized on an accrual basis. For the Canadian Agriculture Income Stabilization (CAIS) program and AgrilInvest and AgriStability programs, government contributions are based on program benefit payments to producers. For production insurance programs, it is based on premiums invoiced to producers.

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectability of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Loan fees are recognized when received or at the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

**(h) Pensions**

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

**(i) Provision for Losses on Loans and Guarantees**

Provisions are established for specifically identified potential losses on loans and guarantees. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the Corporation establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

**(j) Transactions with Related Parties**

The Province of Alberta and the Government of Canada significantly influence the programs delivered by the Corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Province and the Government of Canada have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 15).

**(k) Change Accounting Policies**

The Corporation has changed its accounting policies to Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). Contributions from Alberta and Canada previously deferred have been recognized as revenue. The change has been applied retroactively and the statement of financial position at March 31, 2007 and the statements of operations and cash flows for the year ended March 31, 2007 have been restated accordingly.

	<b>Previously Reported</b>	<b>Restated</b>
Statement of Financial Position		
Unearned revenue	\$ 26,144	\$ 6,411
Surplus	690,238	709,971
Statement of Operations		
Contribution from Province of Alberta	604,905	613,249
Contribution from Government of Canada	233,148	244,537
Statement of Cash Flows		
Surplus for the year	227,857	247,590
Non-cash items included in surplus	5,377	(14,356)

**Note 3 Financial Structure**

**(a) Budget**

The Board of Directors approved the Corporation's budget in March 2007. Provincial funding for the approved budget of \$315,050 was authorized by the Legislative Assembly.

**(b) Crop Fund Balance Restriction**

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the crop insurance fund is restricted to being used for production insurance purposes.

**(c) Other Revenue and Expenses**

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, the Farm Income Disaster Program and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

**Note 4 Accounts Receivable**

	2008	2007
Canadian Agricultural Income		
Stabilization program:		
Overpayments and advances	\$ 69,572	\$ 111,737
Administration fees	4,680	5,246
Premiums from insured persons:		
Production insurance program	8,589	9,395
Hail insurance program	177	365
Prepaid expenses	1,216	894
Other	2,151	3,005
	<u>86,385</u>	<u>130,642</u>
Less allowances for doubtful accounts (Note 12)	(6,661)	(9,420)
	<u>\$ 79,724</u>	<u>\$ 121,222</u>

CAIS overpayments are non-interest bearing until December 31, 2008. Participants will receive a rebate if they repay the CAIS overpayment within 90 days of the overpayment notification or they can convert the overpayment to a loan until December 31, 2008. If the overpayment is not repaid or converted to a loan, the Corporation will pursue collection. Collection will include the recovery of the overpayment from future payments under the programs delivered by the Corporation as well as programs administered by the Province of Alberta and Government of Canada.

Included in CAIS program overpayments and advances is \$3,414 (2007 \$15,391) for estimated overpayments that are subject to measurement uncertainty. The estimate of \$3,414 is for CAIS participants who have received advance payments but have not yet had their final claims processed by the Corporation. The estimate is based on historical experience of advances resulting in overpayments.

The allowance for doubtful accounts of \$6,661 (2007 \$9,420) for estimated losses on premiums receivable and overpayments is also subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

Agency – continued  
**Agriculture Financial Services Corporation – Financial Statements 2007-2008**

**Note 5 Loans Receivable**

Loans receivable are comprised of the following:

	2008		2007	
	Farm	Commercial	Total	Total
Recorded investment	\$ 903,955	\$ 174,194	\$ 1,078,149	\$ 1,017,374
Specific allowance	(437)	(12,243)	(12,680)	(12,178)
General allowance	(13,827)	(761)	(14,588)	(18,499)
	<u>889,691</u>	<u>161,190</u>	<u>1,050,881</u>	<u>986,697</u>
Accrued interest	24,066	385	24,451	25,691
Accrued incentives	(1,522)	-	(1,522)	(2,030)
Loan discounts	(754)	-	(754)	(1,065)
Net carrying value	<u>\$ 911,481</u>	<u>\$ 161,575</u>	<u>\$ 1,073,056</u>	<u>\$ 1,009,293</u>

Impaired loans included in the preceding schedule:

	2008		2007	
	Farm	Commercial	Total	Total
Recorded investment	\$ 1,825	\$ 20,578	\$ 22,403	\$ 25,294
Specific allowance	(437)	(12,243)	(12,680)	(12,178)
Net carrying value	<u>\$ 1,388</u>	<u>\$ 8,335</u>	<u>\$ 9,723</u>	<u>\$ 13,116</u>

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of \$2,146 (2007 \$2,691) on property balances outstanding of \$2,591 (2007 \$3,115).

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2008	2007
Alberta Disaster Assistance Loan Program	\$ 29,742	\$ 35,582
Alberta Farm Income Disaster loans	12,949	16,538
Indexed Deferral Plan	<u>341</u>	<u>516</u>
	<u>\$ 43,032</u>	<u>\$ 52,636</u>

Included in Loans receivable is a specific allowance of \$12,679 (2007 \$12,178) and a general allowance of \$14,589 (2007 \$18,499) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$27,268 to cover estimated losses on loans (see Note 2(i)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Loans Receivable is secured by tangible assets consisting predominantly of land followed by building, equipment and other assets. The estimated values of such tangible securities are \$1,996,813 (2007 - \$2,065,082).

Fair values of loans receivable are not disclosed. Loans receivable consists of developmental loans with uncommon terms such as interest rate rebates/incentives, concessionary interest rates, provision for prepayments with no penalties, longer terms with fixed interest rates, interest rate determination policies and loans with relatively higher financial risks. Determining the fair values of loans receivable with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

Agency – continued  
**Agriculture Financial Services Corporation – Financial Statements 2007-2008**

**Note 6 Investments**

	2008	2007
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 228,040	\$ 248,762
Other provincial direct and guaranteed	46,424	42,791
	<u>274,464</u>	<u>291,553</u>
Corporate securities	<u>159,648</u>	<u>127,855</u>
	434,112	419,408
Accrued interest	<u>4,480</u>	<u>3,736</u>
	<u><u>\$ 438,592</u></u>	<u><u>\$ 423,144</u></u>

The fair value of investments at March 31, 2008 is \$443,770 (2007 \$424,519). Fair value is based on quoted market prices including accrued interest.

**Note 7 Property and Equipment**

	Land	Building	Furniture and Fixtures	Computer Equipment and Software	2008 Totals	2007 Totals
	Infinite	25 - 40 years	10 years	2 - 10 years		
Cost						
Beginning of year	\$ 347	\$ 9,793	\$ 4,388	\$ 52,848	\$ 67,376	\$ 58,272
Additions	-	-	176	9,293	9,469	9,417
Disposals and writedown	-	-	(12)	(4,684)	(4,696)	(312)
	<u>\$ 347</u>	<u>\$ 9,793</u>	<u>\$ 4,552</u>	<u>\$ 57,457</u>	<u>\$ 72,149</u>	<u>\$ 67,377</u>
Accumulated amortization						
Beginning of year	\$ -	\$ 2,246	\$ 2,626	\$ 28,109	\$ 32,981	\$ 26,260
Amortization expense	-	355	927	6,100	7,382	6,815
Disposal and writedown	-	-	(7)	(4,557)	(4,564)	(93)
	<u>\$ -</u>	<u>\$ 2,601</u>	<u>\$ 3,546</u>	<u>\$ 29,652</u>	<u>\$ 35,799</u>	<u>\$ 32,982</u>
Net book value at						
March 31, 2008	<u>\$ 347</u>	<u>\$ 7,192</u>	<u>\$ 1,006</u>	<u>\$ 27,805</u>	<u>\$ 36,350</u>	
Net book value at						
March 31, 2007	<u>\$ 347</u>	<u>\$ 7,547</u>	<u>\$ 1,762</u>	<u>\$ 24,739</u>		<u>\$ 34,395</u>

Computer equipment and software costs include \$4,742 (2007 \$1,247) of costs incurred that are not amortized because they are still in the development stage.

**Note 8 Indemnities Payable**

	2008	2007
AgrilInvest and AgriStability and related programs (previously CAIS program)	\$338,909	\$ 580,973
Production insurance	4,802	7,595
Wildlife compensation	212	2,171
Hail insurance	467	352
	<u>\$ 344,390</u>	<u>\$ 591,091</u>

Estimated indemnities payable of \$338,909 and corresponding contributions and receivables from the Province of Alberta and Government of Canada for the AgrilInvest and AgriStability programs (replacement of CAIS, effective the 2007 claim year) are subject to measurement uncertainty because they could change significantly in the future, if factors considered by management in establishing the estimates were to change significantly.

AgrilInvest and AgriStability indemnities payable includes estimated payments for the 2007 claim years of \$200,863 for the vast majority of claims that have not been received yet because the deadline for submission of complete information is after the end of the fiscal year. The program payments are triggered when the participants claim year program margin falls below their support level.

The two factors impacting estimated indemnities payable for the 2007 claim year are the number of participants and estimated program margins. The estimated number of participants for the 2007 claim year is based on the number of farm operations participating in the program during the 2006 claim year. The estimated program margins are based on forecasted changes in eligible income and expenses between 2006 and 2007. Based on historical experience of variability between forecasts and actual results of key assumptions, the estimated indemnities for the 2007 claim year of \$200,863 would range from \$156,400 to \$245,400.

Indemnities payable includes estimated payments of \$72,126 for claims received but not processed for the 2006 and prior claim years (2007 - \$135,485 for the 2005 and prior claim years). The estimates for the 2006 claim year are based on the number of claims received but not yet processed and the estimated average payment per claim. Indemnities payable also includes estimated payments of \$65,920 for related programs (2007 - \$125,111). The related programs were approved by the Government of Alberta for the 2005 and 2006 claim years. The estimate is based on historical payment ratios for claims processed.

**Note 9 Notes Payable**

Notes payable to the Province of Alberta are comprised of the following:

Remaining Term to Maturity	Effective Interest Rate	2008	Effective Interest Rate	2007 (Restated)
Within 1 year	2.25% - 3.75%	\$ 140,000	4.10% - 4.18%	\$ 100,000
1 to 5 years	3.43% - 7.64%	319,877	3.75% - 7.64%	386,757
6 to 10 years	4.21% - 6.52%	377,084	4.21% - 6.52%	297,493
Over 10 years	4.43% - 5.12%	159,142	4.43% - 5.12%	139,482
Accrued interest		12,934		11,592
Unamortized discount		<u>(2,318)</u>		<u>(3,953)</u>
		<u>\$ 1,006,719</u>		<u>\$ 931,371</u>

Agency – continued  
**Agriculture Financial Services Corporation – Financial Statements 2007-2008**

**Note 9 Notes Payable (continued)**

Principal repayments due in each of the next five years are as follows:

Year ending March 31,	2009	\$	199,688
	2010	\$	56,088
	2011	\$	210,738
	2012	\$	91,900
	2013	\$	53,977

The approximate fair value at March 31, 2008 is \$1,047,981 (2007 \$953,325). Fair value is an approximation of market value to the holder.

**Note 10 Unearned Revenue**

Unearned revenue is comprised of \$6,576 (2007 \$6,411) of premiums received from producers for production insurance programs relating to the next fiscal year.

**Note 11 Pensions**

The Corporation participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$2,821 for the year ended March 31, 2008 (2007 \$2,252).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of \$84,341 (2006 \$6,765) and the Public Service Pension Plan reported a deficiency of \$92,070 (2006 surplus \$153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$1,510 (2006 \$3,698). The Corporation's share of these pension plans' surplus or deficiency is not determinable.

**Note 12 Allowances for Doubtful Accounts and for Losses**

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable (Note 5)	Commercial Lending Loans Receivable (Note 5)	Loan Guarantees (Note 13)	2008 Total	2007 Total
Allowances at beginning of year	\$ 9,420	\$ 15,467	\$ 15,210	\$ 856	\$ 40,953	\$ 39,633
Provisions	(2,477)	(1,176)	10,047	(204)	6,190	2,527
Write-offs, net of recoveries	(282)	(27)	(12,253)	-	(12,562)	(1,207)
Allowances at end of year	<u>\$ 6,661</u>	<u>\$ 14,264</u>	<u>\$ 13,004</u>	<u>\$ 652</u>	<u>\$ 34,581</u>	<u>\$ 40,953</u>

Note: Under Loans receivable, write off in 2008 includes \$10,409 (2007 \$nil) in respect of one loan account under the Project Investor Financing program.

**Note 13 Contingencies and Commitments**

Contingent Liability

	<b>2008</b>	<b>2007</b>
Loan guarantees	\$ 19,587	\$ 26,336
Less allowances for losses (Note 12)	<u>(652)</u>	<u>(856)</u>
	18,935	25,480
Legal actions	<u>180</u>	<u>800</u>
Total contingencies	<u><u>\$ 19,115</u></u>	<u><u>\$ 26,280</u></u>

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation.

Legal actions represent amounts claimed or amounts claimed in excess of what was accrued. The outcome of the legal actions is not determinable at this time.

Commitments

	<b>2008</b>	<b>2007</b>
Approved, undisbursed loans	\$ 59,250	\$ 67,911
Reinsurance	9,229	16,742
Estimated farm loan incentives	7,400	11,929
Operating leases	<u>740</u>	<u>858</u>
Total commitments	<u><u>\$ 76,619</u></u>	<u><u>\$ 97,440</u></u>

The operating lease commitments are for accommodations with terms up to five years.

**Note 14 Credit Risk and Interest Risk**

**(a) Credit Risk**

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss.

The following breakdown of the loan receivables provides an indication of the concentration of credit risk on the loan portfolio. Significant information is provided throughout these statements to disclose other concentrations of credit risk.

	<b>2008</b>	<b>2007</b>
Loans receivable by sector:		
Grain and Oilseeds	\$ 469,071	\$ 420,841
Cattle	365,791	338,593
Other Livestock	60,404	48,599
Manufacturing	45,599	25,528
Accommodations and Other Services	45,458	72,508
Trade - Retail and Wholesale	31,184	24,546
Other	82,817	109,355
Allowance	<u>(27,268)</u>	<u>(30,677)</u>
	<u><u>\$ 1,073,056</u></u>	<u><u>\$ 1,009,293</u></u>

**Note 14 Credit Risk and Interest Risk (continued)**

**(b) Interest Risk**

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The gap position presented in the following table is determined as at the close of business on March 31, 2008. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or full prior to the contractual maturity date. Therefore, the following position of AFSC Lending Operations may change significantly due to loan customer payment preferences and the Corporation's risk management practices.

	Term to Maturity <sup>(1)</sup>				Not <sup>(2)</sup>	2008	2007
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Interest Rate Sensitive		
Loan balances	\$ 100,619	\$ 324,178	\$ 311,117	\$ 339,798	\$ (2,656)	\$ 1,073,056	\$ 1,009,293
Yield <sup>(3)</sup>	6.22%	6.13%	6.01%	5.52%	-	6.05%	6.33%
Notes payable							
Province of Alberta	\$ 199,688	\$ 412,703	\$ 295,485	\$ 88,227	\$ 10,616	\$ 1,006,719	\$ 931,371
Yield <sup>(3)</sup>	4.79%	4.94%	4.58%	3.84%	-	4.81%	4.97%
Net gap	<u>\$ (99,069)</u>	<u>\$ (88,525)</u>	<u>\$ 15,632</u>	<u>\$ 251,571</u>	<u>\$ (13,272)</u>	<u>\$ 66,337</u>	<u>\$ 77,922</u>

The above gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity <sup>(1)</sup>				2008	2007
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
Bonds and debentures	\$ 69,278	\$ 197,674	\$ 1,971	\$ 5,540	\$ 274,463	\$ 291,553
Yield <sup>(3)</sup>	4.24%	4.28%	5.51%	5.13%	4.29%	4.24%
Corporate Securities	-	159,648	1	-	159,649	127,855
Yield <sup>(3)</sup>	-	4.56%	-	-	4.56%	4.27%
Accrued interest	69,278	357,322	1,972	5,540	434,112	419,408
	446	3,940	14	79	4,479	3,736
	<u>\$ 69,724</u>	<u>\$ 361,262</u>	<u>\$ 1,986</u>	<u>\$ 5,619</u>	<u>\$ 438,591</u>	<u>\$ 423,144</u>

<sup>(1)</sup> For loans, term to maturity reflects the period of time to the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual, annual installments or full repayment at maturity of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

<sup>(2)</sup> Includes general provisions, accrued interest, accrued beginning farmer incentive and unamortized loan discount.

<sup>(3)</sup> For notes payable, investments and loans, yield represents the rate which discounts future cash receipts to the carrying amount.

**Note 15 Related Party Transactions**

Sufficient information is provided throughout these statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2008	2007
Interest expense - Province of Alberta	\$ 46,402	\$ 45,135
Administration expense - Province of Alberta	1,710	508
Administration expense - Government of Canada	661	304

The Corporation entered into an agreement to deliver the CAIS Inventory Transition Initiative (CITI) as an agent of the Government of Canada. The Corporation paid \$45,342 in CITI claims to eligible participants. The indemnities, administration expenses, and associated revenues are not included in the Statement of Operations. Included in Due from the Government of Canada is \$944 for funding required to administer this program.

**Note 16 Crop Reinsurance Funds**

The contributions, withdrawals and accumulated surplus positions of the Crop Reinsurance Fund of Alberta and Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(e)):

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2008	2007	2008	2007
Opening surplus	\$ 17,713	\$ 14,399	\$ 18,513	\$ 15,265
Contributions	<u>1,265</u>	<u>3,314</u>	<u>1,142</u>	<u>3,248</u>
Closing surplus	<u>\$ 18,978</u>	<u>\$ 17,713</u>	<u>\$ 19,655</u>	<u>\$ 18,513</u>

**Note 17 Comparative Figures**

The 2007 figures have been reclassified and restated where necessary to conform to 2008 presentation.

Agency - continued  
**Agriculture Financial Services Corporation - Schedule of Operations for the Year Ended March 31, 2008**

**Schedule 1**  
*(in thousands)*

	2008	2007	2008	2007	2008	2007
	Canadian	Canadian	Production	Production	Lending	Lending
	Agricultural	Agricultural	Insurance	Insurance	Insurance	Insurance
	Income	Income	(Restated)	(Restated)	(Restated)	(Restated)
	Stabilization	Stabilization				
Revenue:						
Premiums from insured persons	\$ -	\$ -	\$ 114,452	\$ 105,526	\$ -	\$ -
Interest	107	-	656	452	66,624	67,710
Contribution from Province of Alberta	146,654	424,349	108,667	182,020	1,989	3,478
Contribution from Government of Canada	28,055	146,216	102,504	93,330	-	-
Investment income	7,119	7,040	28,092	19,512	576	346
Fees and other income	10,020	12,734	62	67	1,704	7,624
	<u>191,955</u>	<u>590,339</u>	<u>354,433</u>	<u>400,907</u>	<u>70,893</u>	<u>79,158</u>
Expense:						
Indemnities	172,721	550,550	241,080	136,589	-	-
Administration (Schedule 2)	19,757	19,739	27,695	25,604	21,111	20,746
Interest	-	-	-	-	46,402	45,135
Reinsurance	-	-	15,000	16,271	-	-
Farm loan incentives	-	-	-	-	3,574	4,552
Provision for doubtful accounts and for losses (Note 13)	(1,978)	7,321	(363)	588	8,667	(5,494)
Selling commissions	-	-	-	-	-	-
	<u>190,500</u>	<u>577,610</u>	<u>283,412</u>	<u>179,052</u>	<u>79,754</u>	<u>64,939</u>
Surplus (deficit) for the year	1,455	12,729	71,021	221,855	(8,861)	14,219
Surplus at beginning of year	12,729	-	571,518	349,663	85,762	71,543
Surplus at end of year	<u>\$ 14,184</u>	<u>\$ 12,729</u>	<u>\$ 642,539</u>	<u>\$ 571,518</u>	<u>\$ 76,901</u>	<u>\$ 85,762</u>

Agency - continued  
 Agriculture Financial Services Corporation - Schedule of Operations for the Year Ended March 31, 2008

Schedule 1 continued  
 (in thousands)

	2008	2007	2008	2007	2008	2007
	Hail	Hail	Other	Other	Total	Total
	Insurance	Insurance	Other	Other	Total	Total
		(Restated)		(Restated)		(Restated)
						(Note 2(k))
Revenue:						
Premiums from insured persons	\$ 31,649	\$ 26,886	\$ -	\$ -	\$ 146,101	\$ 132,412
Interest	98	89	113	6	67,598	68,257
Contribution from Province of Alberta	-	-	4,506	3,402	261,816	613,249
Contribution from Government of Canada	-	-	5,598	4,991	136,157	244,537
Investment income	1,436	1,648	(27)	43	37,196	28,589
Fees and other income	418	422	703	345	12,907	21,192
	<u>33,601</u>	<u>29,045</u>	<u>10,893</u>	<u>8,787</u>	<u>661,775</u>	<u>1,108,236</u>
Expense:						
Indemnities	40,265	26,342	8,345	5,574	462,411	719,055
Administration (Schedule 2)	2,427	2,110	2,252	2,219	73,242	70,418
Interest	-	-	86	55	46,488	45,190
Reinsurance	698	558	-	-	15,698	16,829
Farm loan incentives	-	-	-	-	3,574	4,552
Provision for doubtful accounts and for losses (Note 13)	(132)	99	(4)	13	6,190	2,527
Selling commissions	2,122	2,075	-	-	2,122	2,075
	<u>45,380</u>	<u>31,184</u>	<u>10,679</u>	<u>7,861</u>	<u>609,725</u>	<u>860,646</u>
	(11,779)	(2,139)	214	926	52,050	247,590
Surplus (deficit) for the year	38,452	40,591	1,510	584	709,971	462,381
Surplus at beginning of year	\$ 26,673	\$ 38,452	\$ 1,724	\$ 1,510	\$ 762,021	\$ 709,971
Surplus at end of year						

Agency – continued

**Agriculture Financial Services Corporation – Schedule of Administration Expenses  
For the Year Ended March 31, 2008**

**Schedule 2**  
*(in thousands)*

	<b>2008 Budget (Note 3(a))</b>	<b>2008 Actual</b>	<b>2007 Actual (Restated)</b>
Salaries and benefits (Note 11)	\$ 47,378	\$ 46,267	\$ 40,599
Amortization of capital assets	7,600	7,382	6,814
Contracted services	1,512	4,078	11,212
Travel and training	4,305	4,002	3,739
Office accomodation costs	2,821	3,694	1,864
Stationery and supplies	1,464	2,581	1,658
Data processing	947	1,639	1,387
Advertising	819	1,010	752
Telecommunications	913	856	647
Postage and freight	648	520	487
Professional services	869	474	546
Directors' fees and expenses	520	362	286
Equipment, rental and maintenance	360	252	325
Miscellaneous	108	125	102
	<u>\$ 70,264</u>	<u>\$ 73,242</u>	<u>\$ 70,418</u>

Agency – continued  
**Agriculture Financial Services Corporation – Schedule of Salaries and Benefits**  
**For the Year Ended March 31, 2008**

**Schedule 3**  
*(in thousands)*

	2008			2007	
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-Cash Benefits <sup>(3)</sup>	Total	Total
Chairman of Board	\$ 78	\$ -	\$ -	\$ 78	\$ 37
Board members <sup>(4)</sup>	152	-	-	152	158
President and Managing Director	247	96	58	401	333
Executive/Vice-Presidents					
Vice-President, Finance	165	35	41	241	231
Vice-President, Lending Operations	165	25	40	230	219
Vice-President, Risk Management	165	43	40	248	219

<sup>(1)</sup> Base salaries are fees for Chair and Board members and base pay for employees.

<sup>(2)</sup> Other cash benefits include bonuses, vacation payments and lump sum payments.

<sup>(3)</sup> Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care allowance, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

<sup>(4)</sup> The amounts relate to eight Board members during 2007/08 (eight in 2006/07).