

Ministry of Agriculture and Rural Development

CONSOLIDATED FINANCIAL STATEMENTS
Year Ended March 31, 2015

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Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Agriculture and Rural Development, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture and Rural Development as at March 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 2, 2015

Edmonton, Alberta

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2015

	2015 Constructed Budget (Schedule 2)	2015 Actual (in thousands)	2014 Actual (Restated)
Revenues			
Government Transfers			
Transfers from the Agriculture and Food Innovation	\$ 9,000	\$ 3,050	\$ -
Endowment Account			
Government of Alberta Grants	-	875	812
Federal Government Grants	332,213	287,769	294,847
Investment Income	123,822	132,188	118,022
Premiums, Fees and Licenses	358,006	324,941	394,663
Other Revenue	8,219	10,972	9,034
Ministry Revenue	831,260	759,795	817,378
Expenses - Directly Incurred (Note 2(c) and Schedule 8)			
Program (Schedule 1)			
Ministry Support Services	18,248	16,143	17,240
Agriculture Policy and Economics	17,955	16,443	14,671
Agriculture Environment and Water	56,670	53,694	50,001
Food Safety and Animal Health	51,156	45,716	43,041
Industry Development	122,471	115,453	110,589
Lending	37,829	34,301	22,432
Insurance	480,258	507,017	432,971
Agriculture Income Support	141,900	134,639	73,149
Livestock and Meat Strategy	37,122	33,144	28,964
2013 Alberta Flooding			
Non Disaster Recovery Program Expenses	17,283	630	114
Agriculture and Food Innovation Endowment Account	9,000	3,058	-
Program Expense	989,892	960,238	793,172
Other			
Debt Servicing Costs	72,807	69,892	67,931
	72,807	69,892	67,931
Ministry Expense	1,062,699	1,030,130	861,103
Net Operating Results	\$ (231,439)	\$ (270,335)	\$ (43,725)

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2015

	2015	2014 (Restated)
	(in thousands)	
Assets		
Cash and Cash Equivalents	\$ 227,708	\$ 240,529
Accounts Receivable	16,722	14,433
Due from Government of Canada	179,450	142,806
Loans Receivable (Schedule 3)	2,067,625	1,952,921
Investments (Schedule 4)	1,834,695	1,634,743
Tangible Capital Assets (Schedule 5)	72,016	76,929
	\$ 4,398,216	\$ 4,062,361
Liabilities		
Accounts Payable and Accrued Liabilities	\$ 48,261	\$ 44,018
Indemnities Payable	172,484	133,828
Deferred Revenue (Note 5)	22,531	24,574
Borrowing from Government of Alberta (Schedule 6)	2,023,926	1,946,568
	2,267,202	2,148,988
Net Assets		
Net Assets as adjusted at Beginning of Year	1,913,373	1,341,571
Adjustments to net assets	(66)	(43)
Net Operating Results	(270,335)	(43,725)
Net Financing Provided from General Revenues	488,042	615,570
Net Assets at End of Year	2,131,014	1,913,373
	\$ 4,398,216	\$ 4,062,361

Contractual obligations and contingent liabilities (Notes 6 and 7)

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2015

	2015	2014 (Restated)
	(in thousands)	
Operating Transactions		
Net Operating Results	\$ (270,335)	\$ (43,725)
Non-cash items included in Net Operating Results		
Amortization of Tangible Capital Assets	16,509	16,739
Deferred Capital Contribution recognized as revenue	(2,554)	(3,139)
Amortization of premiums and discounts	3,102	4,921
Loss on Disposal of Tangible Capital Assets	106	8
Gain on Sale of Investments	(7,621)	(3,907)
	(260,793)	(29,103)
Net Change in Operating Assets and Liabilities	7,324	(53,694)
Cash Applied to Operating Transactions	(253,469)	(82,797)
Capital Transactions		
Acquisition of Tangible Capital Assets	(11,826)	(14,044)
Proceeds on Disposal of Tangible Capital Assets	59	45
Cash Applied to Capital Transactions	(11,767)	(13,999)
Investing Transactions		
Proceeds from Repayments of Loans Receivable	383,338	327,660
Loan Disbursements	(506,186)	(502,066)
Purchase of Investments	(1,064,288)	(1,088,998)
Proceeds on Disposal of Investments	870,245	574,696
Cash Applied to Investing Transactions	(316,891)	(688,708)
Financing Transactions		
Contributions Restricted for Capital	3,157	5,192
Borrowing from the Government of Alberta	123,586	332,578
Repayment of Borrowing from the Government of Alberta	(45,479)	(193,393)
Net Financing Provided from General Revenues	488,042	615,570
Cash Provided by Financing Transactions	569,306	759,947
Decrease in Cash and Cash Equivalents	(12,821)	(25,557)
Cash and Cash Equivalents at Beginning of Year	240,529	266,086
Cash and Cash Equivalents End of Year	\$ 227,708	\$ 240,529

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

Notes to the Consolidated Financial Statements for the Year Ended March 31, 2015

Note 1 Authority and Purpose

The Minister of Agriculture and Rural Development has been designated as responsible for various Acts by the *Government Organization Act* and its regulations. The purpose of the ministry is to enable the growth of a globally competitive, sustainable agriculture and food industry through essential policy, legislation, information and services in partnership with vibrant rural communities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Reporting Entity

The Minister of Agriculture and Rural Development administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Agriculture and Rural Development and constitute the reporting entity.

Organization	Authority
Department of Agriculture and Rural Development (the Department)	<i>Government Organization Act</i>
Agriculture Financial Services Corporation (the Corporation)	<i>Agriculture Financial Services Act</i>
The Alberta Livestock and Meat Agency Ltd. (the Agency)	<i>Alberta Business Corporations Act</i>

The financial statements for the individual entities provide more detailed information about the operations of each entity.

(b) Method of Consolidation

The accounts of the Department, regulated funds and provincial agencies are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between entities within the ministry have been eliminated.

(c) Basis of Financial Reporting

Revenue Accounting Policy - All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recorded as deferred revenue. Interest revenue on loans receivable is recognized as earned unless the ultimate collection 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 a risk of loss 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.

Premiums from insured persons, including federal government contributions for crop insurance, are recognized as income when invoiced to producers.

Funds collected under various agreements are restricted contributions subject to externally imposed conditions that specify the purpose for which the funds are to be used. Restricted contributions are recognized as revenue in the period in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Government transfers - Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recorded as deferred revenue if the terms of the transfer, or the stipulations together with the ministry's actions and communications as to the use of transfers create a liability.

All other government transfers, without terms for the use of the transfer, are recorded as revenue when the ministry is eligible to receive the funds.

Capital contributions - Restricted capital contributions are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired or constructed tangible capital assets.

Expenses

Directly Incurred - Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets,
- pension costs, which are the cost of employer contributions for current service of employees during the year, and
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, loans, guarantees and indemnities.

Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

Incurred by Others - Services contributed by other entities in support of the ministry operations are not recognized and are disclosed in Schedule 7 and allocated to programs in Schedule 8.

Assets - Cash and Cash Equivalents consists of deposits in the Consolidated Cash Investment Fund, which is managed by the President of Treasury Board and Minister of Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

Due to the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for allowance for doubtful accounts, if applicable. The resulting net book value is considered to be equivalent to fair value. This approach applies to cash; accounts receivable; due from Government of Canada; accounts payable and accrued liabilities; and indemnities payable. Fair values of loans receivable, investments, and borrowing from the Government of Alberta are disclosed in their respective schedules and notes.

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.

Loans are recorded at the lower of cost and net recoverable value. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs. Valuation allowances are recorded to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured.

Loans made with significant concessionary terms are discounted. The amounts outstanding are discounted to their estimated present value. The amounts discounted are amortized to revenue over the term of the related concessionary loan.

Tangible capital assets of the ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. Tangible capital assets are restricted to those acquired for cash or exchanged for other assets.

Amortization is only charged if the tangible capital asset is in use.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Liabilities - Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Net Assets - Net assets represent the difference between the carrying value of assets held by the ministry and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

Measurement Uncertainty (*in thousands*) - Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Accounts Receivable, recorded as \$16,722 in these financial statements, includes an allowance for doubtful accounts of \$14,352 (2014 – \$19,886) for estimated losses on premiums receivable and overpayments which is subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

Loans Receivable - Loans receivable, recorded as \$2,067,625 (2014 Restated – \$1,952,921) in these financial statements, include a specific allowance of \$24,800 (2014 – \$15,622) and a general allowance of \$11,944 (2014 – \$16,969) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$34,217 (2014 – \$32,591) to cover estimated losses on loans could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

Provisions are established for specifically identified potential losses on loans. 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 net present value of the security and the cost of realization. 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 ministry 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.

Indemnities Payable - Estimated indemnities payable of \$172,484 (2014 – \$133,828) and corresponding contributions and receivables from the Government of Canada are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of \$88,621 to \$138,860.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on potential payments for claims not yet processed.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(d) Change in Accounting Policy

PS3260 Liability for Contaminated Sites

In June 2010, the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The ministry early adopted this accounting standard as of April 1, 2012. The ministry recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where the ministry has accepted responsibility. Included in Accounts Payable and Accrued Liabilities is a liability of \$743 for the estimated remaining remediation (2014 - \$755).

(e) Future Accounting Changes

PS 3450 Financial Instruments

In June 2011, the Public Sector Accounting Board issued this accounting standard and subsequently extended the effective date to April 1, 2016 from April 1, 2015.

The ministry has not yet adopted this standard and has the option of adopting it in fiscal year 2016-17 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601, Foreign Currency Translation; PS 1201, Financial Statement Presentation; and PS 3041, Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement, and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. Management is currently assessing the impact of these standards on the financial statements.

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions

In March 2015, the Public Sector Accounting Board issued PS 2200 – Related party disclosures and PS 3420 – Inter-entity transactions. These accounting standards are effective for fiscal years starting on or after April 1, 2017.

- PS 2200 – Related party disclosures defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members.
- PS 3420 – Inter-entity transactions, establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

Management is currently assessing the impact of these new standards on the financial statements.

Note 3 Restatement of Prior Year Figures
(in thousands)

Effective April 1, 2014, responsibility for funding the public affairs officer positions was transferred from the Ministry of Public Affairs Bureau to the ministry where they had previously been seconded.

Comparatives for 2014 have been restated as if the ministry had always been assigned with its current responsibilities.

	As Previously Reported	Tangible Capital Asset Adjustment	Transfer from Public Affairs Bureau	As Restated
Net Assets at March 31, 2013	\$ 1,341,571	\$ (34)	\$ (9)	\$ 1,341,528
Net Operating Result	(43,618)	10	(117)	(43,725)
Net Financing provided from General Revenues	615,456	-	114	615,570
Net Assets at March 31, 2014	\$ 1,913,409	\$ (24)	\$ (12)	\$ 1,913,373

Comparatives have also been adjusted to reflect an adjustment for duplicate tangible capital assets previously recorded in the amount of \$34.

Note 4 Credit and Interest Rate Risk
(in thousands)

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

The following breakdown of the loans receivable provides an indication of the concentration of credit risk in the loan portfolio.

	2015		2014 (Restated)	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,044,243	50%	\$ 945,750	48%
Cattle	514,474	25%	472,814	24%
Accommodations and Other Services	120,731	6%	122,898	6%
Manufacturing	98,280	5%	101,849	5%
Trade - Retail and Wholesale	74,220	4%	69,352	4%
Other Livestock	54,358	3%	68,073	3%
Commercial and Industrial	41,661	2%	49,174	3%
Transportation and Warehousing	36,755	2%	38,092	2%
Professional Services	30,110	1%	30,674	2%
Other	89,534	4%	88,314	5%
Allowance	(36,744)	-2%	(32,591)	-2%
	<u>\$ 2,067,622</u>	<u>100%</u>	<u>\$ 1,954,399</u>	<u>100%</u>
Property reclassified as tangible capital assets	-		(1,480)	
	<u>\$ 2,067,622</u>	<u>100%</u>	<u>\$ 1,952,919</u>	<u>100%</u>

Note 4 Credit and Interest Rate Risk (continued)

Interest Rate Risk - Interest rate risk is the impact future changes in interest rates has on cash flows and fair values of assets and liabilities. Loan receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The ministry 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 in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the ministry's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment ⁽¹⁾				Not Interest Rate Sensitive ⁽²⁾	2015 Total	2014 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
	<i>(in thousands)</i>						
Loan balances	\$ 188,307	\$ 631,284	\$ 575,523	\$ 673,177	\$ (669)	\$ 2,067,622	\$ 1,954,399
Yield ⁽³⁾	4.04%	4.10%	4.09%	3.21%	-	3.97%	4.34%
Rural utilities	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 2
Borrowing from							
Government of Alberta	\$ 108,642	\$ 733,487	\$ 679,294	\$ 485,721	\$ 16,782	\$ 2,023,926	\$ 1,946,569
Yield ⁽³⁾	3.57%	3.69%	3.49%	3.11%	-	3.57%	3.64%
Net gap	<u>\$ 79,667</u>	<u>\$ (102,203)</u>	<u>\$ (103,771)</u>	<u>\$ 187,456</u>	<u>\$ (17,451)</u>	<u>\$ 43,698</u>	<u>\$ 7,832</u>

⁽¹⁾ For loan balances, scheduled repayments of principal and interest are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

⁽²⁾ Includes specific and general allowance, accrued interest, and unamortized loan discount.

⁽³⁾ Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 5 Deferred Revenue

(in thousands)

	2015	2014
Unearned Revenue	\$ 8,524	\$ 11,171
Unspent deferred capital contribution Liability (i)	1,107	1,107
Spent deferred capital contributions (ii)	12,900	12,297
	<u>\$ 22,531</u>	<u>\$ 24,575</u>

(i) Unspent deferred capital contribution liability

	2015			2014
	Federal Government	Non- government	Total	Total
Balance, beginning of year	\$ 1,107	\$ -	\$ 1,107	\$ 708
Cash contributions received/receivable during year	2,393	764	3,157	5,192
Transferred to spend deferred capital contributions	(2,393)	(764)	(3,157)	(4,793)
Balance, end of year	<u>\$ 1,107</u>	<u>\$ -</u>	<u>\$ 1,107</u>	<u>\$ 1,107</u>

(ii) Spent deferred capital contributions

	2015			2014
	Federal Government	Non- government	Total	Total
Balance, beginning of year	\$ 10,979	\$ 1,318	\$ 12,297	\$ 10,643
Transferred capital assets received/receivable	-	-	-	-
Transferred from unspent deferred capital contribution	2,393	764	3,157	4,793
Less amounts recognized as revenue	(2,403)	(151)	(2,554)	(3,139)
Balance, end of year	<u>\$ 10,969</u>	<u>\$ 1,931</u>	<u>\$ 12,900</u>	<u>\$ 12,297</u>

Note 6 Contingent Liabilities

(in thousands)

The ministry is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The ministry has been named in one (2014: one) claim of which the outcome is not determinable. The claim has a specified amount totalling \$300 (2014: \$300). This claim is covered in whole by the Alberta Risk Management Fund. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Note 7 Contractual Obligations

(in thousands)

Contractual obligations are obligations of the ministry to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	2015	2014
Obligations under Operating Leases, Contracts and Programs	\$ 94,665	\$ 71,347
Approved, Undisbursed Loans	<u>170,249</u>	<u>181,981</u>
	<u>\$ 264,914</u>	<u>\$ 253,328</u>

Estimated payment requirements for each of the next five years are as follows:

Obligations Under Operating Leases, Contracts and Programs

	Total
2015-16	\$ 67,366
2016-17	19,421
2017-18	2,604
2018-19	1,586
2019-20	822
Thereafter	<u>2,866</u>
	<u>\$ 94,665</u>

Loans and Advances

	Total
2015-16	<u>\$ 170,249</u>
	<u>\$ 170,249</u>

Note 8 Guarantees

(in thousands)

	2015	2014	Expiry Date
Feeder Associations	\$ 54,879	\$ 48,417	Ongoing
Agriculture Financial Services Corporation Guarantees	<u>12,972</u>	<u>10,226</u>	Variable
	67,851	58,643	
Allowance for Loan Guarantees	<u>(150)</u>	<u>(150)</u>	
	<u>\$ 67,701</u>	<u>\$ 58,493</u>	

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the ministry. Prior to issuing a loan, security is taken. The security taken depends on the nature of the loan. There are currently no outstanding guarantees under the *Rural Utilities Act*.

Included in Agriculture Financial Services Corporation guarantees is \$8.75 million guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

Note 9 Trust Funds Under Administration

(in thousands)

The ministry administers trust funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the ministry's financial statements.

As at March 31, 2015 trust funds under administration were as follows:

	2015	2014
4-H General Trust	\$ 106	\$ 110
Claude Gallinger Memorial Trust Fund	21	21
	<u>\$ 127</u>	<u>\$ 131</u>

Note 10 2013 Alberta Flooding

(in thousands)

The full recovery from the June 2013 flood in southern Alberta will take a number of years. The Province's flood recovery initiatives, through its Disaster Recovery Program (DRP), provides financial assistance to impacted individuals, small businesses, municipalities, and government departments for uninsurable loss and damage. The DRP is administered and funded by the Alberta Emergency Management Agency of the Department of Municipal Affairs through the authority of the *Disaster Recovery Regulation*.

The Province's flood recovery initiatives include non-disaster recovery programs (non-DRP). Costs associated with non-disaster recovery programs are recognized as they are incurred. These costs are net of recoveries from insurance and other third parties.

Note 11 Benefit Plans

(in thousands)

The ministry participates in the multi-employer pension plans: Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$18,396 for the year ended March 31, 2015 (2013 - \$17,355). Ministries are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2014, the Management Employees Pension Plan reported a surplus of \$75,805 (2013 surplus - \$50,457), the Public Service Pension Plan reported a deficiency of \$803,299 (2013 deficiency - \$1,254,678) and the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$17,203 (2013 deficiency - \$12,384).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2015, the Bargaining Unit Plan reported an actuarial surplus of \$86,888 (2014 surplus - \$75,200) and the Management, Opted Out, and Excluded Plan an actuarial surplus of \$32,343 (2014 surplus - \$24,055). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 12 Subsequent Events

The following changes were made as a result of a new Cabinet announced on May 24, 2015 and Order in Council Number 121/2015 passed on May 25, 2015:

1. The name of the Ministry of Agriculture and Rural Development was changed to the Ministry of Agriculture and Forestry.
2. Certain Environment and Sustainable Resource Development programs were transferred from the Ministry of Environment and Parks to the newly renamed Ministry of Agriculture and Forestry or to their joint responsibilities. Concurrently responsibility for certain sections of the *Environmental Protection and Enhancement Act* was transferred to the common responsibility of the Ministry of Environment and Parks and the Ministry of Agriculture and Forestry.

A reasonable estimate of the impact on the results of operations of the Ministry of Agriculture and Forestry cannot be made at this stage.

Note 13 Comparative Figures

Certain 2014 figures have been reclassified to conform to the 2015 presentation.

Note 14 Budget

The 2014-2015 Government and Lottery Fund Estimates were approved on April 24, 2014.

Note 15 Approval of the Consolidated Financial Statements

The consolidated financial statements were approved by the senior financial officer and the deputy minister.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2015

	2015		2014
	Constructed Budget	Actual	Actual (Restated)
	(in thousands)		
Indemnities	\$ 519,263	\$ 548,546	\$ 410,739
Grants	163,223	141,550	125,599
Salaries, Wages, Employment Contracts and Benefits	167,391	166,099	158,145
Interest	80,807	69,892	67,931
Supplies and Services	68,291	56,164	54,511
Amortization of Tangible Capital Assets	17,220	16,509	16,739
Other Expenses	46,504	31,370	27,439
Total	\$ 1,062,699	\$ 1,030,130	\$ 861,103

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

BUDGET

YEAR ENDED MARCH 31, 2015

	2014-15 Estimate	Adjustment to Conform to Accounting Policy (in thousands)	2014-15 Constructed Budget
Revenues			
Transfers from the Agriculture and Food Innovation Endowment Account	\$ 9,000	\$ -	\$ 9,000
Federal Government Grants	332,213	-	332,213
Investment Income	123,822	-	123,822
Premiums, Fees and Licenses	358,006	-	358,006
Other Revenue	8,119	100	8,219
	<u>831,160</u>	<u>100</u>	<u>831,260</u>
Expenses - Directly Incurred			
Programs			
Ministry Support Services	18,248	-	18,248
Agriculture Policy and Economics	17,955	-	17,955
Agriculture Environment and Water	35,670	21,000	56,670
Food Safety and Animal Health	51,156	-	51,156
Industry Development	118,571	3,900	122,471
Lending	37,829	-	37,829
Insurance	480,258	-	480,258
Agriculture Income Support	141,900	-	141,900
Livestock and Meat Strategy	34,122	3,000	37,122
2013 Alberta Flooding	17,283	-	17,283
Agriculture and Food Innovation Endowment Account	9,000	-	9,000
Program Expense	<u>961,992</u>	<u>27,900</u>	<u>989,892</u>
Debt Servicing Costs	<u>72,807</u>	<u>-</u>	<u>72,807</u>
Total Expense	<u>1,034,799</u>	<u>27,900</u>	<u>1,062,699</u>
Net Operating Results	<u>\$ (203,639)</u>	<u>\$ (27,800)</u>	<u>\$ (231,439)</u>
Capital Spending	<u>\$ 39,646</u>	<u>\$ (24,900)</u>	<u>\$ 14,746</u>

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF LOANS RECEIVABLE

YEAR ENDED MARCH 31, 2015

	2015	2014 (Restated)
	(in thousands)	
Loans Receivable	\$ 2,077,497	\$ 1,959,337
Accrued Interest	<u>26,943</u>	<u>26,266</u>
	2,104,440	1,985,603
Less Allowance for Doubtful Accounts	\$ (36,745)	(32,592)
Less Loan Discounts	<u>(70)</u>	<u>(90)</u>
	<u><u>\$ 2,067,625</u></u>	<u><u>\$ 1,952,921</u></u>

Fair values of loans receivable are not disclosed. Determining fair values with sufficient reliability is not practical due to the absence of verifiable information from established financial markets for such loans.

The allowance for doubtful accounts of \$36,745 (2014 – \$32,592) includes a specific allowance of \$24,800 (2014 – \$15,622) on impaired loans outstanding of \$30,114 (2014 - \$30,035), excluding unamortized loan discounts.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF INVESTMENTS

YEAR ENDED MARCH 31, 2015
(in thousands)

	<u>2015</u>	<u>2014</u>
Bonds and Debentures		
Government of Canada, direct and guaranteed	\$ 938,215	\$ 843,492
Other provincial, direct and guaranteed	<u>79,991</u>	<u>135,728</u>
	1,018,206	979,220
Corporate Securities	<u>804,647</u>	<u>646,547</u>
	1,822,853	1,625,767
Accrued interest	<u>11,842</u>	<u>8,976</u>
	<u>\$ 1,834,695</u>	<u>\$ 1,634,743</u>

	<u>Term to Maturity</u>			<u>2015 Total</u>	<u>2014 Total</u>
	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>		
Bonds and Debentures	\$ 162,415	\$ 724,874	\$ 130,917	\$ 1,018,206	\$ 979,220
Yield	0.59%	0.79%	1.37%	0.83%	1.40%
Corporate Securities	124,993	597,838	81,816	804,647	646,547
Yield	<u>1.07%</u>	<u>1.34%</u>	<u>1.70%</u>	<u>1.33%</u>	<u>1.90%</u>
	287,408	1,322,712	212,733	1,822,853	1,625,767
Accrued Interest	<u>1,400</u>	<u>8,917</u>	<u>1,525</u>	<u>11,842</u>	<u>8,976</u>
	<u>\$ 288,808</u>	<u>\$ 1,331,629</u>	<u>\$ 214,258</u>	<u>\$ 1,834,695</u>	<u>\$ 1,634,743</u>

The fair value of investments at March 31, 2015 is \$1,861,743 (2014 - \$1,639,850). Fair value is based on quoted market prices including accrued interest.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS

YEAR ENDED MARCH 31, 2015
(in thousands)

Estimated Useful Life	Land Indefinite	Buildings 25 - 40 years	Equipment and Vehicles 5 - 10 years	Computer		Rail Hopper Cars 35 years	Leasehold Improvements 5 years	2015 Total	2014 Total (Restated)
				Hardware and Software 2 - 10 years	Software 2 - 10 years				
Historical Cost ⁽¹⁾									
Beginning of Year	\$ 1,827	\$ 12,011	\$ 65,868	\$ 109,987	\$ 48,972	\$ 133	\$ 238,798	\$ 227,271	
Additions	-	-	5,723	6,103	-	-	11,826	14,044	
Disposals ⁽²⁾	-	(66)	(519)	(1,202)	(219)	-	(2,006)	(2,517)	
	\$ 1,827	\$ 11,945	\$ 71,072	\$ 114,888	\$ 48,753	\$ 133	\$ 248,618	\$ 238,798	
Accumulated Amortization									
Beginning of Year	\$ -	\$ 5,273	\$ 42,546	\$ 67,614	\$ 46,309	\$ 127	\$ 161,869	\$ 147,594	
Amortization Expense	-	411	4,739	9,958	1,395	6	16,509	16,739	
Effect of Disposals	-	-	(432)	(1,134)	(210)	-	(1,776)	(2,464)	
	\$ -	\$ 5,684	\$ 46,853	\$ 76,438	\$ 47,494	\$ 133	\$ 176,602	\$ 161,869	
Net Book Value at									
March 31, 2015	\$ 1,827	\$ 6,261	\$ 24,219	\$ 38,450	\$ 1,259	\$ -	\$ 72,016	\$ -	
Net Book Value at									
March 31, 2014	\$ 1,827	\$ 6,738	\$ 23,322	\$ 42,373	\$ 2,663	\$ 6	\$ 76,929	\$ -	

⁽¹⁾ Historical cost includes work-in-progress at March 31, 2015 totaling \$11,045 comprised of: equipment \$972 (2014 - \$5,669) and computer hardware and software \$10,073 (2014 - \$3,846).

⁽²⁾ Includes transfer of buildings to Alberta Infrastructure comprised of historical cost of \$66.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF BORROWING FROM THE GOVERNMENT OF ALBERTA

YEAR ENDED MARCH 31, 2015
(in thousands)

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

	2015	2014
Effective Annual Interest Rate		
Less than or equal to 2%	\$ 170,000	\$ 120,000
2.01% to 3.00%	483,000	433,000
3.01% to 4.00%	809,238	784,238
4.01% to 5.00%	489,751	514,751
5.01% to 6.00%	<u>55,155</u>	<u>75,634</u>
	2,007,144	1,927,623
Accrued interest	14,431	14,045
Unamortized premium	<u>2,351</u>	<u>4,900</u>
	<u>\$ 2,023,926</u>	<u>\$ 1,946,568</u>

The estimated fair value at March 31, 2015 is \$2,232,195 (2013 - \$2,025,893). Fair value is an approximation of market value to the holder.

Scheduled principal repayments in each of the next five years and thereafter are as follows:

Year ending March 31,	2016	\$ 108,642
	2017	185,506
	2018	68,780
	2019	186,092
	2020	293,109
	Thereafter	<u>1,165,015</u>
		<u>\$ 2,007,144</u>

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2015
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the ministry.

The ministry and its employees paid certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The ministry had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties.

	2015	2014 (Restated)
Revenues:		
Grants	\$ -	\$ -
Other	4,677	1,117
	<u>\$ 4,677</u>	<u>\$ 1,117</u>
Expenses - Directly Incurred:		
Grants	\$ 8,295	\$ 9,164
Accommodation	742	784
Other services	4,154	4,441
Interest	69,761	67,752
	<u>\$ 82,952</u>	<u>\$ 82,141</u>
Tangible Capital Assets Transferred (Out)		
Ministry of Infrastructure	\$ (66)	\$ -
	<u>\$ (66)</u>	<u>\$ -</u>
Payable to		
Ministry of Treasury Board and Finance	\$ 2,023,926	\$ 1,946,569
Ministry of Innovation and Advanced Education	2,744	3,177
Ministry of Service Alberta	7	4
Ministry of Infrastructure	-	66
	<u>\$ 2,026,677</u>	<u>\$ 1,949,816</u>
Receivable from		
Alberta Heritage Savings Trust	3,050	-
Ministry of Innovation and Advanced Education	1	1
Ministry of Education	64	-
	<u>\$ 3,115</u>	<u>\$ 1</u>
Deferred Revenue from		
Ministry of Innovation and Advanced Education	274	169
Ministry of Education	1,129	1,316
	<u>\$ 1,403</u>	<u>\$ 1,485</u>

The ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed in Schedule 8.

	2015	2014
Expenses incurred by others:		
Accommodation	\$ 26,858	\$ 26,478
Legal	1,108	1,141
Business services	4,485	4,631
	<u>\$ 32,451</u>	<u>\$ 32,250</u>

Note: The ministry receives services under contracts managed by the Ministry of Service Alberta. Any commitments under these contracts are reported by the Ministry of Service Alberta.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF ALLOCATED COSTS

YEAR ENDED MARCH 31, 2015
(in thousands)

Program	2015 Expenses - Incurred by Others					Total Expenses	2014 Total Expenses (Restated)
	Expenses ⁽¹⁾	Accommodation Costs ⁽²⁾	Legal Services ⁽³⁾	Business Services ⁽⁴⁾			
Ministry Support Services	\$ 16,143	\$ 9,783	\$ 522	\$ 4,453	\$ 30,901	\$ 24,798	
Agriculture Policy and Economics	\$ 16,443	3,384	37	5	\$ 19,869	\$ 16,813	
Agriculture Environment and Water	\$ 53,694	3,666	61	5	\$ 57,426	\$ 53,970	
Food Safety and Animal Health	\$ 45,716	2,993	296	8	\$ 49,013	\$ 48,998	
Industry Development	\$ 115,453	5,054	191	14	\$ 120,712	\$ 121,176	
Lending	\$ 34,301	778	-	-	\$ 35,079	\$ 23,249	
Insurance	\$ 507,017	835	-	-	\$ 507,852	\$ 433,731	
Agriculture Income Support	\$ 134,639	365	-	-	\$ 135,004	\$ 73,506	
Livestock and Meat Strategy	\$ 33,144	-	1	-	\$ 33,145	\$ 28,968	
2013 Alberta Flooding	\$ 630	-	-	-	\$ 630	\$ 114	
Agriculture and Food Innovation							
Endowment Account	\$ 3,058	-	-	-	\$ 3,058	\$ -	
	<u>\$ 960,238</u>	<u>\$ 26,858</u>	<u>\$ 1,108</u>	<u>\$ 4,485</u>	<u>\$ 992,689</u>	<u>\$ 825,323</u>	

⁽¹⁾ Expenses - Directly incurred per Consolidated Statements of Operations

⁽²⁾ Costs shown for Accommodation (includes grants in lieu of taxes) on Schedule 7, allocated by budgeted full-time equivalent employment.

⁽³⁾ Costs shown for Legal Services on Schedule 7, allocated by estimated costs incurred by each program.

⁽⁴⁾ Costs shown for Business Services include charges for IT support, vehicles, air transportation, internal audit services and other services on Schedule 7, allocated by costs in certain programs.