

# Agriculture Financial Services Corporation

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## Financial Statements

Year Ended March 31, 2016

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## Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

### Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 2, 2016

Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016

(dollars in thousands)

	<u>2016</u>	<u>2015</u>
<b>FINANCIAL ASSETS</b>		
Cash	\$ 320,661	\$ 216,869
Accounts receivable (Note 3)	4,715	7,936
Due from Government of Alberta	43,784	66,250
Due from Government of Canada	194,275	155,677
Loans receivable (Note 4)	2,161,466	2,067,622
Investments (Note 5)	<u>1,891,416</u>	<u>1,834,695</u>
	4,616,317	4,349,049
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 6)	16,679	14,387
Due to other provincial governments (Note 7)	606	4,736
Indemnities payable (Note 8)	167,535	172,484
Borrowing from Government of Alberta (Note 9)	2,146,362	2,023,926
Deferred revenue (Note 10)	<u>6,932</u>	<u>4,349</u>
	<u>2,338,114</u>	<u>2,219,882</u>
Net Financial Assets (Net Debt)	<u>2,278,203</u>	<u>2,129,167</u>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 11)	38,666	41,614
Prepaid expenses	<u>3,958</u>	<u>4,123</u>
	<u>42,624</u>	<u>45,737</u>
Net assets before deferred capital contributions	<u>2,320,827</u>	<u>2,174,904</u>
Spent deferred capital contributions (Note 10)	<u>\$ 19,002</u>	<u>\$ 18,657</u>
Net assets at end of year	<u><u>\$ 2,301,825</u></u>	<u><u>\$ 2,156,247</u></u>

Contingencies, Contractual Obligations and Commitments (Note 13)

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

Approved by the Board:

George Groeneveld, Chair of the Board

Dean Gallimore, Chair of the Board Audit Committee

Brad Klak, President and Managing Director

Darryl Kay, Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016		2015
	Budget	Actual (Schedule 1)	Actual
<b>Revenues:</b>			
Premiums from insured persons	\$ 314,243	\$ 298,890	\$ 307,214
Interest	94,603	88,398	88,410
Contribution from Government of Alberta	301,994	278,535	290,291
Contribution from Government of Canada	263,311	220,510	244,132
Investment income	38,788	44,454	43,695
Fees and other income	14,445	15,250	16,535
	<u>1,027,384</u>	<u>946,037</u>	<u>990,277</u>
<b>Expenses:</b>			
AgrilInsurance	740,600	551,083	431,868
Agriculture Income Support	147,720	86,669	134,641
Lending	111,363	107,152	104,817
Hail Insurance	53,955	36,814	66,517
Livestock Insurance	13,152	11,916	4,456
Wildlife Damage Compensation	6,615	6,825	4,184
	<u>1,073,405</u>	<u>800,459</u>	<u>746,483</u>
Net operating results	<u>\$ (46,021)</u>	<u>\$ 145,578</u>	<u>\$ 243,794</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016		2015
	Budget	Actual	Actual
Net operating results	\$ (46,021)	\$ 145,578	243,794
Acquisition of tangible capital assets	(8,050)	(7,075)	(5,876)
Amortization of tangible capital assets (Note 11)	10,315	10,001	9,650
(Gain) Loss on disposal of tangible capital assets	-	(82)	28
Proceeds on sale tangible capital assets	-	104	24
Change in prepaid expenses	3,117	165	553
Change in spent deferred capital contributions	500	345	411
Increase (decrease) in net financial assets (net debt) in the year	(40,139)	149,036	248,584
Net financial assets, beginning of year	2,127,250	2,129,167	1,880,583
Net financial assets, end of year	<u>\$ 2,087,111</u>	<u>\$ 2,278,203</u>	<u>\$ 2,129,167</u>

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016	2015
Operating activities:		
Net operating results	\$ 145,578	\$ 243,794
Non-cash items included in operating results		
Amortization of capital assets	10,001	9,650
Deferred capital contribution recognized as revenue	(7,005)	(3,771)
Amortization of premiums and discounts	(1,915)	3,102
Allowance for doubtful accounts and for losses	4,839	4,221
Gain on sale of investments	(8,356)	(7,621)
Loss on disposal of capital assets	(82)	28
Unearned revenue received	6,932	4,349
Changes in assets and liabilities relating to operations	(21,584)	(28,446)
Net cash provided by operating activities <sup>(1)</sup>	128,408	225,306
Investing activities:		
Proceeds from repayments of loans receivable	426,548	383,338
Loan disbursements	(528,026)	(506,186)
Purchase of investments	(807,196)	(1,064,288)
Proceeds on disposal of investments	759,321	870,245
Net cash utilized by investing activities	(149,353)	(316,891)
Capital activities:		
Purchase of tangible capital assets	(7,075)	(5,876)
Proceeds on disposal of tangible capital assets	104	24
Net cash utilized by capital activities	(6,971)	(5,852)
Financing activities:		
Borrowing from the Government of Alberta	783,000	123,586
Contributions restricted for capital	7,350	4,182
Repayment of borrowing from the Government of Alberta	(658,642)	(45,479)
Net cash provided by financing activities	131,708	82,289
Net decrease in cash during the year	103,792	(15,148)
Cash at beginning of year	216,869	232,017
Cash at end of year	\$ 320,661	\$ 216,869

<sup>(1)</sup> Net cash provided by operating activities includes \$70,377 (2015 \$70,612) of interest paid.

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

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars 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. AFSC is exempt from income taxes under the *Income Tax Act*.

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

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgrilInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgrilInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgrilInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 8).

(e) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances 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. Two types of allowances are established for loans receivable.

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the Statement of Financial Position date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) 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 effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of \$5 or more is capitalized. Computer software acquired from external sources at a cost of \$100 or more and software developed by the Corporation costing \$500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporation's incremental borrowing rate.

Tangible capital assets are written down when conditions indicate that they no longer contribute to AFSC's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through 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. The Government of 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 AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(n) AgrilInsurance Net Assets Balance Restriction

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

(o) Pensions

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

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) 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 Corporation early adopted this accounting standard as of April 1, 2012. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 6) is a liability of \$2,555 for the estimated remaining remediation (2015 \$743).

(r) Change in Accounting Policy

Net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net financial asset or net debt is measured as the difference between AFSC's financial assets and liabilities. A net financial asset balance indicates the extent of AFSC's dependence on government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities. The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 3 Accounts Receivable

	<u>2016</u>	<u>2015</u>
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	\$ 9,488	\$ 13,951
Administration fees	465	370
Premiums from insured persons		
AgriInsurance program	1,693	3,116
Livestock insurance program	757	2,537
Hail insurance program	366	294
Other	<u>1,963</u>	<u>1,756</u>
	<u>14,732</u>	<u>22,024</u>
Allowances for doubtful accounts		
At beginning of year	(14,088)	(19,618)
Decrease (increase) for this year	3,418	3,436
Write offs, net of recoveries	<u>653</u>	<u>2,094</u>
At end of year	<u>(10,017)</u>	<u>(14,088)</u>
	<u>\$ 4,715</u>	<u>\$ 7,936</u>

Included in the allowances for doubtful accounts is \$9,488 (2015 \$13,951) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	<u>2016</u>			<u>2015</u>
	<u>Farm</u>	<u>Commercial</u>	<u>Total</u>	<u>Total</u>
Performing loans - non concessionary	\$ 1,748,156	\$ 383,849	\$ 2,132,005	\$ 2,031,443
Performing loans - concessionary	3,996	-	3,996	5,422
Impaired loans	<u>3,315</u>	<u>38,220</u>	<u>41,535</u>	<u>40,628</u>
	1,755,467	422,069	2,177,536	2,077,493
Accrued interest	24,579	1,904	26,483	26,943
Loan discount	<u>(51)</u>	<u>-</u>	<u>(51)</u>	<u>(70)</u>
	1,779,995	423,973	2,203,968	2,104,366
Allowances	<u>(9,748)</u>	<u>(32,754)</u>	<u>(42,502)</u>	<u>(36,744)</u>
Net carrying value	<u>\$ 1,770,247</u>	<u>\$ 391,219</u>	<u>\$ 2,161,466</u>	<u>\$ 2,067,622</u>

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 4 Loans Receivable (continued)

	<u>Farm</u>	<u>Commercial</u>	<u>2016</u>	<u>2015</u>
At beginning of year	\$ 10,012	\$ 26,732	\$ 36,744	\$ 32,591
Increase (decrease) for the year	(234)	8,491	8,257	7,657
Write-offs	<u>(30)</u>	<u>(2,469)</u>	<u>(2,499)</u>	<u>(3,504)</u>
At end of year	<u>\$ 9,748</u>	<u>\$ 32,754</u>	<u>\$ 42,502</u>	<u>\$ 36,744</u>
Specific allowance	\$ 689	\$ 25,387	\$ 26,076	\$ 24,800
General allowance	<u>9,059</u>	<u>7,367</u>	<u>16,426</u>	<u>11,944</u>
	<u>\$ 9,748</u>	<u>\$ 32,754</u>	<u>\$ 42,502</u>	<u>\$ 36,744</u>

Allowances for doubtful accounts for loans are as follows:

Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are \$4,289,439 (2015 \$4,035,046).

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

	<u>2016</u>	<u>2015</u>
Effective annual Interest Rate		
Less than or equal to 2%	\$ 125,313	\$ 70,554
2.01% to 3.00%	378,294	280,945
3.01% to 4.00%	631,527	612,361
4.01% to 5.00%	484,461	441,625
5.01% to 6.00%	340,313	390,779
6.01% to 7.00%	185,986	233,810
7.01% to 8.00%	24,710	38,131
Over 8%	<u>6,881</u>	<u>9,218</u>
	2,177,485	2,077,423
Accrued interest	26,483	26,943
Allowance for doubtful accounts	<u>(42,502)</u>	<u>(36,744)</u>
	<u>\$ 2,161,466</u>	<u>\$ 2,067,622</u>
Weighted average annual interest rate	4.09%	4.34%

**AGRICULTURE FINANCIAL SERVICES CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2016**

(dollars in thousands)

**Note 5 Investments**

	<u>2016</u>	<u>2015</u>
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$ 822,501	\$ 938,215
Other provincial, direct and guaranteed	<u>200,711</u>	<u>79,991</u>
	1,023,212	1,018,206
Corporate securities:		
Asset backed securities, AAA rated	494,797	461,863
Senior bank notes	<u>361,486</u>	<u>342,784</u>
	<u>856,283</u>	<u>804,647</u>
	1,879,495	1,822,853
Accrued interest	<u>11,921</u>	<u>11,842</u>
	<u>\$ 1,891,416</u>	<u>\$ 1,834,695</u>

The fair value of investments at March 31, 2016 is \$1,902,350 (2015 \$1,861,743). Fair value is based on quoted market prices excluding accrued interest.

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

	Term to Maturity <sup>(1)</sup>			2016	2015
	Within 1 Year	1 to 5 Years	6 to 10 Years		
Bonds and debentures	\$ 3,332	\$ 969,552	\$ 50,328	\$ 1,023,212	\$ 1,018,206
Yield <sup>(2)</sup>	0.63%	0.86%	1.67%	0.90%	0.83%
Corporate Securities	174,234	671,824	10,225	856,283	804,647
Yield <sup>(2)</sup>	1.19%	1.62%	1.93%	1.54%	1.33%
	177,566	1,641,376	60,553	1,879,495	1,822,853
Accrued interest	<u>1,448</u>	<u>10,025</u>	<u>448</u>	<u>11,921</u>	<u>11,842</u>
	<u>\$ 179,014</u>	<u>\$ 1,651,401</u>	<u>\$ 61,001</u>	<u>\$ 1,891,416</u>	<u>\$ 1,834,695</u>

<sup>(1)</sup> Term to maturity classifications are based on contractual maturity date of the security.

<sup>(2)</sup> Yield represents the rate which discounts future cash receipts to the carrying amount.

**Note 6 Accounts Payable and Accrued Liabilities**

	<u>2016</u>	<u>2015</u>
Supplies and services	\$ 9,561	\$ 6,589
Salaries, wages and employee benefits	6,137	7,087
Reinsurance Premiums to Government of Canada	19	63
Other	<u>962</u>	<u>648</u>
	<u>\$ 16,679</u>	<u>\$ 14,387</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 7 Due to Other Provincial Governments

Due to provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due to provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

	<u>2016</u>	<u>2015</u>
Premiums collected	\$ 8,096	\$ 5,508
Indemnities paid	(5,756)	-
Administration costs incurred	(820)	(772)
Reinsurance	(914)	-
	<u>\$ 606</u>	<u>\$ 4,736</u>

Note 8 Indemnities Payable

	<u>2016</u>	<u>2015</u>
	(Note 2(l))	(Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	\$ 124,365	\$ 112,401
Prior claim years	<u>24,599</u>	<u>46,807</u>
	148,964	159,208
AgriInsurance	14,112	11,966
Wildlife compensation	678	758
Hail insurance	797	552
Livestock price insurance	<u>2,984</u>	-
	<u>\$ 167,535</u>	<u>\$ 172,484</u>



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 8 Indemnities Payable (continued)

Estimated indemnities payable of \$167,535 and corresponding contributions and receivables from the Governments of Canada and Alberta 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 the AgriStability and AgriInvest programs 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 \$110,136 to \$144,300.

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

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of \$10,868 to \$17,356.

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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 9 Borrowing from Government of Alberta

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.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

	<u>2016</u>	<u>2015</u>
Effective annual Interest Rate		
Less than or equal to 2%	\$ 345,000	\$ 170,000
2.01% to 3.00%	483,000	483,000
3.01% to 4.00%	809,238	809,238
4.01% to 5.00%	460,751	489,751
5.01% to 6.00%	33,513	55,155
	<u>2,131,502</u>	<u>2,007,144</u>
Accrued interest	14,503	14,431
Unamortized premium	357	2,351
	<u>\$ 2,146,362</u>	<u>\$ 2,023,926</u>
Weighted average annual interest rate	3.28%	3.51%

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

Year ending March 31, 2017	\$ 235,506
2018	68,780
2019	186,092
2020	293,109
2021	225,000
Thereafter	<u>1,123,015</u>
	<u>\$ 2,131,502</u>

The estimated fair value of borrowings as at March 31, 2016 is \$2,300,316 (2015 \$2,232,195). Fair value is an approximation of market value to the holder.

**AGRICULTURE FINANCIAL SERVICES CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2016**

(dollars in thousands)

**Note 10 Deferred Revenue**

	<u>2016</u>	<u>2015</u>			
Unearned revenue	\$ 6,932	\$ 4,349			
Spent deferred capital contributions	<u>19,002</u>	<u>18,657</u>			
	<u>\$ 25,934</u>	<u>\$ 23,006</u>			
Unearned revenue	<u>2016</u>			<u>2015</u>	
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 4,349	\$ -	\$ 4,349	\$ 5,732
Received during year	-	6,932	-	6,932	4,349
Less amounts recognized	-	(4,349)	-	(4,349)	(5,732)
Balance at end of year	<u>\$ -</u>	<u>\$ 6,932</u>	<u>\$ -</u>	<u>\$ 6,932</u>	<u>\$ 4,349</u>
Spent deferred capital contributions	<u>2016</u>			<u>2015</u>	
	<u>Government of Canada</u>	<u>Non- government</u>	<u>Government of Alberta</u>	<u>Total</u>	<u>Total</u>
Balance at beginning of year	\$ 10,670	\$ 873	\$ 7,114	\$ 18,657	\$ 18,246
Transferred capital assets received	4,410	-	2,940	7,350	4,182
Less amounts recognized as revenue	(4,145)	(97)	(2,763)	(7,005)	(3,771)
Balance at end of year	<u>\$ 10,935</u>	<u>\$ 776</u>	<u>\$ 7,291</u>	<u>\$ 19,002</u>	<u>\$ 18,657</u>

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 11 Tangible Capital Assets

	<u>Land</u>	<u>Building</u>	<u>Furniture and Fixtures</u>	<u>Computer Equipment and Software</u>		
Estimated Useful Life	<u>Indefinite</u>	<u>25 - 40 years</u>	<u>5 - 10 years</u>	<u>2 - 10 years</u>	<u>2016</u>	<u>2015</u>
Cost						
At beginning of year	\$ 1,827	\$ 9,987	\$ 11,484	\$ 98,579	\$ 121,877	\$ 116,388
Additions	-	-	815	6,260	7,075	5,876
Disposals	-	-	(71)	(1,412)	(1,483)	(387)
	<u>1,827</u>	<u>9,987</u>	<u>12,228</u>	<u>103,427</u>	<u>127,469</u>	<u>121,877</u>
Accumulated amortization						
At beginning of year	-	5,060	6,810	68,393	80,263	70,949
Amortization expense	-	362	1,031	8,608	10,001	9,650
Disposals	-	-	(49)	(1,412)	(1,461)	(336)
	<u>-</u>	<u>5,422</u>	<u>7,792</u>	<u>75,589</u>	<u>88,803</u>	<u>80,263</u>
Net book value at March 31, 2016	<u>\$ 1,827</u>	<u>\$ 4,565</u>	<u>\$ 4,436</u>	<u>\$ 27,838</u>	<u>\$ 38,666</u>	
Net book value at March 31, 2015	<u>\$ 1,827</u>	<u>\$ 4,927</u>	<u>\$ 4,674</u>	<u>\$ 30,186</u>		<u>\$ 41,614</u>

Computer equipment and software costs include \$5,998 (2015 \$6,120) of costs incurred that are not amortized because they are still in the development stage.

Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of \$6,646 for the year ended March 31, 2016 (2015 \$6,407).

At December 31, 2015, the Alberta Management Employees Pension Plan reported a surplus of \$299,051 (2014 surplus \$75,805), the Alberta Public Service Pension Plan reported a deficiency of \$133,188 (2014 deficiency \$803,299) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$16,305 (2014 deficiency \$17,203). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	<u>2016</u>	<u>2015</u>
Loan guarantees	\$ 27,465	\$ 12,972
Less allowances for losses	<u>(150)</u>	<u>(150)</u>
Total contingencies	<u>\$ 27,315</u>	<u>\$ 12,822</u>

Included in loan guarantees is \$11,922 (2015 \$11,779) 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.

The Corporation has not been named in any legal matters of which the outcome is not determinable (2015 nil).

Contractual Obligations

	<u>2016</u>	<u>2015</u>
Reinsurance	25,420	29,286
Operating leases	19,816	7,866
Other contracts	<u>619</u>	<u>1,355</u>
Total contractual obligations	<u>\$ 45,855</u>	<u>\$ 38,507</u>

The operating lease contractual obligations are for accommodations with terms up to thirteen years.

Commitments

	<u>2016</u>	<u>2015</u>
Approved, undisbursed loans	<u>\$ 208,362</u>	<u>\$ 170,249</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

	<u>2016</u>	<u>2015</u>
Loans receivable	\$ 2,161,466	\$ 2,067,622
Investments	1,891,416	1,834,695
Due from Government of Canada	194,275	155,677
Due from Government of Alberta	43,784	66,250
Accounts receivable	4,715	7,936
Loan guarantees	27,465	12,972
Total commitments	<u>\$ 4,323,121</u>	<u>\$ 4,145,152</u>

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2016		2015	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	\$ 1,103,696	51%	\$ 1,044,243	50%
Cattle	568,043	26%	514,474	25%
Accommodations and Other Services	132,867	6%	120,731	6%
Manufacturing	101,996	5%	98,280	5%
Other Livestock	81,430	4%	74,220	4%
Trade - Retail and Wholesale	50,415	2%	54,358	3%
Commercial and Industrial	37,016	2%	41,661	2%
Transportation and Warehousing	26,718	1%	36,755	2%
Professional Services	24,632	1%	30,110	1%
Other	77,155	4%	89,534	4%
Allowance	(42,502)	-2%	(36,744)	-2%
	<u>\$ 2,161,466</u>	<u>100%</u>	<u>\$ 2,067,622</u>	<u>100%</u>

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. 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 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.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Borrowing from the Government of Alberta - 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 annual contribution to the Corporation that includes 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 Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment <sup>(1)</sup>				Not Interest Rate Sensitive <sup>(2)</sup>	2016	2015
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	\$ 208,218	\$ 638,322	\$ 603,092	\$ 723,476	\$ (11,642)	\$ 2,161,466	\$ 2,067,622
Yield	3.86%	3.95%	3.99%	3.49%		3.88%	3.97%
Borrowing from							
Government of Alberta	\$ 235,507	\$ 772,980	\$ 757,294	\$ 365,721	\$ 14,860	\$ 2,146,362	\$ 2,023,926
Yield <sup>(3)</sup>	3.49%	3.46%	3.37%	3.11%		3.42%	3.57%
Net gap	\$ (27,289)	\$ (134,658)	\$ (154,202)	\$ 357,755	\$ (26,502)	\$ 15,104	\$ 43,696

(1) For loan balances, scheduled repayments of principal 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.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgrilInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgrilInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.



AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 15 Related Party Transactions

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

The Corporation 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:

	<u>2016</u>	<u>2015</u>
Revenues:		
Grants	\$ 278,535	\$ 286,417
Other	-	3,874
	<u>\$ 278,535</u>	<u>\$ 290,291</u>
Expenses:		
Accommodation	\$ 661	\$ 742
Other services	2,372	1,840
Interest	69,214	69,761
	<u>\$ 72,247</u>	<u>\$ 72,343</u>
Payable to:		
Ministry of Agriculture and Forestry	\$ 520	\$ 514
Ministry of Treasury Board and Finance	2,096,263	2,023,926
Ministry of Service Alberta	1	7
Receivable from:		
Ministry of Agriculture and Forestry	46,563	66,250
Deferred Revenue from:		
Ministry of Agriculture and Forestry	<u>7,291</u>	<u>7,114</u>
	<u>\$ 2,150,638</u>	<u>\$ 2,097,811</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2016

(dollars in thousands)

Note 16 Crop Reinsurance Funds

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

	AgrilInsurance Reinsurance Fund of Alberta		AgrilInsurance Reinsurance Fund of Canada for Alberta	
	2016	2015	2016	2015
Opening net assets	\$ 33,641	\$ 33,641	\$ 34,530	\$ 34,530
Contributions	-	-	-	-
Closing net assets	<u>\$ 33,641</u>	<u>\$ 33,641</u>	<u>\$ 34,530</u>	<u>\$ 34,530</u>

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgrilInsurance Fund in Schedule 1.

Note 17 Budget

The budget reported in the Statement of Operations was included in the 2015/16 Government Estimates.

Note 18 Comparative Figures

The 2015 figures have been reclassified where necessary to conform to 2016 presentation.

**AGRICULTURE FINANCIAL SERVICES CORPORATION**  
**SCHEDULE OF OPERATIONS**  
**YEAR ENDED MARCH 31, 2016**  
(dollars in thousands)

	2016		2015		2016		2015		2016		2015		2016		2015		2016		2015		
	Agr	Agri	Agri	Agri	Lending	Hail	Hail	Livestock	Livestock	Wildlife	Wildlife	Wildlife	Livestock	Livestock	Wildlife	Wildlife	Total	Total	Total	Total	
	Insurance	Insurance	Income	Income	Income	Insurance	Insurance	Insurance	Insurance	Damage	Damage	Damage	Insurance	Insurance	Compensation	Compensation					
<b>Revenues:</b>																					
Premiums from insured persons	\$ 247,760	\$ 231,168	\$ -	\$ -	\$ -	\$ -	\$ 44,574	\$ 55,316	\$ 20,730	\$ -	\$ -	\$ -	\$ 6,556	\$ 20,730	\$ -	\$ -	\$ 298,890	\$ -	\$ -	\$ 307,214	\$ 307,214
Interest	485	563	(234)	564	88,003	87,100	98	111	46	-	-	-	784	72	-	-	85,398	-	-	88,410	88,410
Contribution from Government of Alberta	214,921	203,539	48,444	64,804	12,851	18,297	-	-	1,521	3,535	2,130	-	1,828	1,521	2,130	278,535	278,535	-	-	280,291	280,291
Contribution from Government of Canada	187,487	183,432	28,515	56,812	-	-	-	-	1,169	3,339	2,060	-	1,169	1,828	2,060	220,510	220,510	-	-	244,132	244,132
Investment income	43,554	42,234	241	371	350	728	127	231	189	(7)	(4)	-	189	135	(4)	44,454	44,454	-	-	43,695	43,695
Fees and other income	150	(35)	10,464	10,715	3,513	3,202	352	2,021	713	58	56	-	713	576	56	15,250	15,250	-	-	16,535	16,535
	694,357	660,901	85,430	133,266	104,717	109,327	45,151	57,679	9,457	24,862	4,242	-	9,457	24,862	4,242	946,037	946,037	-	-	990,277	990,277
<b>Expenses:</b>																					
Indemnities	485,631	367,560	71,893	117,158	-	-	32,623	61,237	8,423	(976)	3,567	-	8,423	(976)	3,567	604,982	604,982	-	-	548,546	548,546
Salaries, wages and employee benefits	26,927	25,742	11,839	13,380	20,341	18,701	995	1,176	1,337	261	337	-	1,337	261	337	61,700	61,700	-	-	61,401	61,401
Supplies and services	11,059	12,666	4,093	5,027	6,125	5,806	794	1,130	510	1,041	154	-	510	1,041	154	22,707	22,707	-	-	25,824	25,824
Amortization of tangible capital assets	3,246	2,872	2,669	2,593	2,739	2,767	708	752	613	630	36	-	613	630	36	10,001	10,001	-	-	9,650	9,650
Interest	-	-	-	-	69,690	69,886	-	-	-	-	-	-	-	-	-	69,690	69,690	-	-	69,690	69,690
Reinsurance	23,887	23,031	-	-	-	-	1,644	2,224	1,009	1,700	-	-	1,009	1,700	-	26,540	26,540	-	-	26,955	26,955
Allowance for doubtful accounts and for losses (Note 3 & 4)	333	(3)	(3,825)	(3,517)	8,257	7,657	50	(2)	24	(4)	90	-	24	(4)	90	4,839	4,839	-	-	4,221	4,221
	551,083	431,868	86,669	134,641	107,152	104,817	38,814	66,517	11,916	4,456	4,184	-	11,916	4,456	4,184	800,459	800,459	-	-	746,483	746,483
Net operating results	143,274	229,033	(1,239)	(1,375)	(2,435)	4,510	8,337	(8,838)	(2,459)	20,406	58	-	(2,459)	20,406	58	145,578	145,578	-	-	243,794	243,794
Net assets at beginning of year	2,030,866	1,807,833	1,882	3,257	84,062	79,542	11,733	20,571	26,415	6,009	1,241	-	26,415	6,009	1,241	2,155,247	2,155,247	-	-	1,912,453	1,912,453
Net assets at end of year	\$ 2,174,140	\$ 2,030,866	\$ 643	\$ 1,882	\$ 81,617	\$ 84,062	\$ 20,070	\$ 11,733	\$ 23,956	\$ 26,415	\$ 1,299	\$ -	\$ 23,956	\$ 26,415	\$ 1,299	\$ 2,301,825	\$ 2,301,825	\$ -	\$ -	\$ 2,156,247	\$ 2,156,247

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2016

(dollars in thousands)

	2016			2015	
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-cash Benefits <sup>(3)</sup>	Total	Total
Chairman of Board	\$ 49	\$ -	\$ -	\$ 49	\$ 51
Board members <sup>(4)</sup>	137	-	-	137	174
President and Managing Director	518	50	130	698	632
Executive Members					
Senior Vice-President, Corporate Services <sup>(5)</sup>	-	-	-	-	286
Chief Operating Officer	252	26	68	346	331
Vice-President, Innovation & Product Development	252	19	66	337	315
Chief Financial Officer	220	9	60	289	245
Chief Information Officer	174	9	50	233	294
Chief Communication and Marketing Officer	153	8	43	204	174
Vice-President, Human & Corporate Services <sup>(6)</sup>	88	42	19	149	323
Senior Manager, Human Resources <sup>(7)</sup>	97	-	28	125	-

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

<sup>(2)</sup> Other cash benefits include vacation payments and lump sum payments. There were no bonuses paid during the year.

<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, 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 five Board members during 2015/16 (eleven in 2014/15).

<sup>(5)</sup> Position was for seven (7) months in 2014/15.

<sup>(6)</sup> Position was for three and one half months (3.5).

<sup>(7)</sup> Position commenced on July 20, 2015.