

Alberta Livestock and Meat Agency Ltd.

Financial Statements

Year Ended March 31, 2016

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Independent Auditor's Report

To the Board of Directors of the Alberta Livestock and Meat Agency Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Livestock and Meat Agency Ltd., 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 Alberta Livestock and Meat Agency Ltd. 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

May 30, 2016

Edmonton, Alberta

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016
(in thousands)

| | 2016 Budget | Actual | 2015 Actual |
|---|----------------|-----------------|-----------------|
| Revenues | | | |
| Government Transfers | | | |
| Government of Alberta Grants | \$ 31,390 | \$ 30,884 | \$ 31,236 |
| Investment Income | 66 | 58 | 83 |
| Other Revenue | 750 | 1,297 | 1,955 |
| | 32,206 | 32,239 | 33,274 |
| Expenses (Schedule 1) | | | |
| Industry Investment | 13,307 | 10,323 | 12,109 |
| Strategic Initiatives | 13,197 | 18,543 | 16,841 |
| Corporate Services | 4,036 | 2,854 | 3,141 |
| Livestock Development | 1,750 | 823 | 1,456 |
| | 32,290 | 32,543 | 33,547 |
| Annual deficit | \$ (84) | \$ (304) | \$ (273) |
| Accumulated surplus, beginning of year | - | 3,778 | 4,051 |
| Accumulated surplus, end of year | \$ (84) | \$ 3,474 | \$ 3,778 |

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

Approved by the Board of Directors:

Dr. David Chalack, Chair of the Board

Leighton Kolk, Chair, Audit, Finance and Risk Committee

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016
(in thousands)

| | 2016 | 2015 |
|--|-----------------|------------------|
| Financial Assets | | |
| Cash and Cash Equivalents (Note 4) | \$ 4,410 | \$ 10,335 |
| Due from Government of Alberta | 3,987 | 3,086 |
| Accounts Receivable | 257 | 53 |
| | \$ 8,654 | \$ 13,474 |
| Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 471 | \$ 551 |
| Grants Payable | 4,913 | 8,920 |
| Deferred Revenue (Note 6) | 581 | 1,314 |
| | 5,965 | 10,785 |
| Net Financial Assets | 2,689 | 2,689 |
| Non-Financial Assets | | |
| Tangible Capital Assets (Note 5) | 785 | 1,089 |
| Net Assets | 3,474 | 3,778 |
| Net Assets | | |
| Accumulated Surplus | 3,474 | 3,778 |
| | \$ 3,474 | \$ 3,778 |

Contractual Obligations (Note 7)

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

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

AS AT MARCH 31, 2016
(in thousands)

| | Budget | 2016 Actual | 2015 Actual |
|--|---------|-----------------|-----------------|
| Annual Deficit | \$ (84) | \$ (304) | \$ (273) |
| Acquisition of Tangible Capital Assets (Note 5) | | (11) | (75) |
| Amortization of Tangible Capital Assets | 150 | 315 | 348 |
| Increase (Decrease) in Net Financial Assets in Year | | - | - |
| Net Financial Assets, Beginning of Year | | 2,689 | 2,689 |
| Net Financial Assets, End of Year | | \$ 2,689 | \$ 2,689 |

The accompanying notes and schedules are part of these financial statements

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

(in thousands)

| | 2016 | 2015 |
|---|-----------------|------------------|
| Operating Transactions | | |
| Annual Deficit | \$ (304) | \$ (273) |
| Non-cash Items: | | |
| Amortization of Tangible Capital Assets | 315 | 348 |
| | 11 | 75 |
| (Increase) Decrease in Accounts Receivable and Due from Government of Alberta | (1,105) | 3,645 |
| (Decrease) Increase in Accounts Payable and Accrued Liabilities | (80) | 80 |
| Decrease in Grants Payable | (4,007) | (168) |
| Decrease in Deferred Revenue | (733) | (1,325) |
| Cash (Applied to) Provided by Operating Transactions | (5,914) | 2,307 |
| Capital Transactions | | |
| Acquisition of Tangible Capital Assets | (11) | (75) |
| Cash Applied to Capital Transactions | (11) | (75) |
| (Decrease) Increase in Cash and Cash Equivalents | (5,925) | 2,232 |
| Cash and Cash Equivalents at Beginning of Year | 10,335 | 8,103 |
| Cash and Cash Equivalents at End of Year | \$ 4,410 | \$ 10,335 |

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

Notes to the Financial Statements for the Year Ended March 31, 2016

Note 1 Authority and Purpose

The Alberta Livestock and Meat Agency Ltd. is a Provincial Agency incorporated on January 29, 2009 under the *Alberta Business Corporations Act* (Alberta), and operates under the authority of the *Financial Administration Act*.

The Alberta Livestock and Meat Agency Ltd. (the Agency) was established to revitalize Alberta's livestock and meat industry and to act as a catalyst to help enhance industry competitiveness and profitability.

The Agency is a subsidiary of the Ministry of Agriculture and Rural Development of the Province of Alberta. The Ministry of Agriculture and Rural Development and its wholly owned subsidiaries are exempt from the payment of income tax under the *Income Tax Act*.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

(a) Basis of Financial Reporting

Revenues – All revenues are reported on the accrual basis of accounting. Investment income earned from restricted sources is deferred and recognized when the terms imposed have been met.

Government Transfers – Transfers from the Government of Alberta are referred to as government transfers.

Government transfers and the associated externally restricted income are recorded as deferred revenue if the eligibility criteria for the use of the transfer, or the stipulations together with the Agency's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the stipulations are met and, when applicable, the Agency complies with its communicated use of the transfer.

All other government transfers, without stipulations for the use of the transfer, are recorded as revenue when the transfer is authorized and the Agency meets the eligibility criteria (if any).

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

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

Financial Assets

The Agency has no financial assets measured in the fair value category and has not engaged in Foreign Currency transactions. The Agency has no remeasurement gains or losses and consequently has not presented a Statement of Remeasurement Gains and Losses. The Agency's financial assets are measured at cost or amortized cost.

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets are limited to financial claims, such as advances to and receivables from other organizations.

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

Accounts Receivable – are recorded at the lower of cost or net recoverable value. A valuation allowance is recorded when recovery is uncertain

Liabilities

Liabilities represent present obligations of the Agency to external organizations and individuals arising from transactions or events occurring before the year end. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities (continued)

Liabilities also include:

- all financial claims payable by the Agency at the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

Non Financial Assets

Non financial assets are limited to tangible capital assets.

Tangible Capital Assets – are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

Work in progress, which includes development of information systems, is not amortized until after a project is complete (or substantially complete) and the asset is put into service.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|--------------------------------|-----------|
| Furniture and Equipment | 10 years |
| Computer Hardware and Software | 3-5 years |
| Leasehold Improvements | 5 years |

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Agency'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.

The threshold for capitalizing new systems development is \$250,000 and the threshold for major systems enhancements is \$100,000. The threshold for all other tangible capital assets is \$5,000.

(b) Change in Accounting Policy

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Agency's financial assets and liabilities.

A net financial assets balance indicates the extent of the Agency's 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 (Net Debt).

Note 3 Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 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 standards on the financial statements.
- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

Note 3 Future Accounting Changes (continued)

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

Note 4 Cash and Cash Equivalents

(in thousands)

Cash and cash equivalents consists of:

| | 2016 | 2015 |
|--------------------------------|-----------------|------------------|
| Cash | \$ 3,829 | \$ 9,021 |
| Restricted Cash ⁽¹⁾ | 581 | 1,314 |
| | <u>\$ 4,410</u> | <u>\$ 10,335</u> |

⁽¹⁾ Restricted cash consists of deferred revenue. Further details are provided in Note 6.

Note 5 Tangible Capital Assets

(in thousands)

| Estimated Useful Life | 2016 | | | Total | 2015 |
|---|-----------------------|---|--------------------------------------|-----------------|-----------------|
| | Equipment 10 years | Computer Hardware and Software 3-5 years | Leasehold Improvements 5 years | | Total |
| Historical Cost ^(a) | | | | | |
| Beginning of Year | \$ 901 | \$ 1,502 | \$ 133 | \$ 2,536 | \$ 2,461 |
| Additions | - | 11 | - | 11 | 75 |
| Transfers Out | - | - | - | - | - |
| | <u>\$ 901</u> | <u>\$ 1,513</u> | <u>\$ 133</u> | <u>\$ 2,547</u> | <u>\$ 2,536</u> |
| Accumulated Amortization | | | | | |
| Beginning of Year | \$ 511 | \$ 803 | \$ 133 | \$ 1,447 | \$ 1,099 |
| Amortization Expense | 86 | 229 | - | 315 | 348 |
| Transfers Out | - | - | - | - | - |
| | <u>\$ 597</u> | <u>\$ 1,032</u> | <u>\$ 133</u> | <u>\$ 1,762</u> | <u>\$ 1,447</u> |
| Net Book Value at March 31, 2016 | <u>\$ 304</u> | <u>\$ 481</u> | <u>\$ -</u> | <u>\$ 785</u> | <u>\$ 1,089</u> |
| Net Book Value at March 31, 2015 | <u>\$ 390</u> | <u>\$ 699</u> | <u>\$ -</u> | <u>\$ 1,089</u> | |

^(a) Historical cost includes work in progress at March 31, 2016 totaling \$114 comprised of computer software (2015 - \$103).

Note 6 Deferred Revenue

(in thousands)

As at March 31, 2009 the Agency assumed responsibility for the majority of assets and liabilities under the terms of two separate Assignment, Novation and Transfer Agreements with the Alberta Livestock Industry Development Fund (ALIDF) and the Diversified Livestock Fund of Alberta (DLFOA). The transfer includes restricted fund obligations assumed by the Agency which are recorded as Deferred Revenue. Details for each fund and the status of these obligations are as follows:

| | 2016 | | 2015 | |
|------------------|------|-----|------|-------|
| Deferred Revenue | \$ | 581 | \$ | 1,314 |
| | \$ | 581 | \$ | 1,314 |

| | 2016 | | | 2015 | |
|---|---|---|---|----------|----------|
| | ALIDF Fund 2 - 2004 Post BSE Commercialization and Development | ALIDF Fund 7 - 2008 Enhanced Livestock and Meat Sector Initiative | DLFOA Fund 5 - 2008 Diversified Livestock Research and Development | Total | Total |
| Balance, beginning of year ⁽¹⁾ | \$ 19 | \$ 218 | \$ 1,077 | \$ 1,314 | \$ 2,639 |
| Received during the year | - | 2 | 5 | 7 | - |
| Restricted Realized Investment Income | - | 2 | 7 | 9 | 33 |
| Less amounts recognized as revenue | - | (65) | (684) | (749) | (1,358) |
| Balance, end of year | \$ 19 | \$ 157 | \$ 405 | \$ 581 | \$ 1,314 |

Note 7 Contractual Obligations

(in thousands)

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

| | 2016 | 2015 |
|------------------|-----------|-----------|
| Obligations: | | |
| Operating Leases | \$ 1,733 | \$ 2,292 |
| Contracts | 749 | 220 |
| Programs | 7,775 | 12,144 |
| | \$ 10,257 | \$ 14,656 |

Program obligations consist of obligations to disburse funds in accordance with the terms specified in the grant agreements with various applicants as approved by the respective Boards of the ALIDF (\$171) and the DLFOA (\$270). In addition, the Agency has obligations resulting from new grant agreements (\$7,334).

Note 7 Contractual Obligations (continued)

(in thousands)

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

| | <u>Operating Leases</u> | <u>Contracts</u> | <u>Programs</u> | <u>Total</u> |
|---------|-------------------------|------------------|-----------------|------------------|
| 2016-17 | \$ 547 | \$ 749 | \$ 4,842 | \$ 6,138 |
| 2017-18 | 547 | - | 1,513 | 2,060 |
| 2018-19 | 547 | - | 856 | 1,403 |
| 2019-20 | 92 | - | 564 | 656 |
| | <u>\$ 1,733</u> | <u>\$ 749</u> | <u>\$ 7,775</u> | <u>\$ 10,257</u> |

Note 8 Benefit Plans

(in thousands)

The Agency participates in the multi-employer pension plans: Management Employees' Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The Agency accounts for these multi-employer pension plans on a defined contribution basis. The Agency is not responsible for future funding of the plan deficit other than through contribution increases.

The expense for these pension plans is equivalent to the annual contributions of \$410 for the year ended March 31, 2016 (2015 – \$397).

The Agency does not have sufficient plan information on the MEPP/PSPP/MRCA to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pensions expense recorded for the MEPP/PSPP/MRCA 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.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of \$299,051 (2014 – surplus of \$75,805), the Public Service Pension Plan reported a deficiency of \$133,188 (2014 – deficiency \$803,299), and the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$16,305 (2014 – deficiency \$17,203).

Note 9 Subsequent Events

On April 14, 2016 the Government announced plans to dissolve the Agency in the 2016-17 fiscal year. The impact of this decision cannot be determined at this time.

Note 10 Comparative Figures

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

Note 11 Approval of Financial Statements

The financial statements were approved by the Board of the Agency.

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.
SCHEDULE TO FINANCIAL STATEMENTS
EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2016
(in thousands)

| | Budget | 2016 Actual | 2015 Actual |
|---|------------------|------------------------|------------------------|
| Salaries, Wages and Employee Benefits | \$ 3,597 | \$ 3,117 | \$ 3,284 |
| Supplies and Services | 3,859 | 1,891 | 2,171 |
| Grants | 24,684 | 27,220 | 27,744 |
| Amortization of Tangible Capital Assets | 150 | 315 | 348 |
| | <u>\$ 32,290</u> | <u>\$ 32,543</u> | <u>\$ 33,547</u> |

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.
SCHEDULE OF SALARY AND BENEFITS DISCLOSURE
YEAR ENDED MARCH 31, 2016
(in thousands)

| | 2016 | | | 2015 | |
|--|----------------------------|------------------------------------|--|--------|--------|
| | Base Salary ⁽¹⁾ | Other Cash Benefits ⁽²⁾ | Other Non-Cash Benefits ⁽³⁾ | Total | Total |
| Chairman of Board ⁽⁴⁾ | \$ - | \$ 133 | \$ - | \$ 133 | \$ 138 |
| Board Members ⁽⁴⁾ | - | 314 | - | 314 | 348 |
| President and Chief Executive Officer | \$ 201 | \$ 9 | \$ 47 | \$ 257 | \$ 253 |

⁽¹⁾ Base salary includes regular salary.

⁽²⁾ Other cash benefits include an automobile allowance, health spending account payments, honoraria and other lump sum payments. There were no bonuses paid in 2016.

⁽³⁾ Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, and short and long term disability plans.

⁽⁴⁾ The Board consists of a maximum of 12 members including the Chairman, whose salary is disclosed separately. Three positions became vacant January 1, 2016.

ALBERTA LIVESTOCK AND MEAT AGENCY LTD.
SCHEDULE OF RELATED PARTY TRANSACTIONS
YEAR ENDED MARCH 31, 2016
(in thousands)

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

The Agency had the following transactions with related parties recorded in the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities ⁽¹⁾ | |
|--|---------------------------------|------------------|--------------------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Grants | \$ 30,884 | \$ 31,236 | \$ - | \$ - |
| | <u>\$ 30,884</u> | <u>\$ 31,236</u> | <u>\$ -</u> | <u>\$ -</u> |
| Expenses - Directly Incurred: | | | | |
| Grants | \$ 344 | \$ 402 | \$ 10,062 | \$ 7,559 |
| Other services | - | - | 11 | 9 |
| | <u>\$ 344</u> | <u>\$ 402</u> | <u>\$ 10,073</u> | <u>\$ 7,568</u> |
| Payable to | | | | |
| Agriculture Financial Services Corporation | \$ - | \$ 1 | \$ - | \$ - |
| Agriculture and Forestry | 388 | 479 | - | - |
| Ministry of Advanced Education | - | - | 1,156 | 2,545 |
| | <u>\$ 388</u> | <u>\$ 480</u> | <u>\$ 1,156</u> | <u>\$ 2,545</u> |
| Receivable from | | | | |
| Agriculture and Forestry | \$ 3,953 | \$ 3,085 | \$ - | \$ - |
| Ministry of Advanced Education | - | - | 34 | 1 |
| | <u>\$ 3,953</u> | <u>\$ 3,085</u> | <u>\$ 34</u> | <u>\$ 1</u> |

⁽¹⁾ Other entities include schools, universities, colleges and health authorities.