

Agriculture and Forestry

Annual Report
2015-16





**Agriculture and Forestry
Communications**

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June 2016

Agriculture and Forestry

Annual Report 2015-16

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 20 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

This annual report of the Ministry of Agriculture and Forestry contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry including the Department of Agriculture and Forestry, regulated funds, and provincial agencies for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2016, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at June 2, 2016, with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Honourable Oneil Carlier
Minister of Agriculture and Forestry

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Message from the Minister

It was a challenging year for our agriculture and forestry sectors as an early spring, coupled with dry conditions during a large portion of the summer, created concerns about the impact on wildfires and agriculture producers.

During one of the busiest wildfire seasons on record, our fire crews battled more than 1,700 fires that covered approximately 500,000 hectares, and I want to take this opportunity to thank them for their long hours and tremendous efforts to protect Albertans, communities, and important infrastructure.

Fortunately, significant rainfall later in the summer helped reduce the wildfire risk and improved soil moisture conditions. In general, crop yields and feed supplies were much better than initially anticipated, although results varied from region to region. Producers who were most affected by dry conditions had access to the robust suite of existing programs and services designed to provide assistance during difficult times. This includes crop insurance, AgriStability, and AgriInvest. The Agriculture Financial Services Corporation facilitated nearly \$500 million in insurance payouts and staff worked hard to ensure claims were processed in a timely manner.

Despite challenges brought about by the weather, there was good news for the agriculture sector, with records set in farm income, international exports, and food and beverage manufacturing sales. One of the highlights was the U.S. government's decision to finally put an end to mandatory Country of Origin Labelling (COOL) requirements. These requirements were saddling our beef and pork industries with millions of dollars in unnecessary tracking and segregation costs. The forestry sector also benefited from the favourable dollar exchange rate and experienced some increases in lumber prices as well as a rise in wood, pulp and newsprint exports.

Our government recognizes the incredible contribution that the agriculture and forestry sectors make to the provincial economy and our rural communities. In 2015, the two sectors generated exports valued at approximately \$13 billion and employed approximately 100,000 people. There is potential for growth to further diversify and contribute to Alberta's economic strengths.



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Over the course of the year, the Ministry of Agriculture and Forestry continued to focus on core programs and services that support the long-term success and sustainability of our renewable industries and rural Alberta. This included maintaining funding for important community organizations such as agricultural societies, agricultural service boards, and rural utilities. The ministry also invested in areas like research and innovation, improved market access, environmental stewardship, industry development, food safety, and combatting threats to our forests like the mountain pine beetle.

An example of how the ministry is working to advance sustainable agricultural practices was the official opening in November of the Farm Stewardship Centre. The Centre will focus on applied research, evaluation, and implementation of new methods and technology to reduce the environmental footprint of farming and food production. Our government also introduced the *Enhanced Protection for Farm and Ranch Workers Act* to extend workers' compensation and health and safety coverage to waged non-family farm workers, and will continue to work with our stakeholders to ensure that the legislation recognizes the unique circumstances of the family farm.

As we move forward, our ministry will continue to work in strong partnership with Alberta's forestry and agriculture sectors to explore new opportunities, address challenges, and position our province and our communities for success.

[Original signed by]

Honourable Oneil Carlier
Minister of Agriculture and Forestry

Management's Responsibility for Reporting

The Ministry of Agriculture and Forestry includes:

- Department of Agriculture and Forestry
- Agriculture Financial Services Corporation
- Environmental Protection and Enhancement Fund
- Alberta Grains Council
- Alberta Livestock and Meat Agency Ltd.
- The Office of the Farmers' Advocate
- Irrigation Council
- Agriculture Products Marketing Council

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations, and policies.

Ministry business plans, annual reports, performance results, and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports, and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Agriculture and Forestry. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- **Reliability** – information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- **Understandability** – the performance measure methodologies and results are presented clearly.
- **Comparability** – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- **Completeness** – goals, performance measures, and related targets match those included in the ministry's Budget 2015.

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As deputy minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council, the President of Treasury Board and Minister of Finance, and the Minister of Agriculture and Forestry information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Beverly Yee
Deputy Minister of Agriculture and Forestry
June 2, 2016

RESULTS ANALYSIS

Ministry Overview

Our ministry provides the framework and services necessary for Alberta's agriculture and forestry sector to excel, inspire public confidence in the quality and safety of food, support environmentally sustainable production practices, and lead the collaboration that enables resilient rural communities.

The ministry is comprised of the:

- Department of Agriculture and Forestry
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd.
- Office of the Farmers' Advocate of Alberta
- Alberta Grains Council
- Agricultural Products Marketing Council
- Irrigation Council
- Environmental Protection and Enhancement Fund

Department of Agriculture and Forestry

The Department of Agriculture and Forestry operates in four key divisions: Food Safety and Technology, Industry and Rural Development, Policy and Environment, and Forestry.

Food Safety and Technology – The Food Safety and Technology division protects public health through food safety and animal health systems. Safety standards, surveillance systems, and emergency response plans minimize the impact of diseases and allow for rapid response to emerging issues. Some programs include inspections of all Alberta-licensed abattoirs and surveillance of bovine spongiform encephalopathy (BSE). Within the division, the Office of the Chief Provincial Veterinarian advocates the use of current scientific principles in the development of animal health legislation and disease control programs. The division also provides the technology and information management necessary to support the ministry's operations, including print and electronic publishing services.

Industry and Rural Development – The Industry and Rural Development division supports the agriculture industry and rural businesses. The division helps these businesses develop and commercialize new products and scale up their operations through such services as business incubation and value-added processing offered at the Food Processing Development Centre. The division also administers 4-H and FarmSafe programs to build life skills and leadership throughout rural Alberta and cultivate a culture of safety.

Policy and Environment – The Policy and Environment division supports the growth of Alberta's agriculture industry. Through market and trend analysis, the division identifies trade and market opportunities. The division provides statistical information, data on costs and returns, and market analysis to support sound decision-making by both government and industry. By also supporting industry's adoption of environmental stewardship best practices, the division helps businesses position themselves to meet emerging expectations for sustainably produced products.

Forestry – The Forestry division manages and protects Alberta's forest resources through effective and efficient wildfire management, sustainable forest management, and maintenance of the health of our forests. The division supports and applies current science, focusing on topics like climate change, biodiversity, hydrology, and long-term planning of forest resources, to ensure continued economic and environmental values are realized. Management of forest pests like mountain pine beetle and other invasive species further protects these values. The division is active in promoting market access for forest products and ensuring Albertans capture social and economic benefits from a robust forest sector.

Agriculture Financial Services Corporation

The Agriculture Financial Services Corporation (AFSC) provides a wide variety of unique financial services, including lending capital and risk management products, to fit the business needs of producers, the agriculture industry, and small businesses in Alberta. Working closely with clients, many made-in-Alberta products have been developed to address existing gaps in the marketplace where similar products are not readily available. The corporation has helped position Alberta as a leader in business risk management programs for crops and livestock and plays a pivotal role in the development and delivery of insurance, income stabilization, and disaster recovery programs. AFSC is responsible for all portions of the multilateral Growing Forward 2 Framework agreement that governs the management of agriculture risk in Alberta, including AgrilInsurance, AgriStability, AgrilInvest, AgriRecovery and the Wildlife Damage Compensation Program.

Alberta Livestock and Meat Agency Ltd.

The Alberta Livestock and Meat Agency Ltd. (ALMA) provides ideas, information, and investment opportunities to the livestock industry and advises on public policy. ALMA's programs stimulate innovation, encourage adoption of best practices, and develop new technologies and state-of-the-art processes.

Office of the Farmers' Advocate of Alberta

The Office of the Farmers' Advocate of Alberta is an agency within the Ministry of Agriculture and Forestry that works closely with rural Alberta and provides the minister with information on issues concerning rural Albertans. The agency exists so rural Albertans can make informed risk management decisions, operate in a balanced legal environment, access information regarding industry policies and procedures, and have an outlet to settle disagreements.

Alberta Grains Council

The Alberta Grains Council (AGC) is an agency within the Ministry of Agriculture and Forestry that advises and makes recommendations to the department on current and emerging issues and trends in the grain industry. The AGC liaises with other governments, groups, and boards within and outside Alberta.

Agricultural Products Marketing Council

The Agricultural Products Marketing Council advises the minister on matters related to the establishment, operation, and management of the marketing boards and commissions established under the *Marketing of Agricultural Products Act*. The council also provides strategic support to marketing boards and commissions on board governance, leadership development, and regulatory and policy matters.

Irrigation Council

The Irrigation Council supports the Government of Alberta and irrigation districts by providing recommendations and advice, regulatory administration, and strategic funding decisions that facilitate the responsible allocation, management, and use of water delivered through irrigation infrastructure. The council is made up of five public members and two government representatives appointed by the Minister of Agriculture and Forestry.

Environmental Protection and Enhancement Fund

The Environmental Protection and Enhancement Fund is established under the *Environmental Protection and Enhancement Act* and is used for environmental protection, enhancement, and emergencies.

Further information about ministry programs and services can be found at www.agric.gov.ab.ca. The Ag-Info Centre is also available for additional information by calling toll-free in Alberta 310-FARM (3276).

Discussion and Analysis of Results

Financial Results of Operations

Revenue

Ministry revenue was \$823 million, \$5 million lower than 2014-2015 and \$106 million lower than budget.

Compared to 2014-15 Actual

- Lower revenues from the previous year are due to decreases in hail and livestock insurance producer premiums, decrease in federal government grant for AgriStability program, and decrease in timber royalties. These decreases were offset by an increase in federal government transfers from the Softwood Lumber Agreement and federal and producer share of AgrilInsurance premiums.

Compared to Budget 2015

- Lower revenues compared to budget were a result of reduced federal grant for AgriStability due to lower prior-year estimates. The timber revenues were lower compared to budget due to mountain pine beetle and fire salvage for softwood lumber affecting the timber royalties. Producer premiums for straight hail programming is lower than anticipated due to decreased participation as a result of dry conditions.

Expense

Ministry expense was over \$1.6 billion, \$291 million higher than 2014-2015 and \$285 million lower than budget.

Compared to 2014-15 Actual

- Environmental Protection and Enhancement Fund spending for fighting wildfires and reforestation increased by over \$250 million compared to previous year.
- Indemnities payments to producers for AgrilInsurance increased \$118 million due to dry conditions compared to last year.
- Agriculture Income Support payments decreased by \$45 million.
- Growing Forward 2 strategic initiatives funding increased by \$5 million.

Compared to Budget 2015

- The adverse dry conditions at the beginning of the crop year anticipated increased spending for indemnities. Conditions improved late in the summer due to rain and delayed frost leading to better than average yields than was budgeted. This resulted in over \$200 million in decreased indemnities for insurance programs.
- Agriculture Income Support payments decreased over \$60 million compared to budget.

Picture of Agriculture and Forestry in 2015

It was another interesting year for the global market in 2015. As Albertans know, the energy sector has been hit hard by low oil prices. In fact, Alberta's food and beverage manufacturing sales in 2015 were the province's largest manufacturing industry, narrowly surpassing petroleum and coal products.

Alberta's agriculture and food sector performed exceptionally in 2015, as evidenced by the records achieved for several key statistical indicators relating to farm income, international exports, and food and beverage manufacturing sales. Total food and beverage manufacturing sales for the province increased for the sixth consecutive year to record sales of \$14.6 billion, which was seven per cent higher than 2014. Alberta's total agri-food exports were up for a second consecutive year in 2015, ending five per cent higher than the previous year. At \$10.2 billion, it is the first time agri-food exports have exceeded \$10 billion. Processed products increased 13 per cent to \$4.8 billion, while exports of primary commodities declined a marginal two per cent to \$5.4 billion.

This success occurred despite some challenges in the province, such as dry conditions early in the crop growing season, getting the crop off, and lower hog prices. Contributing to the agriculture and food industry record "highs" in 2015 were a number of factors, including strong prices for cattle and beef in the first half of the year, the weaker Canadian dollar, and global supply and demand. In recent years, these factors along with relatively strong crop prices have supported growth in Alberta's agriculture and food sector.

Similarly, Alberta's forestry sector performed well in the past year, aided by the sharp depreciation of the Canadian dollar. In 2015, Alberta softwood lumber mills experienced increasing lumber prices while panel producers enjoyed a marked recovery in Canadian dollar pricing, which is in stark contrast to U.S. producers. Exports for wood, pulp, and newsprint were over \$2.8 billion in 2015, a 12 per cent increase from the previous year. However, global supply and demand for forest products presented a challenge. For example, increasing U.S. domestic production that coincided with significant declines in U.S. softwood lumber exports to Asia resulted in the U.S. importing less Alberta lumber.

While stronger commodity prices and favourable currency exchange rates contribute to our success, the combined efforts of hard-working Albertans with a passion for agriculture and forestry, a government that supports these industries, and the programs and services delivered by the Ministry of Agriculture and Forestry are essential.

This annual report details some of the most significant actions we took to support this success. Our consolidated accomplishments are presented from management's perspective according to our desired outcomes and priority initiatives, as listed in the 2015-18 ministry business plan.

If you enjoyed this year in review, further statistics are available in Appendix A.



Desired Outcome One: Alberta's agriculture and forest industries are positioned for increased growth

In working toward achieving this desired outcome, the ministry identified the following priority initiatives in its 2015-18 ministry business plan.

Priority Initiative 1.1 – Represent Alberta's agriculture and forestry interests in trade agreements with priority markets and the opportunities that emerge as a result.

Agriculture and Forestry sought to ensure both the Canada-European Union (EU) Comprehensive Economic and Trade Agreement (CETA) and Trans-Pacific Partnership (TPP) would result in viable export opportunities for Alberta's agriculture and forest products by providing input regarding Alberta's agricultural priorities to federal negotiators. The agreements represent substantial new opportunities in the EU and Asia-Pacific regions, which will help the agriculture and forest industries grow.

In 2015-16, legal review of CETA was completed, which paves the way for ratification and expected implementation in 2017. The CETA will lower substantial barriers to key agri-food exports such as beef, pork, canola, canola oil, pet food, and wheat. Once CETA is ratified, the remaining challenge will be ensuring regulations and administrative practices in the EU do not block the access provided in CETA.

Completion of TPP negotiations in October 2015 resulted in an agreement that will give Canada improved access to Japan, a key export market, and access to new markets in Vietnam and Malaysia. The TPP also has the potential to strengthen economic relations with the United States and Mexico.

The TPP agreement has moved to the ratification stage in all 12 member countries. However, it is unclear if the United States will move to ratify it; without U.S. ratification, the TPP agreement cannot move forward. Agriculture and Forestry will continue to inform the agriculture industry, state-level agriculture officials, and industry groups in the United States of TPP's benefits.

Agriculture and Forestry has also been involved in a long-standing trade agreement that has seen its challenges. After years of dispute at the World Trade Organization, the 2006 Canada-U.S. softwood lumber agreement revoked U.S. trade barriers against Canadian lumber. As a result, more than \$4.5 billion in tariffs were returned to Canadian exporters. However, the agreement expired on October 12, 2015. A one-year grace period prevents the United States from launching trade action against Canada. On March 12, 2016, a 100-day negotiation window opened to allow parties to explore all options for resolving the trade dispute. Provincial and federal officials continue to develop a softwood lumber strategy for Canada.

Priority Initiative 1.2 – Reduce interprovincial trade and infrastructure barriers and ensure Alberta's agriculture and forest products can reach markets more effectively and efficiently.

Although most products and services move between provinces with ease, some remaining barriers prevent certain local products from competing with imports. Examples of remaining barriers include:

- provincial restrictions on wines and spirits;
- differing provincial requirements on the certification of professionals; and
- federal regulations that delay or prevent the movement of bulk vegetables.

To address these barriers, the provinces, territories, and federal government are negotiating a renewed Agreement on Internal Trade. The Ministry of Economic Development and Trade leads these negotiations; Agriculture and Forestry provides input on negotiating objectives for agriculture, food, and forest products.

In 2015-16, negotiators made significant progress toward a final agreement. Remaining work for agricultural products is focused on ensuring the continuing operation of marketing systems for dairy, poultry, and other products under provincially regulated boards and commissions. Negotiations for a renewed Agreement on Internal Trade are expected to conclude in 2016.

Priority Initiative 1.3 – Engage with the federal government, the United States, and international trade organizations in repealing mandatory Country of Origin Labelling (COOL).

Mandatory Country of Origin Labelling (COOL) is a U.S. law that affected Canadian cattle and hogs in 2008, resulting in significant segregation and tracking costs. Canada and Mexico won a decision from the World Trade Organization authorizing Canada to impose up to \$1 billion in retaliatory import taxes on U.S. goods if COOL was not changed to comply with the World Trade Organization's rules. Agriculture and Forestry advocated against COOL since its implementation and provided data and analysis to support the development of Canada's arguments at the World Trade Organization.

In December 2015, the U.S. Congress repealed COOL for beef and pork, ending this discriminatory measure that cost Canadian cattle and hog producers an estimated \$1 billion per year. The support and advocacy provided by our ministry helped enable this tremendous achievement.

However, COOL remains for sheep and lamb. While the volume of trade in sheep and lamb is smaller than beef and pork, COOL is a significant barrier for this industry. Agriculture and Forestry continues to encourage the federal government to work with the United States to amend or repeal COOL for sheep and lamb without resorting to another dispute at the World Trade Organization.

Priority Initiative 1.4 – Increase representation in priority markets, strengthening the Canada and Alberta profile as a preferred global supplier for agriculture and forest products.

A broader base of export destinations allows industry to benefit from opportunities in emerging markets while maintaining established markets, which is important to the growth and diversification of the agriculture and forestry sectors. This priority initiative focuses on building Alberta's profile as a partner

and reliable supplier of premium agriculture, food, and forest products to increase trade and exports. Results in 2015-16 include the introduction of 26 Alberta exporters to China, Japan, and South Korea and support of three senior-level market access and advocacy missions.

In our progress toward achieving this desired outcome, we use the following performance measure.

Export market diversification

YEAR ENDING AT DECEMBER 31

Performance Measure 1.a	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Target 2015
Alberta's agri-food exports by market (in \$ millions)						
United States (U.S.)	2,551	2,967	3,080	3,931	3,998	3,144
China	937	1,646	1,511	1,324	1,588	1,481
India	58	58	39	18	31	45
Canada-European Union Comprehensive Economic and Trade Agreement (CETA) member countries	370	280	248	307	382	329
Trans-Pacific Partnership (TPP) member countries (excluding U.S.)	2,023	2,232	2,062	2,023	2,022	2,292
Rest of the World	2,122	2,026	1,807	2,110	2,161	2,169

Source: Statistics Canada; Agriculture and Forestry (results current as of May 11, 2016).

Note: The "Year" headings were mislabelled in the 2015-18 Agriculture and Forestry business plan and have been corrected—i.e., "2015-16" was labelled as "2016." Target years always stay the same, corresponding to the business plan's time frame. The headings were labelled correctly in the Government of Alberta Performance Plan.

This measure represents the monetary value of Alberta's agriculture and food products leaving the province through customs for a foreign destination market. It is an indicator of our success in facilitating industry growth through export market diversification for Alberta's agriculture and food products.

Diversification of export markets contributes to industry growth and to the provincial economy. A broader base of export market destinations allows the industry to benefit from accessing emerging markets with high growth potential while maintaining its traditional U.S. market. By diversifying our agriculture and food export markets, we reduce demand uncertainties for agri-food products and raise the expected benefits of investing in agri-food processing.

In 2015, Alberta agri-food exports reached another record at \$10.2 billion, an increase of five per cent over the 2014 record of \$9.7 billion. The low Canadian dollar and continued high livestock prices, particularly for meats, contributed to the increase.

Gains were reported mainly in exports of processed or manufactured products such as meats, crude canola oil, processed potatoes, animal feeds, and malt and processed cereals. Beef exports grew 18.7 per cent to \$1.7 billion due to strong prices and quantity being up 2.1 per cent. While exports of processed products increased, exports of primary commodities declined.

The growth in agri-food exports varies by export market destination. Agri-food exports to the U.S., China, India, CETA member countries, and the "Rest of the World" showed substantial increases in total value of exports. In contrast, exports to the TPP member countries (excluding the United States) declined slightly by 0.1 per cent due to lower exports of primary commodities, mainly crops such as canola seed, barley, and hay and fodder.

With the exception of India and the "Rest of the World," increases in exports resulted mainly from larger shipments of processed products (values and quantities).

The United States remains the largest export market for Alberta, particularly for provincial processed products. China was the second-largest market in 2015. Contrary to the previous year, exports of processed products to China grew significantly with higher exports of beef, crude, and refined canola oil. For India, there was a strong increase in exports (value and quantity) of primary commodities, driven by dry peas. Exports to CETA member countries showed increases in both primary and processed products in 2015.

Going forward, “TPP member countries” have been replaced with Japan and Mexico. Due to the need to demonstrate tangible results in the short to medium term, we have been providing trade development activities at the country-specific level. This revised focus allows us to concentrate efforts on the two countries that account for over 85 per cent of Alberta’s agri-food exports to TPP countries (excluding the United States). The remaining TPP member countries are still being monitored to identify export opportunities.

In our progress toward achieving this desired outcome, we use the following performance measure.

Composition of export products

YEAR ENDING AT DECEMBER 31

Performance Measure 1.b	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Target 2015
Alberta’s agri-food exports by sector (in \$ millions)						
Primary commodities	4,520	5,529	5,103	5,475	5,379	5,483
Processed or manufactured products	3,541	3,681	3,645	4,238	4,803	3,947

Source: Statistics Canada; Agriculture and Forestry (results current as of May 11, 2016).

Note: The “Year” headings were mislabelled in the 2015-18 Agriculture and Forestry business plan and have been corrected — i.e., “2015-16” was labelled as “2016.” Target years always stay the same, corresponding to the business plan’s time frame. The headings were labelled correctly in the Government of Alberta Performance Plan.

This measure tracks the type of Alberta’s agri-food exports and provides an indication of whether the industry is shifting from primary commodities to processed products. Increasing the export share of processed products relative to primary commodities allows the industry to generate and retain a larger portion of revenues and economic benefits from global agri-food trade.

Primary commodities are products that are in a raw or unprocessed state, such as crops or livestock. Processed or manufactured products involve refining primary commodities to increase value, such as turning raw canola into higher valued canola oil. The processing sector also fortifies a diverse range of secondary industries across the food supply chain, including transportation and logistics, refrigerated storage facilities, beverage manufacturing, wholesale and retail distributors, and the food service industry.

While agri-food revenues are not wholly under our control, growth in revenue does act as an indicator of our success in trade development activities. To enhance

industry performance, we work collaboratively with companies and producers to develop new agri-food products for domestic and international markets, promote Alberta agri-businesses as attractive investment opportunities to foreign and private investors, support export-ready agri-food businesses to access international markets, and stimulate demand through the promotion of our high-quality agri-food products.

In 2015, Alberta’s total agri-food exports set another record at \$10.2 billion, of which processed agricultural products accounted for 47 per cent of the total. Exports of processed products increased in 2015, while primary commodity exports declined. The increase in processed products surpasses the decrease in primary commodity exports, causing the overall increase in total agri-food exports.

Revenue from exports of primary commodities, at \$5.4 billion, declined two per cent from 2014, primarily due to lower values or quantities of canola seed, hay and fodder, dry peas, and live cattle. Despite the decline, primary commodities accounted for over one-half of Alberta total agri-food exports.

Revenue from exports of processed or manufactured products, worth \$4.8 billion, grew 13 per cent over the previous calendar year, due to higher values and quantities of meats, crude canola oil, processed potatoes, animal feed, and malt. As a result of high

meat prices, beef exports grew about 19 per cent in value and just over two per cent in quantity.

Overall, in 2015, the export trend continued to shift toward processed or manufactured products and the gap between primary and manufactured exports has narrowed.

Priority Initiative 1.5 – Identify and pursue new opportunities for growth in domestic markets.

The ministry provides information and coaching to:

- help processors determine targets for new agricultural products and services;
- determine product placement, packaging, and consumer awareness and market plans to help new products stay in the market beyond a year; and
- prepare for the challenges inherent in entering new markets, reducing industry's risk and enhancing its credibility with buyers.

In 2015-16, Agriculture and Forestry assisted agri-processing clients to pursue trade development opportunities in British Columbia and Manitoba and enter major national food retail outlets (e.g., Safeway and Loblaw Companies). These retailers provide unique marketing opportunities for sourcing agri-food products.

An ongoing challenge for the Alberta agri-food industry is insufficient opportunities for exposure to consumer food trends in international marketplaces such as the United Kingdom and the rest of Europe. This lack of exposure to emerging trends impedes our industry's ability to compete. Agriculture and Forestry continues to address this challenge through research tours that take Alberta agri-food producers to international trade shows or educational sessions to gain product inspiration and innovation, giving domestic companies the opportunity to develop products before an international competitor.

Another significant challenge is the lack of food processing facilities in Alberta that can accommodate gluten-free, peanut-free, and vegan production. This gap means Alberta production companies are limited in their growth while U.S. competition fills the void.

Attracting Investment to Alberta

In 2015-16, three new companies and investments were attracted to Alberta in the sub-sectors of pet food manufacturing, ham and deli meat manufacturing, and bio-plastics. Two existing investments were expanded in the areas of milk

fractionation and oat processing. Agriculture and Forestry facilitated these five investments, which have an estimated value of \$42 million and a potential to create over 90 new jobs when fully operational.

Ministry Information and Support

Agriculture and Forestry maintains data and information encompassing Alberta's agri-food industry. Data intelligence and related analysis allows the ministry to make evidence-based decisions when developing programs and policies. Industry, producers, and agri-businesses use a variety of information, including trends, sales volume, exports, and operational costs, to aid their management decisions. Information is shared through a number of client-focused products including the Agriculture Statistics Yearbook, AgriProfit\$, CropChoice\$, Agricultural Marketing Guide, Alberta Food Consumer View, Weekly Crop Review, and Livestock Market Review. The ministry's robust data complements information provided by other jurisdictions, allowing for a complete national picture and demonstrating the value of Alberta's agri-food industry relative to other provinces.

Desired Outcome Two: Alberta has more effective assurance systems that inspire confidence

In working toward achieving this desired outcome, the ministry identified the following priority initiatives in its 2015-18 ministry business plan.

Priority Initiative 2.1 – Implement all Flat Top Complex Wildfire recommendations.

In 2013, the government committed to implement all 21 of the Flat Top Complex Wildfire Review Committee recommendations in 20 years. The recommendations respond to current and emerging challenges facing wildfire management, including:

- extreme weather conditions;
- longer fire seasons;
- a growing population and increased development in forested areas; and
- the need for increased wildfire mitigation around communities, increased preparedness and capacity for wildfire suppression, enhanced communications, science and technology, and unclear roles and responsibilities.

In 2015-16, approximately \$26 million was spent for wildfire management improvements and enhancements that respond to the Flat Top Complex recommendations. Many of the recommendations require ongoing programming and funding, such as improved wildfire prevention through programs like FireSmart and increased preparedness and capacity through increased numbers of firefighters. A consultant is currently reviewing the implementation status with a final report expected in July 2016.

In our progress toward achieving this desired outcome, we use the following performance measure.

Containment of wildfires

YEAR ENDING AT DECEMBER 31

Performance Measure 2.a	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Target 2015
Percentage of wildfires contained before 10 a.m. the day following assessment	96.1%	97.9%	98.3%	99.2%	92.7%	96.8%

Source: Agriculture and Forestry.

Note: Target is calculated as a rolling average of the last five years' actual results, including the current year (2015).

This performance measure reports how successful the ministry is in containing wildfires by 10 a.m. the day following assessment. Wildfires traditionally start in the mid-afternoon or early evening and can build in size and fire behaviour, making control more difficult. During the evening and overnight periods, temperature tends to decrease and relative humidity tends to increase, giving firefighters an opportunity to contain the wildfire by 10 a.m. the day following

assessment. Prompt containment reduces the rapid spread, size, and intensity of wildfires and its impacts, protecting Albertans and minimizing losses and costs.

The 2015 fire season started on April 1, 2015, and ended on October 31, 2015. Of the 214 days in the fire season, 115 were above the average severity rating. This contributed to an increase in number of wildfires and area burned.

For 2015, 92.7 per cent of wildfires were contained before 10 a.m. the day following assessment, which is 4.1 per cent lower than the forecasted target of 96.8 per cent. Alberta experienced extraordinary wildfire conditions and activity in 2015 which impacted our ability to achieve the target. This measure is subject to variance due to the following external factors that are outside the control of the ministry:

- wildfire activity (number, size, and intensity);
- weather events (sustained high temperatures, strong winds, lightning, and low relative humidity);
- drought conditions; and
- forest fuel conditions.

In the 2015 wildfire season, the ministry responded to 1,786 wildfires that burned approximately 500,000 hectares, surpassing the five-year average of 1,422 wildfires and approximately 263,243 hectares burned. Sixty-four large wildfires, defined as greater than 200 hectares, were detected, which is significantly

higher than the five-year average of 19. Only once in the last 25 years has the province experienced a similar number of large wildfires.

To support the prompt containment of wildfires, the ministry used its mutual aid agreement to import firefighting resources from across Canada (Canadian Interagency Forest Fire Centre, Parks Canada, British Columbia, New Brunswick, Newfoundland, Nova Scotia, Ontario, Prince Edward Island, and Quebec) and from other countries (Australia, Mexico, New Zealand, South Africa, and United States) to assist with wildfire suppression activities. In total, 1,128 firefighting resources were imported, far surpassing the five-year average of 485. These additional resources played a significant part in achieving the reported result.

The ministry continues to review its strategies and policies to improve wildfire prevention, preparedness, and response capacity.

Fort McMurray Wildfire

On May 3, 2016, an extraordinary wildfire event threatened Fort McMurray, resulting in the mandatory evacuation of over 80,000 residents. Due to the admirable efforts of first responders, 90 per cent of the 25,000 structures in the area were saved including the hospital, all municipal buildings, and every functioning school. Although this does not lessen the devastation to the hardest hit neighborhoods, the vast majority of the city was saved. Recovery efforts are underway. Full reporting of the wildfire will occur in the ministry's 2016-17 annual report.

Priority Initiative 2.2 – *Continue efforts to control and manage mountain pine beetle impacts.*

The ministry focuses on reducing the spread and population of mountain pine beetle to control and manage its impacts on pine, including lost sale volumes of pine. Controlling infestations has multiple additional benefits, including supporting recovery of at-risk species such as caribou and tree species like whitebark and limber pine; slowing the expansion of mountain pine beetle; and protecting critical watersheds on the eastern slopes of the Rocky Mountains.

Significant progress has been made with controlling and managing mountain pine beetle in Alberta.

In 2015-16, the ministry conducted aggressive treatment in priority areas throughout the province such as caribou ranges and completed single treatment of 89,063 trees. The number of trees treated is especially significant because it is an approximate 31 per cent decrease compared to last year, demonstrating that direct control efforts lead to reduction of the beetle population.

Agriculture and Forestry also participated in the federal National Forest Pest Strategy to develop a national strategic plan to slow the spread of mountain pine beetle.

Priority Initiative 2.3 – Improve the coordination and effectiveness of food safety and traceability systems.

This priority initiative focuses on improving Alberta's ability to rapidly respond to and limit the impact of a food safety or animal health crisis. Robust and collaborative systems improve investigation and response while reducing the impact of food and animal health crises on public health.

A traceability system is a critical component of a national animal health and food safety system. Alberta has livestock traceability requirements for several species under the *Animal Health Act* and programs to support a traceability system. Knowing when and where diseased and at-risk animals have been reduces response times during emergencies and ongoing animal disease control programs. The result for Albertans is a system that minimizes the economic, environmental, and social impacts from such events.

However, the system faces some challenges, including an incomplete database of farm locations in the premises identification program and a lack of comprehensive movement reporting for all livestock species. The premises identification program is critical in helping the ministry respond to disease threats such as anthrax. While some sectors have high uptake, many animal owners have not applied for a premises identification account or registered their land.

The ministry has addressed both these challenges by collaborating with livestock industry participants and providing cost-shared assistance to encourage adoption of new, innovative traceability technologies. For example, the ministry is supporting Alberta Pork with the development and implementation of an electronic movement reporting system. The ministry also plays a key role on federal-provincial-territorial working groups, which are proposing new federal laws requiring more comprehensive movement reporting nationwide.

In 2015-16, compliance activities resulted in 30 per cent more land locations registered in the premises identification database, bringing the total number of registered premises to over 32,000; these compliance activities will continue. To enhance movement tracking and reporting, approximately \$450,000 was provided to 34 feedlots and 47 cow-calf and sheep operations to acquire radio-frequency identification technology.

Agriculture and Forestry's role with regards to the complex issue of food safety is to obtain consistency and compliance through inspection and enforcement activities. The ministry also enhances integrated food safety process controls by:

- maintaining a food safety surveillance system to validate the safety of animal slaughter practices at Alberta-licensed facilities;
- facilitating adoption of internationally accepted meat processing safety systems and standards; and
- advancing food safety culture through training and programs that enhance food safety awareness and emergency response.

The industry is diverse, with different sized operations facing unique challenges; the breadth of stakeholders makes communicating with everyone a challenge. Broader engagement is necessary to communicate the programs and services provided. In support of food safety, grants over \$3 million went to 510 producer, 59 processor, and 12 delivery agents. Agriculture and Forestry finalized modernization of the poultry inspection model in 2015-16. Modernization more effectively addresses today's risks through surveillance programs and pathogen reduction activities. Inspectors can shift their responsibilities to areas of higher risk such as increased monitoring of good manufacturing practices, food safety compliance, pathogens, and animal welfare. These are the first changes to the model since 1972. The ministry is rolling out a robust communication strategy to obtain buy-in from industry and inspectors.



In our progress toward achieving this desired outcome, we use the following performance measure.

Compliance with slaughter requirements

YEAR ENDING AT DECEMBER 31

Performance Measure 2.b	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Target 2015
Percentage of active provincial licensed abattoirs that meet provincial food safety slaughter requirements	n/a	n/a	n/a	93%	84%	93%

Source: Agriculture and Forestry.

Note: Results prior to 2014 are not comparable because the performance measure has been changed to focus on the department's role in animal slaughter regulatory oversight.

This measure tracks the percentage of active Alberta-licensed abattoir facilities that meet or exceed provincial safe animal slaughter requirements under the *Meat Inspection Act* and Meat Inspection Regulation.

The scope of provincial animal slaughter requirements encompasses food safety risk factors associated with all aspects of the animal slaughter business, from slaughter equipment to protection from contamination and personnel hygiene practices, to ventilation and lighting.

Each facility is required to demonstrate continued knowledge of and strict adherence to all animal slaughter practices at slaughter day inspections. Animal slaughter inspection staff track and respond to areas of non-compliance by issuing a corrective action report when inspections reveal that slaughter practices or operating procedures create a potential food safety risk.

Fifty-three slaughter inspectors inspected 112 Alberta-licensed abattoirs. These abattoirs received scheduled slaughter inspections each slaughter day throughout the calendar year as part of the Slaughter Inspection Program.

Approximately 84 per cent (94 out of 112 abattoirs) of the inspected Alberta-licensed abattoirs met or exceeded provincial animal slaughter requirements at all slaughter inspections, with the remaining 18 not meeting slaughter requirements during at least one of the inspections. Risk-based assessments were conducted on all meat products associated with these 18 abattoirs to confirm all meat products were safe for further processing and human consumption. Follow-up inspections of the abattoirs confirmed that all 18 abattoirs addressed all areas of non-compliance that were noted during their respective inspections. These 18 abattoirs are being monitored to ensure continued compliance and to reduce the risk of lapsing into non-compliance in future years. Food safety staff participate in continuous training to maintain and improve the quality of educational information and regulatory oversight that we provide to Alberta-licensed abattoirs and provide consumer protection.

Future targets have been increased to 100 per cent to reflect the ministry's commitment that all abattoirs meet provincial safe food slaughter requirements at all times and at each scheduled inspection. A combination of education and regulatory activities, including science-based food safety laws, rules, and standards, are being utilized to achieve a high rate of compliance.

Priority Initiative 2.4 – *Develop policy frameworks and promote best practices and technology adoption for enhanced animal protection and welfare.*

A sound animal welfare system ensures animals are protected from distress and there is continuous improvement in the welfare of farmed animals.

The *Animal Protection Act* is the key legislation for this sector. However, the governance system does not delineate clear roles and responsibilities for the numerous organizations involved. To address this, the ministry completed an Animal Welfare Framework in 2015-16 for use in broader discussions. Moving forward, consultations on the framework will lead to the creation of an animal welfare strategy. A completed animal welfare strategy will identify potential

amendments to policy that could improve the province's system to meet the needs of all participants and animals.

Growing Forward 2 programming supports enhanced animal welfare and increased knowledge of and improvements in animal care best practices by providing cost-shared support to enable industry's adoption of new technologies and improvements to existing equipment. Future Growing Forward animal welfare programming will build upon this success and be aligned with the animal welfare strategy to encourage industry to achieve the strategy's objectives.

Priority Initiative 2.5 – *Create and promote systems that drive practice change, improve compliance, and better protect against the spread of diseases and pests.*

Agriculture and Forestry collects and analyzes information on the health of Alberta's livestock. Livestock diseases often spread rapidly. Unexpected or uncontrolled diseases can have a significant economic cost and a devastating impact on animal and human health. Early detection allows for a quicker response, which leads to faster resolution and recovery; for example, in 2015-16 the ministry's rapid detection of and response to *Salmonella enteritidis* in a hatchery that was providing chicks to small flock owners greatly reduced the risk to public health. Strong systems also assure market access for Alberta's products; for example, surveillance in the swine sector allowed Alberta to prove to the United States that the province is free of porcine epidemic diarrhea.

Bovine Spongiform Encephalopathy

Surveillance of bovine spongiform encephalopathy (BSE) continued in support of the national program to demonstrate Canada's control measures are effective. A total of 5,235 samples were submitted in 2015-16. On the one hand, the number of animals tested for BSE continues to fall short of the provincial target due to a limited population of eligible animals, higher prices for cull cows

(lack of financial incentive), and fading vigilance by industry and producers. To increase testing, the ministry engages in educational activities to improve awareness of BSE surveillance among producers and veterinarians. On the other hand, the ministry and stakeholders have achieved much on this issue — the last positive case was detected in February 2015.

Agriculture and Forestry also provides pest diagnostic services and conducts surveillance of crop pests, including insects, diseases, and weeds. These activities provide information about the incidence and geographic distribution of regulated pests, which is vital for effective risk management and ensuring profitability. Left unchecked, diseases and pests can spread, causing serious economic damage and rendering some crops uneconomical to grow.

Fusarium graminearum

The disease *Fusarium graminearum* (Fg) has devastated cereal crops in other jurisdictions, costing billions of dollars. Estimated annual losses related to a potential spread of Fg in Alberta could range from \$29 million to \$64 million per

year (not including market losses due to quality). Alberta's approach to minimize Fg includes surveillance of the disease, research into fungicide control options, and implementation and delivery of a comprehensive education plan to industry partners. Improved awareness of Fg, its symptoms, and proper management will limit the establishment and spread of the disease and ensure cereal crops remain profitable and environmentally friendly for Alberta. So far, this approach has succeeded in keeping Fg at bay. An ongoing challenge is for the ministry to deliver protection against Fg given the size of the province and progress of other diseases. To partially address this challenge, the ministry builds strong working relationships with agricultural fieldmen and staff throughout rural and urban municipalities.

Weeds

Weeds are the primary agricultural pest and main reason for pesticide use in Alberta. The ministry provides objective information about the impact of weeds and the use of herbicides on crops. However, the lack of required reporting under the *Weed Control Act* and inconsistent implementation reduces the ministry's ability to respond rapidly to new threats and hampers future legislation and policy decisions. In response to this ongoing challenge, the ministry supports regional weed schools to train and refresh field staff and provides extension, diagnostic services, and management planning to support the *Weed Control Act* and *Agricultural Pests Act*.

Agriculture and Forestry facilitates the inclusion of irrigation infrastructure in the provincial Aquatic Invasive Species program and supports irrigation districts in the development of district-specific preparedness and management protocols.

Mussels

Invasive aquatic species such as zebra and quagga mussels pose a serious threat to irrigation infrastructure. The mussels would reduce water conveyance efficiency and require millions of dollars annually to control, in perpetuity. All irrigation water users would be affected, including the drinking water supply of 30 communities, rural water co-ops, primary producers such as confined feeding operations and irrigators, and industrial water users. In a short time, Alberta's responsiveness and activity on this issue went from negligible to a nation-leading program of monitoring and prevention. For 2015-16, monitoring activities detected no invasive mussels.

Rat Control Program

Thanks to Agriculture and Forestry's rat control program, Albertans have enjoyed rat-free living since 1950. Norway rats are extremely destructive to property, stored and in-field crops, and human health. Rats arrive in Alberta from commercial and public traffic between the province and uncontrolled areas. The 310-RATS number allows the public to quickly report rat sightings. Pest control officers in the rat control zone respond to and manage rat calls and infestations. In 2015-16, approximately \$250,000 was spent on six contracts with municipalities in the rat control zone and \$54,400 was spent on bait. Thirty confirmed rat reports led to eradication, including removal of one infestation in Bon Accord. Maintaining Alberta's rat-free status reduces the risk of diseases carried by rats, reduces property damage caused by rats, and instills public confidence in the rat control program.

Desired Outcome Three: Alberta's agriculture and forest industries are more environmentally responsible and sustainable

In working toward achieving this desired outcome, the ministry identified the following priority initiatives in its 2015-18 ministry business plan.

Priority Initiative 3.1 – Work with processors and producers to increase the adoption of environmentally sustainable agriculture practices and energy efficient technologies.

Albertans are increasingly aware of the need for the effective management of our soil, water, air, and biodiversity. Agriculture and Forestry works with industry and government partners to implement innovative environmentally responsive solutions, improve environmental stewardship, and communicate its responsible stewardship and management of Alberta's natural resources and environment.

The ministry focuses on agriculture and forest industries' proactive adoption of new technologies and practices, which can position an industry to grow, improve its competitiveness, and meet consumer expectations. Results from the 2016 Environmentally Sustainable Agriculture Tracking Survey indicate producers who:

- access ministry programs report adoption of environmental practices at a rate of 60 per cent, versus an adoption rate of 46 per cent for producers who do not access ministry programs;
- consult ministry staff or program-delivery partners report an adoption rate of 62 per cent versus 51 per cent for those who do not.

These results indicate the ministry's outreach and extension efforts are meeting producers' needs and effectively demonstrating the value such practices bring to a producer's operation.

However, uptake of new practices for energy efficiency, agriculture waste management, and soil conservation remains low. In response, the ministry is increasing its research into agriculture waste management, energy use, and soil conservation so it can better understand the challenges and opportunities for producers in adopting sustainable practices.

Under Growing Forward 2, the adoption of practices that reduce the risk of agriculture contaminants leaving producers' operations and degrading water quality was cost-shared with producers. In 2015-16, 478 projects were funded with over \$5 million in grants disbursed as follows: \$1.64 million to individuals, \$3.03 million to farm businesses, \$330,000 to not-for-profit organizations, and \$346,000 to other levels of government.

In our progress toward achieving this desired outcome, we use the following performance measure.

Environmentally sustainable agriculture practices

YEAR ENDING AT MARCH 31

Performance Measure 3.a	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2015-16
Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey)	55%	n/a	56%	n/a	55%	58%

Source: Agriculture and Forestry.

Notes: Survey is conducted every second year. In 2016 adoption of the practice “extending the grazing season” was removed from the survey as the ministry no longer provides program funding to support this practice. Thus, the eligible practices tracked under this performance measure were reduced to 40 from 41. Recalculating the prior years’ results based on the 40 practices shows no change in the 2011-12 result of 55 per cent while the 2013-14 result of 56 per cent decreased to 55 per cent. Neither change is significant enough to impact comparability of 2015-16 results to prior years.

An Environmentally Sustainable Agriculture Tracking Survey is used to indicate whether producers in Alberta are working in a manner that protects the environment. This survey measures the progress related to adopting 40 key environmentally sustainable agriculture practices by Alberta producers within the areas of manure management, water quality and quantity, wildlife habitat conservation, grazing management, general practices, agriculture waste management, energy use and climate change, and soil conservation. This survey also informs decision-making related to the ministry’s agri-environmental programs.

The average percentage of adoption for the 40 key environmentally sustainable agriculture practices by producers was 55 per cent, which is three per cent below the target. There is no statistical difference between the 2015-16 result and results from prior years.

There is variation in the level of adoption of environmental practices across the eight agri-environmental risk areas. The practices with the highest adoption rate (over 75 per cent) were used to address grazing management and water quality and quantity issues. In contrast, less than 25 per cent of applicable environmental practices were adopted to address environmental risks associated with soil conservation, agricultural waste management, and energy and climate change. This is possibly due to regional variability in environmental conditions and lower awareness of new energy technologies. When averaging the eight levels of adoption together, these lower results tend to bring the overall result down, which in itself does not reflect the true environmental stewardship of producers at the farm level. These individual results in the survey provide a source of information for guiding current and future agri-environmental programming, policies, and regulations.

Priority Initiative 3.2 – Facilitate improvements in agricultural water conservation, efficiency, productivity, quality, and supply.

The ministry helps the irrigation sector capitalize on enhanced economic opportunities, operate as good environmental stewards, and contribute to vibrant rural communities. The irrigation sector must maintain its social license so it can continue using water for crop production. Continuous improvement of water-use efficiency allows irrigators to essentially grow more crops with less water. This adaptation contributes to the sector’s social license and ensures water is available for additional economic development, delivery to rural Alberta communities, and healthy aquatic ecosystems in southern Alberta.

In 2015-16, \$19 million went toward irrigation rehabilitation, which improved the efficiency of water conveyance infrastructure. Under Growing Forward 2, an additional \$2.1 million was disbursed to 235 applicants to improve efficiency of on-farm water application. To support sustainable water use, the program was adjusted to incentivize producers to move away from inefficient gravity and wheel-move irrigation systems to better technology.

Results from these improvements are tracked, compared to goals outlined in the ministry’s irrigation strategy, and publicly reported on the ministry’s website at www.agric.gov.ab.ca.

Priority Initiative 3.3 – Ensure Alberta’s forests are managed sustainably and responsibly for environmental protection and biodiversity.

Sustainable and responsible management of Alberta’s forests requires policy and operational procedures based on current and credible science. Current and credible science informs the setting of targets for the volume of timber harvested and reforestation. Due to the multiple resource users and stakeholders involved in timber harvesting and forest management, an ongoing challenge is the varying expectations around resource use and what is considered responsible and sustainable.

The ministry developed a science-based directive to increase the amount of trees to be retained within a harvested area to maintain biodiversity. In 2015-16, Agriculture and Forestry acquired Light Detection and Ranging (LiDAR) data spanning 1,425,700 hectares of northwestern Alberta. The LiDAR data will be used to identify sensitive habitats and provide detailed topographical information, which will inform resource management decisions. The ministry also uses multi-stakeholder sessions to improve communication with stakeholders.

In our progress toward achieving this desired outcome, we use the following performance measure.

Forest management: timber harvest

YEAR ENDING AT MARCH 31

Performance Measure 3.b	Actual 2010-11	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Target 2014-15
Sustainable timber harvest by						
Annual allowable cut (million cubic metres)	29	30	30	31	31	Harvest does not exceed annual allowable cut
Harvest (million cubic metres)	20	20	20	21	21	

Source: Agriculture and Forestry.

This measure reflects Agriculture and Forestry’s ability to manage Alberta’s timber resources in a sustainable manner. It indicates the status of Alberta’s timber supply by comparing the actual annual timber harvest with the long-term annual allowable cut, as set by the ministry. The target is to keep Alberta’s annual timber harvest at or below the annual allowable cut (AAC).

Note, the majority of Alberta timber dispositions are in effect for more than one year and harvest is balanced over a five-year period. Yearly harvest levels may be greater than the AAC; however, to ensure sustainability, harvest levels cumulated over the five-year period do not exceed the AAC within each planning area.

The 2015-16 results indicate the actual timber harvest (21 million cubic metres) was 10 million cubic metres below the approved AAC (31 million cubic metres), meeting the target. Compared to the 2014-15 results, both the harvest and cut levels remained the same, leaving the gap unchanged from the previous year.

Since 2009-10, the provincial AAC has ranged from 28 million to 31 million cubic metres, while the actual harvest has ranged from 20 million to 21 million cubic metres during the same time period. The gap between the harvested and allowable cut has increased from 7 million to 10 million cubic metres. Fluctuations in total harvest volume from year to year can reflect trends in lumber and pulp markets; current lumber and pulp market conditions have not incentivized harvested levels to increase substantially.

In our progress toward achieving this desired outcome, we use the following performance measure.

Forest management: reforestation

YEAR ENDING AT MARCH 31

Performance Measure 3.c	Actual 2010-11	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Target 2014-15
Percentage of forest regrowth as a result of reforestation	97.4%	97.6%	97.3%	97.9%	97.5%	98%

Source: Agriculture and Forestry.

This measure tracks the rate of forest regrowth following timber harvest, ensuring sustainability of our forest resources. Reforestation is required by law and a critical component to forest sustainability following industrial harvesting. Monitoring reforestation in relation to provincial standards is an essential part of forest sustainability and assures the continued flow of economic, social, and environmental values Albertans expect from their forests.

The percentage of forest regrowth for the 2014-15 timber year is 97.5 per cent, compared to a target of 98 per cent, and is consistent with the values achieved in previous years. Forest regrowth rates have been

achieved largely due to the effective silvicultural practices used in reforesting harvested areas.

Natural forests exist within a wide range of variable conditions that are affected by weather, fire, disease, and pests. Actions such as prompt reforestation activities following harvesting and better early seedling growth resulting from more appropriate site preparation enhance early seedling establishment and growth. Additionally, conservative re-growth rate targets have historically been assumed given poor young forest forecasting techniques. Successful forest management and selection and application reforestation techniques have resulted in vigorously regenerating young forests.

Climate Change

Alberta's Climate Leadership Plan is a key government initiative. Although agriculture is a minor energy user, it is a significant contributor of emissions. The challenge is to mitigate emissions through adoption of better technologies and practices. Adoption of energy efficient technology typically results in payback in less than two years, making the industry well suited to adaptation. In 2015-16, a total of 248 grants were given to individual producers, farm businesses, and not-for-profit organizations worth a combined \$3.06 million. The solar photovoltaic program incentivizes the move from carbon-based energy to renewable sources; the program issued 23 grants in 2015-16. Development of a comprehensive plan to encourage industry adoption of new practices is underway.

A fundamental aspect to adoption of new practices is having sound, science-based evidence arrived at through applied research. In response to this need, Agriculture and Forestry launched the Farm Stewardship Centre in Lethbridge. The centre focuses

on applied research, measurement, and verification of current and future agri-environmental stewardship issues. In 2015-16, projects at the centre included nitrogen use efficiency for greenhouse gases and phosphorous filtration of surface water run-off.

As a member of Tree Improvement Alberta, the ministry completed the three-year Tree Species Adaptation Risk Management project — a climate change adaptation project funded primarily through the Climate Change and Emissions Management Corporation. The project looked at the genetic suitability of various seeds and vegetative materials for different climate conditions, especially drought. Ensuring the seeds used for reforestation will survive in the face of changing climate conditions secures the health and productivity of Alberta's forests and the forest industry. The results from this project are implemented through the many forest companies that plant trees on public land. Complete results for the project are available online at www.ccemc.ca.

Desired Outcome Four: Alberta's agriculture and forest industries are more diversified and maximize product value

In working toward achieving this desired outcome, the ministry identified the following priority initiatives in its 2015-18 ministry business plan.

Priority Initiative 4.1 – *Support and leverage industry investments in identifying new products, processes, and services that result in increased diversification and value-added opportunities.*

Agriculture and Forestry stimulates new investment in the value-added food and agri-product processing sectors by helping businesses develop new products and improve their market access.

The ministry provided \$14.4 million to support market development and automation and efficiency. Of this \$14.4 million, \$12.7 million supported automation and efficiency and the remaining \$1.7 million supported market development. These grants linked companies with retailers, increasing the natural products and ingredients industry; expanded processing facilities; and helped agri-processors access new markets. These grants stimulate improvements in productivity, efficiency, and energy efficiency through the adoption of best practices, innovative technologies, and state-of-the-art processes.

A challenge Alberta food processors face when accessing new markets is meeting the variety of requirements from regulators, certification bodies, and customers. The ability to successfully identify and meet these requirements is fundamental to accessing markets and remaining competitive. Agriculture and Forestry provides resources that guide companies through the following steps: determine their ability to meet a requirement; address gaps; integrate new components into their systems; maintain and improve their systems; and prove they are meeting all requirements. A lesson learned from providing this type of support is that, though companies found the resources valuable, the information can be overwhelming. In response, the ministry is developing an e-learning program to make the information easier to work through.

Priority Initiative 4.2 – *Increase the uptake of bio-based product development and processing.*

Opportunities exist to diversify Alberta's economy by transforming agricultural and forestry biomass and organic waste streams into renewable bio-based products, biochemicals, biofuels, and other natural ingredients. These waste materials, such as livestock manure and wood wastes, are typically destined for landfills. By creating new value-added products, industries could attain a higher value for its products, attract capital investment, and stimulate innovation. Other economic spinoffs could include new green jobs, economic diversification, rural development,

and gross domestic product expansion. Replacing petroleum-derived products with bio-based alternatives also reduces Alberta's carbon footprint, supporting Alberta's Climate Leadership Plan while promoting social license.

The biggest challenge facing bio-based product development and processing is the lack of infrastructure capacity. Investment is required to secure the specialized equipment necessary to scale up and develop further expertise in the field.

Priority Initiative 4.3 – Empower Alberta research and knowledge transfer associations to diversify agricultural production and processing, including new crop varieties and improved cropping, forage and livestock production practices.

Agriculture and Forestry partners with applied research associations to share information on new crop varieties, crop management practices, and agronomic practices. Adoption of cutting-edge techniques that result from these partnerships enables industry to remain competitive in a global market.

These partnerships are challenged, however, by significant staff turnover at research associations and the lack of alignment between government and industry timelines. To overcome these difficulties,

Agriculture and Forestry has provided technical and scientific support through its own staff and continues to improve its internal processes to meet its partners' needs.

A highlight from 2015-16 is the registration of two new barley varieties for commercialization. One variety is under evaluation as being suitable for the craft brewing industry. The second variety has high resistance to the disease *Fusarium graminearum*.

Priority Initiative 4.4 – Expand opportunities for entrepreneurs to use established facilities for value-added processing, product development and commercialization.

Alberta is a net exporter of raw agricultural commodities to other countries, where value is then added through processing. This priority initiative is intended to increase the value-added food processing industry in Alberta, which could in turn diversify the province's economy and increase profitability and sustainability. Despite the importance of value adding, many Alberta food processors lack the scientific expertise and facilities to develop new products. Agriculture and Forestry maintains the Food Processing Development Centre and Food Science and Technology Centre to bridge these resource gaps and reduce the processor's financial risk. Between the two centres, 130 applications for technical assistance were received in 2015-16.

The success of this priority initiative has translated into an emerging challenge. Applications in 2015-16 increased over 30 per cent from the prior year, with applicants waiting up to six months before their project started. Resources at the centres were strained, with personnel and space becoming limiting factors. Unfortunately, some food processors moved to out-of-province centres, which could result in those companies keeping their business outside

Alberta in the long term. The government responded by approving expansion of the Food Processing Development Centre. However, expansion does not completely mitigate the possibility of losing some business in the short term, as completion is still three years away. Subsequently, the centre is reviewing its internal processes and organizational design to find improvements; for example, the application process may be revised to identify applicants who require more business planning before a project starts.

Agriculture and Forestry pursues other value-added processing and development opportunities that will benefit industry. In 2015-16, the ministry completed pre-commercial trials for feeding camelina cake to laying hens and pigs. The trials also demonstrated camelina cake can enrich eggs and pork with Omega 3 for human consumption. Camelina cake is currently considered a waste by-product from processing camelina, an oil seed crop. However, camelina cake is a good dietary source of protein and energy. If commercialized, camelina cake could displace expensive imported feed such as soybean, cutting costs for producers. Feed represents as much as 75 per cent of production costs for livestock producers.

In our progress toward achieving this desired outcome, we use the following performance measure.

Product development and commercialization

YEAR ENDING AT MARCH 31

Performance Measure 4.a	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2015-16
Number of value-added products developed and successfully introduced into market with assistance from Agriculture and Forestry	157	216	217	220	227	176

Source: Agriculture and Forestry.

This measure tracks the number of value-added products developed and introduced into market with support from ministry staff. Value-added products refers to primary agricultural commodities that have undergone a change in physical state to achieve enhanced product value. This measure does not reflect economic benefits such as revenue growth, job creation, or investment that may have been generated from these products.

The ministry, through its food grade pilot plant and associated food technology and consumer science facilities at the Food Processing Development Centre, the Consumer Product Testing Centre, the Food Science and Technology Centre (Brooks), and the Agri-Value Processing Business Incubator, facilitates value-added processing of agriculture commodities to better meet consumer needs in the areas of food safety, quality, health, and convenience.

We facilitate new and diversified product development and commercialization by providing scientific, technical, and business development expertise, helping producers and agri-processors develop new and improved value-added products for local

and overseas retail markets. Our services help start-up companies reduce the risk of investing in full commercial production at the idea stage and help established companies access short-term scientific consultancy services on a competitive fee-for-service basis.

In 2015-16, a total of 227 new value-added products were developed and introduced to market with assistance from Agriculture and Forestry, continuing the upward trend in results over the past seven years. The actual result is 29 per cent over the forecasted target. This result is in part due to the increased funding for agri-processing and the additional ministry staff dedicated to service the needs of Alberta food industries. It allowed the ministry to increase uptake of its short-term consultancy services provided to agri-processors. The result can also be partially attributed to the success of the Growing Forward agreement, which provided grants to develop and commercialize 74 per cent of the new value-added products. Future performance may vary due to the difference in the length of time it takes to develop a product from concept to commercialization.

Priority Initiative 4.5 – Enable research-based partnerships with industry-focused institutions and other jurisdictions.

The food processing industry requires partnerships in scientific research to remain competitive in an increasingly complicated manufacturing sector. Collaboration with industry is necessary to efficiently and effectively target research investment. Consumers are looking for healthier products, ethnic flavours, and “clean labels” or “free-from” products. Processors require access to scientific expertise and infrastructure to conduct product and process development.

This priority initiative is intended to increase the food processing industry’s ability to respond to consumer needs and desires through innovative, science-based solutions. Knowledge gained attracts further investment in new technologies and processing equipment, positioning Alberta’s agriculture value chain to increase capacity, competitiveness, and profitability.

Two centres, the Food Processing Development Centre and the Food Science and Technology Centre, have successfully led applied research projects for many years, including nine projects in 2015-16. The nine projects addressed priority concerns for consumers such as reducing sodium in processed meats, validating heart health claims on baked goods, and developing plant-based protein products. A challenge has been disseminating this valuable information to industry. In response, the centres established the Healthy and Enhanced Meat Research Project, an over-arching project to more effectively share the information gained through research with the meat industry. Engagement sessions with key external stakeholders and a needs assessment provided better understanding of industry needs and perspectives. Since this project was successful in addressing the challenge of sharing research results, this approach will be expanded to non-meat sectors for 2016-17.

Agriculture and Forestry leveraged funds from industry-focused institutions and other jurisdictions to conduct industry-focused agronomic research. Through 25 collaborative research projects in 2015-16, producers gained Alberta-specific information on diverse topics such as crop variety performance, plant disease management strategies, and fertility management practices to achieve the greatest returns with minimal environmental effects. Timely, region-specific information allows producers to quickly take advantage of emerging market opportunities.

Did You Know?

Less than 10,000 acres of lentils were grown in Alberta prior to the year 2000. Lentils are now grown on an estimated 250,000 acres and may reach 350,000 acres in 2016, mainly in response to market opportunities on the Indian sub-continent.

A significant achievement this past year was development of a five-year Alberta Beef, Forage and Grazing Centre agreement. As an industry-government partnership, the agreement coordinates and advances research and extension activities with the long-term goal of improving the productivity, competitiveness, sustainability, and land- and resource-use efficiency of the forage-beef system. The need for such an agreement arose from industry concerns about the lack of essential applied forage research and extension for beef producers.

In our progress toward achieving this desired outcome, we use the following performance measure.

Investment by collaborators

YEAR ENDING AT MARCH 31

Performance Measure 4.b	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2015-16
Research and development investment by collaborators leveraged through ministry resources (in \$ millions)	6.2	6.4	4.8	5.2	5.3	6.4

Source: Agriculture and Forestry.

This measure tracks the amount of funds leveraged from outside sources for applied agricultural research and development, and provides an indication of our success in building partnerships with external collaborators. External collaborators include industry organizations, producer groups, private companies, universities, government departments, and agencies. The research and development projects covered under this measure include value-added processing, livestock development, crop diversification, and environmental sustainability.

In 2015-16, Agriculture and Forestry collaborated with industry to conduct 87 research and development projects, leveraging \$5.3 million to fund innovative solutions in the primary agricultural production and value-added processing sectors relating to productivity, competitiveness, and profitability.

While the 2015-16 result is a slight improvement from the previous year, it is lower than our forecasted target. The target was based on historical performance from the preceding five years and was higher due to the completion of major external-funded projects in 2012-13 that are not likely to be repeated in the next three years. The ministry aims to improve results by continuing to build strong collaborative relationships with industry; maximizing resources, including staff, related to research and development projects; being aware of emerging drivers and trends (e.g., consumer demand for healthy and enhanced food products) that may influence research and development priorities, as well as being supported by private and public collaborators; and implementing programs and activities that ultimately lead to research investment.

Priority Initiative 4.6 – Partner with other ministries and the forest industry sector to advance the Alberta Forest Products Roadmap, which identifies opportunities for diversifying forest products and markets.

Under the Forest Products Roadmap initiative, representatives from forest companies met with government officials to discuss the future of the sector. There was optimism the sector could be an engine of growth for rural Alberta and a stalwart of

the emerging bio-economy. During discussions, some representatives raised concerns about the roadmap. In fall 2015 and in response to these concerns, Agriculture and Forestry replaced the roadmap with the Strategic Forestry Initiative.

Desired Outcome Five: Alberta has thriving rural communities

In working toward achieving this desired outcome, the ministry identified the following priority initiatives in its 2015-18 ministry business plan.

Priority Initiative 5.1 – Support positive economic development in rural Alberta that enables producers and agriculture and forestry businesses to grow and succeed.

A key aspect of this priority initiative is the ministry's coaching services to 13 associations funded through the Agricultural Opportunities Fund. Coaching focuses on increasing competitiveness, environmental sustainability, and profitability. A challenge has been

that the quality of these associations' work has come under scrutiny, which prompted the ministry to engage the associations on improving their operations, governance, and communication with boards and chairs to ensure high-quality outcomes.

Priority Initiative 5.2 – Increase business and entrepreneurship capacity in rural Alberta.

Agriculture and Forestry ensures rural businesses have the knowledge and support needed to capitalize on new opportunities, invest in innovation, and enhance competitiveness. This priority initiative is supported through one-on-one business coaching on various topics including market details, risk management, and revenue options.

Highlights from 2015-16 include coaching 23 processors on expanding their sales channels to include e-commerce, retail, and direct-delivery markets. An ongoing challenge is providing robust business coaching that helps businesses grow in intentional ways; for example, some entrepreneurs are seeking quick answers and jumping in without a solid business portfolio.

Priority Initiative 5.3 – Improve access to capital for rural entrepreneurs and businesses.

Agriculture Financial Services Corporation (AFSC) has made significant progress to improving access

to capital for rural entrepreneurs and businesses. Lending results were as follows:

AFSC Lending Results	<i>M = millions • B = billions</i>	2015-16 Actuals	2014-15 Actuals
Total lending portfolio		\$2.2B	\$2.1B
Annual (April 1 to March 31) lending			
• Alberta Farm Loan Program		\$395.8M	\$368.5M
• Commercial loans		\$61.0M	\$71.8M
• Revolving loans		\$49.3M	\$31.5M
• Value Added Agri-business Program		\$37.1M	\$45.1M
• Specific Guarantee loans		\$18.6M	\$5.4M
Annual (April 1 to March 31) lending totals		\$561.8M	\$522.3M
<i>Approximate dollar value of projects enabled by every \$1 AFSC lends</i>		1.51	1.40

AFSC authorized \$561.8 million in new and direct loans and guarantees for the period ending March 31, 2016, an increase from the \$522.9 million reported in 2014-15. This generated \$846 million of investment in the province's agriculture, agri-industry, and value-added sectors in 2015-16. The total AFSC lending portfolio increased in 2015-16 to \$2.2 billion, compared to \$2.1 billion in 2014-15.

The farm loans program continued its positive momentum in 2015-16, with an increase in loan approvals and approved dollars. This positive result is partly attributed to a rise in farm land values (up 11.6 per cent). Stronger cattle prices and better than expected crop yields also contributed to the increase in approved farm loans and dollars.

Alberta's economic slowdown has been identified as the primary reason for the reduced demand for two of AFSC's products: commercial loans and the value-added agri-business program (VAAP). These two loan programs saw a year-to-year decrease of 15.3 per cent and 17.6 per cent, respectively. Furthermore, requests for restructured VAAP loans increased, as well as client requests for interest-only and re-amortization submissions. AFSC is receptive to these client applications, approving those who have taken appropriate action.

AFSC has also been active in finding solutions to the Government of Alberta's challenge of diversifying

the province's economy and economic growth in rural communities. AFSC has focused on two changes to existing products to address these challenges: increasing AFSC's lending limit from \$5 million to \$25 million and replacing the benefit incurred under the Beginning Farmer Incentive program with a rebate.

Improved access to capital is needed for Alberta's small and mid-sized entrepreneurs to flourish. AFSC can better meet the financing needs of growing farms, value-added businesses, and commercial entities by increasing the lending limit. The current \$5 million limit places AFSC outside the market for many capital intensive, value-added operations in the agriculture, forest, and commercial sectors. If approved for implementation, lending volumes are projected to grow by as much as \$100 million over four years.

AFSC's existing farm loan program offers an incentive to all producers with an individual net worth under \$500,000 (reducing interest rate to 1.5 per cent for up to five years on a maximum loan of \$500,000). The proposed Beginning Farmer Rebate program would target younger producers. The rebate would only be available to producers under 45 years old, be one-third of the annual published five-year Alberta Farm Loan Rate (for up to five years), and the maximum net worth would be raised to \$1 million. If approved for implementation, AFSC lending volumes could grow an additional \$50 million per year.

In our progress toward achieving this desired outcome, we use the following performance measure.

Investment in rural business

YEAR ENDING AT MARCH 31

Performance Measure 5.a	Actual 2011-12	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Target 2015-16
Total investment leveraged in rural businesses facilitated through AFSC lending services (in \$ millions)	658	663	644	716	697	699

Source: Agriculture Financial Services Corporation.

Note: Values reported for investments are a proxy measure based on approved loans. Not all loans are disbursed, and in some cases, there may be timing differences between approval and disbursement of loans.

This measure gauges success of AFSC in ensuring farm and rural businesses can access capital to foster development and growth. AFSC facilitates capital investment in rural business development through its lending products, services, and partnerships. These partnerships create flourishing and profitable businesses and support the overall rural economy.

Regardless of the economic cycles that can create difficulties in accessing capital for businesses in rural Alberta, AFSC’s flexible loan terms, long-term fixed rate financing, competitive interest rates, and reasonable agreement conditions help ensure that primary agriculture producers and rural business enterprises can access the capital necessary to foster growth. These lending services are demand-driven by the agriculture and rural business community, with total dollar investment in agri-businesses and farm loans serving as a proxy value for investment based on loans approved. Dollar investment is any fund (i.e., debt,

equity, or investment) that would be used to support the growth of farming and commercial activities.

The \$697 million in investments leveraged in rural businesses in 2015-16 fell just short of the target of \$699 million, which reflects the uncertainty in the amount of approved loans that are withdrawn during the fiscal year. However, the variance is negligible at less than one per cent difference. The result is also less than three per cent lower than in 2014-15 due to AFSC’s participation in the Feeder Association Loan Guarantee Program and the increased uptake of loan guarantee by the cattle industry. Based on historical results, general economic outlook for the province, capacity, and business processes, the overall trend is increasing, with management’s expectations of eight per cent growth annually, plus or minus one per cent.

In our progress toward achieving this desired outcome, we use the following performance measure.

Risk management

YEAR ENDING AT DECEMBER 31

Performance Measure 5.b	Actual 2011	Actual 2012	Actual 2013	Actual 2014	Actual 2015	Target 2015
Percentage of eligible seeded acres for major crop categories insured under Production Insurance:						
Annual crops	73%	75%	77%	76%	77%	77%
Perennial crops	23%	28%	26%	25%	25%	27%

Source: Statistics Canada and Agriculture Financial Services Corporation.

This measure gauges our success in providing customized insurance products to producers to offset the risks of agriculture production, based on type of crop, risk area, and coverage level selected. Production Insurance (AgrilInsurance) mitigates the effects of unstable production for Alberta producers by providing protection against losses caused by designated natural peril on annual and perennial crops.

AFSC’s competitive market-responsive risk management solutions help producers operate successful farm businesses in the absence of effective

private sector tools or methods when natural and market events occur that are beyond agri-business managers’ control. In the event of a downturn, effective risk management programs are essential to shorten the recovery time and provide a stable platform from which industry can achieve its full economic potential. By having a strong selection of choices, backed by sound financial management practices, Alberta producers are better protected against the risks of production, and are better able to be positioned for future success and sustainability.

In the 2015 calendar year, more than \$413 million was awarded under annual crop programs, including for production, hail, and spring price endorsement losses. Nearly \$61 million was awarded under perennial insurance programs.

The uptake of annual crops insured under Production Insurance was 77 per cent in 2015, which matches the stated target. This figure continues to be high due to the financial risk involved in crop production, high input costs, and commodity prices. The result inches closer to the assumed market saturation point of 80 per cent of arable acres. In total, 14.7 million acres and \$3.9 billion of risk is insured on annual crops.

The uptake of perennial crops insured under Protection Insurance was 25 per cent in 2015, which does not meet the stated target of 27 per cent and is the same

uptake from the year before. The seeded acres of perennials covered under Production Insurance are heavily influenced by growing moisture conditions and forage feed supply. Excellent growing moisture conditions are in most cases followed by a reduction in coverage level as some producers anticipate continuous good growing moisture conditions. Good moisture in the 2014 year resulted in strong hay crops. As a result there was increased carry-over of hay and other feed supplies. Because of the increased carry-over, more producers self-insured. Producers on the other hand maintain a high coverage for the annual crops as unfavourable growing moisture conditions may result in a total loss of crops or harvest. In total, 6.7 million acres and \$129 million of risk is insured on perennial crops.

Priority Initiative 5.4 – Develop long-term solutions to address labour challenges in the agriculture and forestry sectors.

Employers in the primary agriculture and agri-food processing sectors operate in a competitive business environment. These employers experience a variety of common labour challenges, including worker productivity, retention, and recruitment. These employers have additional challenges with workers who are reluctant to relocate to rural areas, despite rising unemployment numbers. Through the Workforce Development initiatives, the ministry assists industry with assessing and adopting technologies and automation to increase productivity; retaining workers and reducing turnover; recruiting within Canada and internationally; and improving the business's economic viability. Agriculture and Forestry distributed approximately \$136,000 to 11 agriculture industry clients and industry associations to implement long-term solutions to address labour challenges facing their operations.

Our focus is on filling labour shortages with unemployed and under-employed Albertans, including youth, indigenous people, and immigrant job seekers. Fewer young people are entering the agriculture sector and the seasonality of employment opportunities further contribute to primary producers facing labour shortages. The Green Certificate program attempts to attract high school students to the sector through an apprentice-style program offered in 241 high schools. Green Certificate provides trainees with opportunities to earn high school credits and credentials toward a career in agri-business. For 2015-16, there were 1,071 active trainees in nine curriculum areas with 445 graduates. A challenge to this successful program has arisen, partly due to a change in how schools are funded, with some schools levying additional user fees on students. Agriculture and Forestry is working with the Ministry of Education to rectify misconceptions that contributed to the user fees.



Priority Initiative 5.5 – Improve leadership capacity and skills development in rural communities.

Two broad programs, Growing Forward 2 and 4-H, focus on increasing leadership capacity and life skills development in rural communities. Programs under Growing Forward 2 include Business Opportunity, Business Development and Farm Safety Initiative, and Business Management Skills Development (BMS). Training under BMS, for example, focuses on increasing management capacity, leading to better decisions and industry growth. Together, these three programs disbursed grants worth \$2.9 million to producers, processors, and other agri-businesses in rural communities.

The 4-H's programming builds leadership capacity, business acumen, and collaborative relationships throughout rural communities to enhance industry's governance. The ministry completed a needs assessment of 4-H in 2015-16; the assessment will guide development of a strategic plan to ensure 4-H remains viable and effective into the future. However, not all parties involved in the assessment agree on the validity of the results and next steps. In response, the ministry is initiating collaborative processes to continue development of the strategic plan in the upcoming year.

Farm Safety

Farming and farms — from the size of the operations to the equipment used — continue to evolve. The ministry's farm safety efforts focus on increasing safety skills and practices and enhancing the safety culture on farms throughout the province. In 2015-16, Agriculture and Forestry provided education and outreach to 232 workers and owners through FarmSafe workshops; developed a one-credit course recognized by the Ministry of Education about young farm worker safety; and delivered funding to partner organizations in support of the Sustainable Farm Family program.

The government also passed the *Enhanced Protection for Farm and Ranch Workers Act* in 2015-16 to ensure safe worksites and conditions for Alberta farmers, their families, and employees.

The Act brings protection and compensation of non-family farm and ranch employees in line with protections already afforded workers in other sectors throughout Alberta. Agriculture and Forestry continues to work with the Ministry of Labour on implementation; the process to consult with stakeholders on regulations was approved by Cabinet and will be underway in 2016-17, with the application and nomination phase complete. Communication around the Act presented a challenge, leading to confusion among producers about the legislation's impact and concerns that safety requirements incompatible with the agriculture sector would be imposed. In response, the ministry is focused on extensive collaboration while developing associated regulations and clear communication going forward.

Performance Measure Methodology

This section describes the methodology of each performance measure, including the calculation method, data source, data quality and review processes, and data limitations.

Performance Measures 1.a and 1.b

- a Alberta's agri-food exports by market (\$ million) (United States; China; India; CETA member countries; TPP member countries, excluding U.S.; and the Rest of the World)
- b Alberta's agri-food exports by sector (\$ million) (Primary commodities; and Processed/manufactured products)

The results for these measures are derived from the monetary value of Alberta's agri-food products leaving the province through customs for a foreign destination market.

Measure 1.a reports the total value of Alberta's agri-food exports categorized by country or region of destination, where the country of destination is the last known destination of the agri-food products at the time of export.

Measure 1.b reports the total value of Alberta's agri-food exports categorized into primary commodities and processed or manufactured products.

Agri-food exports refers to domestic exports, which exclude re-exports and include primary commodities and processed or manufactured products. Primary commodities refer to all crops grown and livestock raised in Alberta that have not been materially transformed. Processed or manufactured products refer to processed crops and livestock products under broad groupings of food, beverages, animal feed, and inedible crude animal and plant products.

The ministry purchases export statistics related to agri-food from the International Trade Division of Statistics Canada. This data set provides detailed breakdown of agri-food exports originating from Alberta and valued at "Free on Board" port of exit from Canada. Canadian international export statistics are developed from administrative files of Canada

Border Services Agency and U.S. Border Protection. Information on Alberta's agri-food exports is compiled by the Statistics and Data Development Branch of Agriculture and Forestry.

Statistics developed from administrative records of Customs may understate or incorrectly portray the destination of exports or the province of origin. Inaccuracies of exports data often result from the attribution of exports on a province of lading basis rather than by province of origin. Export statistics are subject to revisions, with revisions being conducted by Statistics Canada on a monthly basis. In this report, revisions are made only in the case when the difference in annual value of exports is greater than 5 per cent.

CETA member countries include: Austria; Belgium; Bulgaria; Croatia; Cyprus; Czech Republic; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Republic of Ireland; Italy; Latvia; Lithuania; Luxembourg; Malta; Netherlands; Poland; Portugal; Romania; Slovakia; Slovenia; Spain; Sweden; and United Kingdom.

TPP member countries (excluding the United States) include: Australia; Brunei Darussalam; Chile; Japan; Malaysia; Mexico; New Zealand; Peru; Singapore; and Vietnam. The "Rest of the World" represents all countries, excluding the United States, China, India, and member countries of CETA and TPP.



Performance Measure 2.a

Percentage of wildfires contained before 10 a.m. the day following assessment

The number of wildfires contained by 10 a.m. the day following assessment is expressed as a percentage of all wildfires that occur during the fire season (April 1, 2015, to October 31, 2015). Wildfires in the province are thoroughly tracked for detection, assessment, control and containment logging time, and resources used. Early detection, assessment, and containment minimizes fire loss and reduces suppression costs.

Targets reflect the average of actual results from the five preceding years, including the current year (2015). Future targets are not listed in the ministry business plan because results for the current year are not available when the business plan is being prepared. In lieu of actual targets, the target setting procedure is disclosed.

Performance Measure 2.b

Percentage of active provincial licensed abattoirs that provincial food safety slaughter requirements

The result for this measure is derived by dividing the number of active Alberta-licensed abattoir facilities that are compliant with the Meat Inspection Regulation by a base value of total number of active Alberta-licensed abattoir facilities.

All Alberta-licensed abattoir facilities (poultry, red meat abattoirs) receive animal slaughter inspections as part of facility and operating standards under the slaughter inspection program. Each active Alberta-licensed abattoir facility receives inspections at all scheduled slaughter days over the course of the year.

The animal slaughter requirements target food safety risk factors associated with: adequate hand washing, demonstration of knowledge, personnel hygiene practices, protection from contamination; slaughter equipment; cool time and temperature; and sanitation practices. The animal slaughter inspections are used to determine if an abattoir facility has met provincial animal slaughter requirements for the reporting calendar year.

This measure only reports compliance to inspections related to animal slaughter requirements under the Meat Inspection Regulation. Each active Alberta-licensed abattoir facility receives a compliance designation for each food safety risk factor: Compliant, Requires Improvement, or Non-Compliant. Requires Improvement indicates low food-safety risk.

Non-Compliant indicates that slaughter practices and/or operating procedures (such as repetitive occurrences of low-risk food-safety incidences) create a high food-safety risk or a poor food-safety culture. A corrective action request is issued for all non-compliant ratings; abattoirs are expected to address areas of non-compliance.

An active abattoir facility that receives either Compliant or Requires Improvement for all components of all slaughter inspections is deemed compliant for the inspection period. An active facility that complies with the *Meat Inspection Regulation* at all slaughter inspections is deemed to have met provincial food safety slaughter standards for the entire reporting calendar year.

An active abattoir facility that receives one or more corrective action requests for any slaughter day inspection is deemed not to have met the *Meat Inspection Regulation* for the entire reporting calendar year. Active facilities that comply with the *Meat Inspection Regulation* for some (but not all) slaughter day inspections are not counted as having met provincial food safety animal slaughter requirements. As a result, the performance result likely understates the level of compliance among active Alberta-licensed abattoir facilities.

Data for this measure is collated from the ministry's Meat Inspection Program.

Performance Measure 3.a

Average percentage of improved environmentally sustainable agriculture practices adopted by producers (biennial survey)

The result for this measure is derived from 40 environmentally sustainable agriculture (ESA) practices that could be used to address soil conservation, water management, wildlife habitat conservation, energy management, climate change adaptation, agricultural waste management, and grazing and manure management.

An eligible ESA practice (or group) for the base calculation is based on farm type, farm site characteristics, and operation practices. The percentage of eligible environmentally sustainable agricultural practices adopted by each respondent is multiplied by a weighting factor to generate a weighted adoption score for each respondent. The result of this measure is the average weighted adoption score of all respondents expressed as a percentage.

The target population for this survey is based on a list of commercial farmers in Alberta maintained by Ipsos Reid Corporation. The random and representative sample size was 500, providing a margin of error in provincial results of ± 4.4 per cent at a 95 per cent confidence level. The response rate was 14.2 per cent.

Data limitations include: producers that are not included in Ipsos Reid Corporation's database (the source of the survey list); non-contactable subscribers (due to privacy legislation compliance); unreachable samples (due to wrong telephone numbers, answering machine, busy, no answer, etc.) and non-response; and disqualification due to failure to answer a required screening question.

Additional information can be found in Agriculture and Forestry's 2016 Environmentally Sustainable Agriculture Tracking Survey.

Performance Measure 3.b

Sustainable timber harvest by:

- Annual allowable cut (million cubic metres)
- Harvest (million cubic metres)

Results reflect Alberta's ability to manage forests on Crown land in a sustainable manner. Annual allowable cut (AAC) is the amount of timber that can be harvested on a sustainable basis (in accordance with the policy of sustained yield) within a defined planning area. Recreation areas, wildlife reserves, and stream buffers are excluded from the AAC calculation.

The AAC is determined on either an individual forest management unit basis or a specific forest management agreement area basis. Information is stored in a database and summed to determine the total AAC for the province.

AACs are developed by forest management agreement (FMA) or FMA holders as part of their detailed forest management plans. An FMA is an area-based tenure

agreement between a forest company and the Government of Alberta that gives a forestry company the right to establish, grow, and harvest timber. The ministry approves the company-recommended AAC following a technical review; ministry staff develop AACs for other forest management units.

Data from the Timber Production and Revenue System is used to determine the provincial harvest level (actual timber harvest). Certain volumes are not included in the harvest level for the purpose of comparability to the AAC. For example, fire salvage is not included in harvest levels if it does not contribute to the AAC. A five-year rolling average is used to report provincial AAC and actual timber harvest levels and results lag by one year.

Performance Measure 3.c

Percentage of forest regrowth as a result of reforestation

The rate of forest regrowth is the percentage of targeted regrowth achieved on harvested areas at the time of last mandated assessment. This measure ensures reforestation continues to sustain Alberta's public forests and forest lands following industrial harvesting. Monitoring reforestation in relation to regeneration standards is an essential part of continued forest sustainability and demonstrates efforts that Agriculture and Forestry staff perform to sustain Alberta's forest resources.

The current forest regeneration assessment system utilizes detailed data and assesses sufficiency of the harvested areas' reforestation status. Two approaches are used either by assessing the measure's status relative to a fixed point-in-time standard, or by forecasting the growth rate of the reforested trees relative to the growth rate assumed for that forest type in the Forest Management Plan for the area. The regrowth rate measure reports a single metric combining both systems of assessing regeneration performance.

Performance Measure 4.a

Number of value-added products developed and successfully introduced into market with assistance from Agriculture and Forestry

The result for this measure is derived from the total number of written confirmations provided by industry clients for products that were developed with assistance from the ministry and successfully introduced to market.

Value-added products include value-added food, beverage, and bio-industrial products and new crop varieties. Introduced to market refers to a product that has obtained a listing at retail or food service, domestically or internationally, as well as

products that have been sold as ingredients for further manufacturing. Ministry staff assist industry clients in one or more of the following areas: product formulation, shelf-life, packaging, sensory evaluation, marketing and commercialization.

The number of new products confirmed by industry clients are aggregated and reported for this measure. The data is collated from program areas within the ministry that are engaged in project development and commercialization.

Performance Measure 4.b

Research and development investment by collaborators leveraged through ministry resources

The result for this measure is the sum of expended dollars from outside sources leveraged through ministry investment in research and development in four priority areas: value-added processing; livestock development; crop diversification; and environmental stewardship. Outside sources or collaborators include: industry organizations; private companies; universities; government departments; and agencies.

Research and development is creative work undertaken on a systematic basis in order to increase the stock of scientific and technical knowledge and to use this knowledge in new applications. The central characteristic of research and development is an appreciable element of novelty and it involves scientific investigations resulting in new knowledge, products, or processes.

The reported result was collated from data supplied by ministry program areas that are involved in research and development activities. A standardized questionnaire collects information on a division's fiscal year research and development expenditures and expended amounts received from outside sources. An expended amount is an aggregate amount of revenue that has been used to offset part or all of project expenses.

Data on in-kind contributions from collaborators is not included in the calculation of this measure. As a result, the performance result likely understates the true amount of leveraged resources invested by collaborators. Measures of in-kind contributions are less reliable, as they are based on estimates that can be subjective.

Performance Measure 5.a

Total investment leveraged in rural businesses facilitated through AFSC lending services

Farms and commercial business investments in rural areas are added together and reported as total dollar investment (all sources are included whether it is direct from AFSC, other sources of debt, business owner's equity, or investment by a third party). This amount excludes all loans that were approved in the 2015-16 fiscal year and subsequently cancelled or withdrawn on or before March 31, 2016.

Dollar investment is any fund (i.e., debt, equity, investment) that would be used to support the growth of farming and commercial activities. Total leveraged

investment is a proxy for the total dollar investment as a result of AFSC's involvement with the facilitation of capital investment in agri-business and farm loans for farming and/or commercial activities outside Calgary and Edmonton.

Total dollar investment in rural businesses is a proxy value for investment based on loans approved. Values reported are affected by timing differences between approval and disbursement of loans approved. As well, not all approved loans are disbursed. The data is collated from AFSC's lending activities.

Performance Measure 5.b

Percentage of eligible seeded acres for major crop categories insured under Production Insurance:

- Annual Crops
- Perennial Crops

Annual crops are seeded every year. The annual crops included in this measure are: wheat (winter wheat, spring wheat, and durum wheat); oats; barley; fall rye; mixed grain; flaxseed; canola; corn for grain; dry peas; triticale; dry coloured beans; lentils; mustard seed; chick peas; sugar beets; and fodder corn.

Perennial crops do not need to be seeded every year and last for several years. Perennial crops are made up of seeded pasture, native/natural pasture, and tame hay.

The total eligible seeded acres for the annual crops insured under the crop insurance program is divided by the corresponding total seeded acres for annual crops, as reported in Statistics Canada's November 2015 Field Crop Reporting Series (released on December 4, 2015). The result is then expressed as a percentage. The corresponding eligible seeded acres of annual crops insured under the crop insurance program is supplied by Agriculture Financial Services Corporation.

The total eligible seeded acres for the perennial crops insured under the crop insurance program is divided by the corresponding total for seeded and native pastures (Census of Agriculture 2011, Statistics Canada) and tame hay pasture (November 2015 Field Crop Reporting Series, Statistics Canada, released on December 4, 2015). The result is then expressed as a percentage. The corresponding eligible acres of perennial crops insured under the crop insurance program is obtained from Agriculture Financial Services Corporation.

Estimate for land (in acres) seeded to annual crops in Alberta is taken from Statistics Canada's November 2015 Field Crop Reporting Series. This Statistics Canada publication also provides a detailed methodology to the field crop data. The November estimate provides the most recent information available on seeded acreage in Alberta.

The Census of Agriculture is collected every five years, so acres may change during that time.

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APPENDIX A: AGRICULTURE AND FORESTRY STATISTICS

Alberta Agriculture and Agri-Food Industry

Household Food Expenditure		2013 (r)	2014 (p)	% Change
Annual Average Household Food Expenditure	Average Household Expenditure on Food	\$9,328	\$8,740	-6.3
	% of Total Average Household Expenditure	9.2%	8.7%	

Note: Expenditure data for 2015 are not yet available.

Agri-Food Industry		2014 (r)	2015 (p)	% Change
Real Gross Domestic Product (GDP) in 2007 Dollars	- Agri-Food Industries	\$5.43	\$5.41	-0.2
	- Agriculture Industries	\$3.15	\$3.01	-4.3
	- Food Manufacturing Industries	\$2.28	\$2.40	5.4
Employed Labour Force	Agri-Food Industries (Number of Persons)	86,100	89,200	3.6
	% of Total Alberta Employment	3.8%	3.9%	
	- Agriculture Industries	60,600	62,800	3.6
	- Food and Beverage Manufacturing Industries	25,500	26,400	3.5
	% of Total Manufacturing Industries	17.6%	18.9%	
Farm Income	Total Farm Cash Receipts (\$ Billions)	\$12.90	\$13.55	5.1
	- Crops	\$5.95	\$6.12	2.8
	% of Total Cash Receipts	46.1%	45.1%	
	- Livestock and Livestock Products	\$6.40	\$6.79	6.0
	% of Total Cash Receipts	49.6%	50.1%	
	- Supply Management (Dairy, Poultry and Eggs)	\$0.87	\$0.89	2.9
	% of Livestock and Livestock Products	13.5%	13.1%	
	- Direct Program Payments	\$0.55	\$0.65	18.9
	% of Total Cash Receipts	4.3%	4.8%	
	Farm Operating Expenses (After Rebates) (\$ Billions)	\$10.11	\$10.35	2.3
	Net Cash Farm Income (\$ Billions)	\$2.78	\$3.21	15.2
Realized Net Income (\$ Billions)	\$1.19	\$1.50	26.1	
Total Net Income (\$ Billions) ⁽¹⁾	\$0.36	\$0.83	132.9	
Food and Beverage Manufacturing Industries Value of Sales	Food and Beverage Industries (\$ Billions)	\$13.69	\$14.63	6.9
	% of Total Alberta Manufacturing Sales	17.3%	21.5%	
	Top Three Largest Food Manufacturing Sales Groups in 2015:			
	1. Meat Products (Includes Poultry)	\$7.02	\$7.66	9.2
2. Grain and Oilseed Milling	\$1.62	\$1.62	0.0	
3. Dairy Products Manufacturing	\$1.39	\$1.45	4.1	
Agri-Food Exports to All Countries	Total Agri-Food Exports (\$ Billions)	\$9.74	\$10.18	4.5
	- Primary Commodities (Animals and Crops)	\$5.48	\$5.38	-1.8
	- Value Added Products	\$4.27	\$4.80	12.5
	Top Three Markets in 2015 (% Share of Total)			
	1. United States (39.3%)	\$3.94	\$4.00	1.6
	2. China (15.6%)	\$1.33	\$1.59	19.5
	3. Japan (10.8%)	\$1.20	\$1.10	-8.1
	\$5.97	\$6.02	0.8	

Agri-Food Industry		2014 (r)	2015 (p)	% Change
Value of Farm Capital	Total Value of Farm Capital at July 1 (\$ Billions)	\$127.70	\$140.61	10.1
	- Livestock and Poultry	\$8.52	\$10.79	26.6
	- Land and Buildings	\$106.40	\$116.33	9.3
	- Machinery and Equipment	\$12.78	\$13.50	5.6
Production of Top Three Major Field Crops	1. All Wheat (tonnes)	9,348,900	8,290,000	-11.3
	% of Canada	31.8%	30.0%	
	2. Canola (tonnes)	5,796,900	5,443,100	-6.1
	% of Canada	35.3%	31.6%	
	3. Barley (tonnes)	4,131,300	4,289,200	3.8
% of Canada	58.0%	52.1%		
Meat Production Quantity	Beef – Western Canada ⁽²⁾ (tonnes)	771,739	758,630	-1.7
	Pork – Alberta (tonnes)	221,995	242,189	9.1
Number of Livestock Slaughtered ⁽³⁾	Cattle and Calves – Western Canada ⁽²⁾ (Head)	2,122,774	2,013,571	-5.1
	Hogs – Alberta (Head)	2,509,468	2,673,257	6.5
Livestock Inventory on Farms on January 1 st		01/01/2015	01/01/2016	
	Cattle and Calves (Head)	4,905,000	4,925,000	0.4
	% of Canada	41.1%	41.2%	
	Hogs (Head)	1,480,000	1,505,000	1.7
	% of Canada	11.2%	11.3%	
	Sheep and Lambs (Head)	145,000	135,000	-6.9
% of Canada	17.2%	16.3%		
Census of Agriculture – Alberta		2006	2011	% Change
Rural Population	Total Population of Alberta	3,290,350	3,645,257	10.8
	- Rural Population	590,499	614,855	4.1
	% of Total Population	17.9%	16.9%	
	- Population Centres (Urban) Population	2,699,851	3,030,402	12.2
Number of Farms	Number of Farms	49,431	43,234	-12.5
	% of Canada	21.6%	21.0%	
Farmland Area	Total Farmland Area (Acres)	52,127,857	50,498,834	-3.1
	% of Canada	31.2%	31.5%	
Land Area in Crops	Land Area in Crops (Acres)	23,775,509	24,102,289	1.4
	% of Canada	26.8%	27.6%	
Average Farm Size	Average Farm Size (Acres)	1,055	1,168	10.7
Farm Operators	Number of Farm Operators	71,660	62,050	-13.4
	Average Age of Farm Operators	52.2 years	54.5 years	
	% Distribution By Age Group:			
	- Under 35 years	8.8%	7.3%	
	- 35 to 54 years	50.1%	43.1%	
- 55 years and over	41.1%	49.6%		
Farms by Type ⁽⁴⁾	Top Five Farm Types (Number of Farms):			
	1. Grain and Oilseed	12,562	12,692	1.0
	2. Beef Cattle (Including Feedlots)	20,494	12,022	-41.3
	3. Other Crops (Excluding Grain and Oilseed)	5,361	9,385	75.1
	4. Other Animals (Excluding Beef Cattle)	7,414	6,374	-14.0
	5. Greenhouse, Nursery, Floriculture and Mushroom	910	826	-9.2

Census of Agriculture – Alberta		2006	2011	% Change
	% of Total Number of Farms:			
Farms by Sales Class ⁽⁵⁾	- Under \$10,000	19.8%	17.8%	
	- \$10,000 to \$24,999	17.6%	18.2%	
	- \$25,000 to \$99,999	29.6%	27.7%	
	- \$100,000 to \$499,999	26.6%	26.0%	
	- \$500,000 and Over	6.4%	10.3%	
Land Area Seeded Using No-Till Practices	Total Land Area Prepared for Seeding (Acres)	18,726,144	19,945,813	6.5
	No-Till or Zero-Till Seeding Area	8,950,836	12,924,625	44.4
	% of Total Land Area Prepared for Seeding	47.8%	64.8%	
Irrigation Area	Irrigated Farmland (Acres)	1,325,929	1,241,411	-6.4
	% of Canadian Irrigated Area	63.5%	65.2%	

r – revised p – preliminary, subject to revision.

Note: Per cent changes shown are based on unrounded data. Data shown in this table are current as May 31, 2016.

- ⁽¹⁾ Realized net income adjusted for inventory change.
- ⁽²⁾ Western Canada data only; breakdown for Alberta are unavailable.
- ⁽³⁾ Federally and provincially inspected slaughter, irrespective of origin.
- ⁽⁴⁾ Farms are classified by the commodity or groups of commodities that make up the majority of total farm cash receipts; based on the North American Industry Classification System (NAICS).
- ⁽⁵⁾ Farms are classified by the gross farm cash receipts of the operation in the previous calendar year, or for the complete accounting (fiscal) year (2005 and 2010).

Sources: Statistics Canada; Alberta Agriculture and Forestry; Agriculture and Agri-Food Canada; and Census data for 2006 and 2011 are from the Census of Population and Census of Agriculture.

More detailed statistical information can be found on the Statistics page on the ministry website www.agric.gov.ab.ca

Forest Industry

Alberta Forest Industry Statistics		2014	2015	% Change
Real Gross Domestic Product (GDP) in 2007 Dollars (\$ billions) ^A	Forestry & logging industries	\$0.62	\$0.65	4.8%
	Wood products manufacturing	\$1.40	\$1.34	-4.3%
	Pulp & paper manufacturing	\$0.56	\$0.62	10.7%
Employment (Number of Persons) ^B	Forestry & logging industries	3,470	3,639	4.9%
	Wood products manufacturing	12,013	10,394	-13.5%
	Pulp and Paper manufacturing	3,518	3,393	-3.6%
Capital Expenditures in 2007 Dollars (\$ millions) ^C	Forestry & logging industries	\$54.80	\$48.30	-11.9%
	Wood products manufacturing	\$186.40	\$126.00	-32.4%
	Pulp & paper manufacturing	\$154.10	\$104.10	-32.4%
Industry Revenues (\$ billions) ^D	Forestry & logging industries	x	x	
	Wood products manufacturing	\$3.68	\$3.47	-5.7%
	Pulp & paper manufacturing	\$1.53	\$1.69	10.5%
Top Three Export Markets for Wood Products (\$ millions)	United States	\$900.62	\$1,033.57	14.8%
	Japan	\$38.66	\$33.85	-12.5%
	China	\$4.39	\$1.04	-76.3%
Top Three Export Markets for Pulp & Paper Products (\$ millions) ^E	United States	\$810.47	\$815.30	0.6%
	China	\$353.25	\$511.81	44.9%
	Japan	\$168.45	\$168.78	0.2%

Note: Results current as at June 2, 2016.

1. Capital expenditures and domestic revenues for forestry & logging industries do not include support activities for forestry, as the data is not reported at that level.
2. Forestry & logging industries refers to harvesting, silviculture, reforestation, pest control, and other related activities.
3. Wood products manufacturing refers to solid wood products, such as lumber, panels (OSB, plywood), engineered, and other wood products.
4. Pulp and paper manufacturing refers to pulp wood products such as chemical and mechanical pulp, newsprint, and other paper products.
5. Industry revenues include all sales made domestically and internationally.
- x. Confidential

Sources:

- A. Statistics Canada: System of National Accounts (SNA)
- B. Statistics Canada: Survey of Employment, Payroll, & Hours (SEPH)
- C. Statistics Canada: Annual Capital and Repair Expenditures Survey (CAPEX)
- D. Statistics Canada: Annual Survey of Manufacturing & Logging
- E. Statistics Canada: Canadian International Merchandise Trade Database

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Consolidated Financial Statements

Year Ended March 31, 2016

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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 Forestry, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated 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 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 Forestry as at March 31, 2016, and the results of its operations, 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

RESULTS ANALYSIS
FINANCIAL INFORMATION

MINISTRY OF AGRICULTURE AND FORESTRY
 CONSOLIDATED STATEMENT OF OPERATIONS
 YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Revenues			
Government Transfers			
Transfers from the Agriculture and Food Innovation			
Endowment Account	\$ -	\$ -	\$ 3,050
Government of Alberta Grants	-	677	875
Federal Government Grants	337,982	308,364	293,872
Investment Income	134,157	133,313	132,967
Premiums, Fees and Licenses	446,182	367,865	383,609
Other Revenue	10,661	12,781	13,537
Ministry Revenue	928,982	823,000	827,910
Expenses - Directly Incurred (Note 2(c) and Schedule 6)			
Program (Schedule 1)			
Ministry Support Services	19,390	19,314	17,200
Agriculture Policy and Economics	16,718	14,355	16,096
Agriculture Environment and Water	54,905	52,919	53,694
Food Safety and Animal Health	47,811	46,338	45,716
Industry Development	103,526	101,028	95,678
Forests	590,421	587,003	350,717
Lending	36,518	37,462	34,301
Insurance	814,322	606,115	507,017
Agriculture Income Support	147,720	86,669	134,639
Livestock and Meat Strategy	32,290	32,199	33,144
Agriculture and Food Innovation Endowment Account	-	-	3,058
2013 Alberta Flooding	-	-	630
Program Expense	1,863,621	1,583,402	1,291,890
Other			
Debt Servicing Costs	74,845	70,131	69,892
	74,845	70,131	69,892
Ministry Expense	1,938,466	1,653,533	1,361,782
Annual Deficit	\$ (1,009,484)	\$ (830,533)	\$ (533,872)

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

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2016

	2016	2015 (Restated - Note 3)
	(in thousands)	
Financial Assets		
Cash and Cash Equivalents	\$ 344,388	\$ 381,804
Accounts Receivable	32,155	36,646
Due from Government of Canada	240,408	179,450
Loans Receivable (Schedule 2)	2,161,537	2,067,625
Investments (Schedule 3)	1,891,416	1,834,695
	4,669,904	4,500,220
Liabilities		
Accounts Payable and Accrued Liabilities	264,624	75,751
Indemnities Payable	167,535	172,484
Unearned Revenue	16,960	13,628
Liability for Contaminated Sites	2,708	4,140
Unspent Deferred Capital Contributions (Note 5)	431	1,107
Borrowing from Government of Alberta (Schedule 5)	2,146,362	2,023,926
	2,598,620	2,291,036
Net Financial Assets	2,071,284	2,209,184
Non-Financial Assets		
Tangible Capital Assets (Schedule 4)	240,063	238,585
Inventories of Supplies	3,782	4,380
Prepaid Expenses	3,981	4,146
	247,826	247,111
Net Assets Before Deferred Capital Contributions	2,319,110	2,456,295
Spent Deferred Capital Contributions (Note 5)	13,602	12,900
Net Assets	\$ 2,305,508	\$ 2,443,395
Net Assets at Beginning of Year	\$ 2,443,395	\$ 2,215,893
Adjustments to Net Assets	-	(66)
Annual Deficit	(830,533)	(533,872)
Net Financing Provided from General Revenues	692,646	761,440
Net Assets at End of Year	\$ 2,305,508	\$ 2,443,395

Contingent Liabilities and Contractual Obligations (Notes 7 and 8)

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

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Annual Deficit	\$ (1,009,484)	\$ (830,533)	\$ (533,872)
Acquisition of Tangible Capital Assets	(29,719)	(27,030)	(33,556)
Amortization of Tangible Capital Assets (Schedule 5)	28,795	24,911	25,691
(Gain) Loss on Sale of Tangible Capital Assets	-	(46)	299
Proceeds on Sale of Tangible Capital Assets	-	189	59
Write-downs of Tangible Capital Assets	-	498	451
Acquisition of Supplies of Inventories	(1,860)	(1,729)	(1,149)
Consumption of Supplies of Inventories	1,860	2,327	673
Change in Prepaid Expenses	-	165	(23)
Change in Spent Deferred Capital Contribution (Note 5)	-	702	603
Net Financing Provided from General Revenue	-	692,646	761,440
(Decrease)/Increase in Net Financial Assets		\$ (137,900)	\$ 220,616
Net Financial Assets at Beginning of Year		2,209,184	1,988,568
Net Financial Assets at End of Year		\$ 2,071,284	\$ 2,209,184

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

MINISTRY OF AGRICULTURE AND FORESTRY
 CONSOLIDATED STATEMENT OF CASH FLOWS
 YEAR ENDED MARCH 31, 2016

	2016	2015 (Restated - Note 3) (in thousands)
Operating Transactions		
Annual Deficit	\$ (830,533)	\$ (533,872)
Non-cash items included in Net Operating Results		
Amortization of Tangible Capital Assets (Schedule 4)	24,911	25,691
Deferred Capital Contribution recognized as Revenue (Note 5)	(4,664)	(2,554)
Amortization of premiums and discounts	(1,915)	3,102
Loss on Disposal of Tangible Capital Assets	452	750
Gain on Sale of Investments	(8,356)	(7,621)
	(820,105)	(514,504)
Net Change in Operating Assets and Liabilities	137,189	5,017
Cash Applied to Operating Transactions	(682,916)	(509,487)
Capital Transactions		
Acquisition of Tangible Capital Assets (Schedule 4)	(27,030)	(33,556)
Proceeds on Disposal of Tangible Capital Assets	189	59
Cash Applied to Capital Transactions	(26,841)	(33,497)
Investing Transactions		
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
Cash Applied to Investing Transactions	(149,353)	(316,891)
Financing Transactions		
Contributions Restricted for Capital (Note 5)	4,690	3,157
Borrowing from the Government of Alberta	783,000	123,586
Repayment of Borrowing from the Government of Alberta	(658,642)	(45,479)
Net Financing Provided from General Revenues	692,646	761,440
Cash Provided by Financing Transactions	821,694	842,704
Decrease in Cash and Cash Equivalents	(37,416)	(17,171)
Cash and Cash Equivalents at Beginning of Year	381,804	398,975
Cash and Cash Equivalents End of Year	\$ 344,388	\$ 381,804

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

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

Note 1 Authority and Purpose

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

Organization	Authority
Department of Agriculture and Forestry (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>
Environmental Protection and Enhancement Fund (the Fund)	<i>Environmental Protection and Enhancement 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 (deferred capital contributions and unearned revenue) if the eligibility criteria of the transfer, or the stipulations together with the ministry's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the ministry complies with its communicated uses of these transfers.

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.

Unearned Revenue - Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

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 6 and allocated to programs in Schedule 7.

Financial 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 loans 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.

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.

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

Liability for Contaminated Sites is a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

- i. an environmental standard exists;
- ii. contamination exceeds the environmental standard;
- iii. the Ministry is directly responsible or accepts responsibility;
- iv. it is expected that future economic benefits will be given up; and
- v. a reasonable estimate of the amount can be made.

Non-Financial Assets - Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- (a) are normally employed to deliver government services;
- (b) may be consumed in the normal course of operations; and
- (c) are not for sale in the normal course of operations.

Non-financial assets of the ministry are limited to tangible capital assets, prepaid expenses and inventories of supplies.

Tangible capital assets of the ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful life of the assets. The threshold for capitalizing new systems development is \$250,000 and the threshold for major enhancements is \$100,000. The threshold for all other tangible capital assets is \$5,000. All land is capitalized.

Amortization is only charged if the tangible capital asset is put into service.

Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

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 \$32,155 in these financial statements, includes an allowance for doubtful accounts of \$10,281 (2015 – \$14,352) 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 \$2,161,537 (2015 – \$2,067,625) in these financial statements, include a specific allowance of \$26,076 (2015 – \$24,800) and a general allowance of \$16,426 (2015 – \$11,944) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$42,502 (2015 – \$36,744) 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 \$167,535 (2015 – \$\$172,484) 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.

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

Estimated indemnities for the current claim year for AgriStability and AgrilInvest 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 \$110,136 to \$144,300.

Estimated indemnities for prior claim years under AgriStability, AgrilInvest 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.

(d) Change in Accounting Policy

A 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 ministry's financial assets and liabilities.

A net financial assets balance indicates the extent of the ministry's net financing to the General Revenue Fund 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 an additional Statement of Change in Net Financial Assets.

(e) Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued these 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)**
PS3210 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 contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.
- **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.

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard effective April 1, 2019. The ministry has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 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.

Note 3 Government Reorganization

The Ministry of Environment and Parks transferred responsibilities for Forestry to the ministry as a result of restructuring of government ministries announced on May 24, 2015.

Effective April 1, 2015, responsibility for funding the public affairs officer was transferred from the Public Affairs Bureau to the ministry where they had previously been seconded.

Effective April 1, 2015, responsibility for the Major Fairs, Edmonton Northlands and Calgary Stampede, program was transferred to the Ministry of Culture and Tourism.

Comparatives for 2015 have been restated as if the ministry had always been assigned with its current responsibilities.

	As Previously Reported	Transfer from Envrionment and Parks	EPEF	Transfer from Public Affairs Bureau	Transfer to Culture and Tourism	As Restated
Net Assets at March 31, 2014	\$ 1,913,307	\$ 152,738	\$ 149,782	\$ -	\$ -	\$ 2,215,827
Annual Deficit	(270,335)	(282,820)	218	(283)	19,348	(533,872)
Net Financing provided from General Revenues	488,042	292,463	-	283	(19,348)	761,440
Net Assets at March 31, 2015	\$ 2,131,014	\$ 162,381	\$ 150,000	\$ -	\$ -	\$ 2,443,395
Net Assets at March 31, 2014	\$ 1,844,617	\$ (5,831)	\$ 149,782	\$ -	\$ -	\$ 1,988,568

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.

	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 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.

Note 4 Credit and Interest Rate Risk (continued)

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

	Within 1 Year	Scheduled Repayment ⁽¹⁾			Not Interest Rate Sensitive ⁽²⁾	2016 Total	2015 Total
		1 to 5 Years	6 to 10 Years	Over 10 Years			
	<i>(in thousands)</i>						
Loan balances	\$ 208,218	\$ 638,322	\$ 603,092	\$ 723,476	\$ (11,642)	\$ 2,161,466	\$ 2,067,622
Yield ⁽³⁾	3.86% ⁴	3.95%	3.99%	3.49%	-	3.88%	3.97%
Rural utilities	\$ 71	\$ -	\$ -	\$ -	\$ -	\$ 71	\$ 2
Borrowing from							
Government of Alberta	\$ 235,507	\$ 772,980	\$ 757,294	\$ 365,721	\$ 14,860	\$ 2,146,362	\$ 2,023,926
Yield ⁽³⁾	3.49%	3.46%	3.37%	3.11%	-	3.45%	3.57%
Net gap	<u>\$ (27,218)</u>	<u>\$ (134,658)</u>	<u>\$ (154,202)</u>	<u>\$ 357,755</u>	<u>\$ (26,502)</u>	<u>\$ 15,175</u>	<u>\$ 43,698</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 Capital Contributions

(in thousands)

	2016	2015
Unspent deferred capital contributions (i)	\$ 431	\$ 1,107
Spent deferred capital contributions (ii)	13,602	12,900
	<u>\$ 14,033</u>	<u>\$ 14,007</u>

(i) Unspent deferred capital contribution liability

	2016			2015
	Federal Government	Non-government	Total	Total
Balance, beginning of year	\$ 1,107	\$ -	\$ 1,107	\$ 1,107
Cash contributions received/receivable during year	4,410	280	4,690	3,157
Transferred to spent deferred capital contributions	(5,097)	(269)	(5,366)	(3,157)
Balance, end of year	<u>\$ 420</u>	<u>\$ 11</u>	<u>\$ 431</u>	<u>\$ 1,107</u>

(ii) Spent deferred capital contributions

	2016			2015
	Federal Government	Non-government	Total	Total
Balance, beginning of year	\$ 10,969	\$ 1,931	\$ 12,900	\$ 12,297
Transferred capital assets received/receivable	-	-	-	-
Transferred from unspent deferred capital contributions	5,097	269	5,366	3,157
Less amounts recognized as revenue	(4,438)	(226)	(4,664)	(2,554)
Balance, end of year	<u>\$ 11,628</u>	<u>\$ 1,974</u>	<u>\$ 13,602</u>	<u>\$ 12,900</u>

Note 6 Liability For Contaminated Sites

(in thousands)

The composition of liabilities is as follows:

	2016	Total 2015
Liabilities at Beginning of Year	\$ 4,140	\$ -
Additions to Liabilities during the Year	-	4,494
Change in Estimate Related to Existing Sites	(214)	44
Remediation Work Performed	(1,218)	(398)
Liabilities at End of Year	<u>\$ 2,708</u>	<u>\$ 4,140</u>

Note 7 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 three (2015: three) claims of which the outcome is not determinable. Of these claims, one (2015: one) has a specified amount totaling \$300 (2015: \$300). The remaining two (2015: two) have no amount specified. Two claims are covered in whole by the Alberta Risk Management Fund. The resolution of indeterminate claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Note 8 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.

	2016	2015 (Restated - Note 3)
Obligations under Operating Leases, Contracts and Programs	\$ 194,561	\$ 207,282
Approved, Undisbursed Loans	208,362	170,249
	<u>\$ 402,923</u>	<u>\$ 377,531</u>

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

Obligations Under Operating Leases, Contracts and Programs

	Total
2016-17	\$ 90,901
2017-18	27,892
2018-19	23,968
2019-20	18,612
2020-21	11,895
Thereafter	21,293
	<u>\$ 194,561</u>

Loans and Advances

	Total
2016-17	\$ 208,362
	<u>\$ 208,362</u>

Note 9 Guarantees

(in thousands)

	2016	2015	Expiry Date
Feeder Associations	\$ 54,847	\$ 54,879	Ongoing
Agriculture Financial Services Corporation Guarantees	27,465	12,972	Variable
	<u>82,312</u>	<u>67,851</u>	
Allowance for Loan Guarantees	(150)	(150)	
	<u>\$ 82,162</u>	<u>\$ 67,701</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 10 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, 2016 trust funds under administration were as follows:

	2016	2015
4-H General Trust	\$ 120	\$ 106
Claude Gallinger Memorial Trust Fund	21	21
Performance Deposit Trust	1,326	1,678
Forests Act Securities General Trust	1,846	1,772
	<u>\$ 3,313</u>	<u>\$ 3,577</u>

In addition to the above trust funds under administration, the ministry holds bank guarantees in the form of letters of credit and promissory notes as follows

	2016	2015
Performance Deposit Trust	\$ 5,361	\$ 4,261
Forests Act Securities General Trust	1,264	1,286
	<u>\$ 6,625</u>	<u>\$ 5,547</u>

Note 11 Subsequent Events

In November 2015, the government announced a review of agencies, board and commissions. As a result of the review, announced on April 15, 2016, the Agricultural Development Committee, Agricultural Operation Practices Act Policy Advisory Group, Alberta Farm Safety Advisory Council, Alberta Grains Council, Alberta Livestock and Meat Agency Ltd. and Alberta Next Generation Advisory Council will be dissolved with the relevant functions brought into the ministry. The impact of this decision cannot be determined at this time.

Note 12 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 \$25,485 for the year ended March 31, 2016 (2015 - \$18,396). Ministries are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of \$299,051 (2014 surplus - \$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 reported a deficiency of \$16,305 (2014 deficiency - \$17,203).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2016, the Bargaining Unit Plan reported an actuarial surplus of \$83,006 (2015 surplus - \$86,888) and the Management, Opted Out, and Excluded Plan an actuarial surplus of \$29,246 (2015 surplus - \$32,343). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 13 Comparative Figures

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

Note 14 Budget

The 2015-2016 Government and Lottery Fund Estimates were approved on November 27, 2015.

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 FORESTRY

CONSOLIDATED SCHEDULE OF EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Indemnities	\$ 865,717	\$ 604,982	\$ 548,546
Grants	153,924	162,160	146,294
Salaries, Wages, Employment Contracts and Benefits	369,011	281,396	266,955
Interest	74,845	70,131	69,892
Supplies and Services	409,284	475,747	267,328
Financial Transactions and Other	35,030	31,879	36,403
Consumption of Inventory	1,860	2,327	673
Amortization of Tangible Capital Assets	28,795	24,911	25,691
Total	<u>\$ 1,938,466</u>	<u>\$ 1,653,533</u>	<u>\$ 1,361,782</u>

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED SCHEDULE OF LOANS RECEIVABLE
YEAR ENDED MARCH 31, 2016

	2016	2015
	(in thousands)	
Loans Receivable	\$ 2,177,631	\$ 2,077,497
Accrued Interest	<u>26,483</u>	<u>26,943</u>
	2,204,114	2,104,440
Less Allowance for Doubtful Accounts	\$ (42,526)	\$ (36,745)
Less Loan Discounts	<u>(51)</u>	<u>(70)</u>
	<u><u>\$ 2,161,537</u></u>	<u><u>\$ 2,067,625</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 \$38,374 (2015 – \$36,745) includes a specific allowance of \$26,076 (2015 – \$24,800) on impaired loans outstanding of \$41,535 (2015 - \$40,628), excluding unamortized loan discounts.

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED SCHEDULE OF INVESTMENTS

YEAR ENDED MARCH 31, 2016
(in thousands)

	<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	<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>

	<u>Term to Maturity</u>			<u>2016 Total</u>	<u>2015 Total</u>
	<u>Within 1 Year</u>	<u>1 to 5 Years</u>	<u>6 to 10 Years</u>		
Bonds and Debentures	\$ 3,332	\$ 969,552	\$ 50,328	\$ 1,023,212	\$ 1,018,206
Yield	0.63%	0.86%	1.67%	0.90%	0.83%
Corporate Securities	174,234	671,824	10,225	856,283	804,647
Yield	<u>1.19%</u>	<u>1.62%</u>	<u>1.93%</u>	<u>1.54%</u>	<u>1.33%</u>
	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>

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.

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED SCHEDULE OF TANGIBLE CAPITAL ASSETS
YEAR ENDED MARCH 31, 2016
(in thousands)

Estimated Useful Life	Land Indefinite	Buildings 25 - 40 years	Equipment and Vehicles 5 - 35 years	Computer		Leasehold Improvements 5 years	2016 Total	2015 Total (Restated - Note 3)
				Hardware and Software 2 - 10 years	Land Improvements 10 years			
Historical Cost ⁽¹⁾								
Beginning of Year	\$ 1,827	\$ 83,904	\$ 260,712	\$ 146,132	\$ 5,909	\$ 133	\$ 498,617	\$ 461,882
Additions	-	12,947	5,174	8,876	33	-	27,030	39,600
Disposals, including Write-downs ⁽²⁾	-	(4,083)	(2,219)	(2,675)	-	-	(8,977)	(2,865)
	\$ 1,827	\$ 92,768	\$ 263,667	\$ 152,333	\$ 5,942	\$ 133	\$ 516,670	\$ 498,617
Accumulated Amortization								
Beginning of Year	\$ -	\$ 22,158	\$ 135,811	\$ 98,099	\$ 3,831	\$ 133	\$ 260,032	\$ 236,332
Amortization Expense	-	1,713	11,980	9,610	1,608	-	24,911	25,691
Effect of Disposals	-	(3,582)	(2,684)	(2,070)	-	-	(8,336)	(1,991)
	\$ -	\$ 20,289	\$ 145,107	\$ 105,639	\$ 5,439	\$ 133	\$ 276,607	\$ 260,032
Net Book Value at								
March 31, 2016	\$ 1,827	\$ 72,479	\$ 118,560	\$ 46,694	\$ 503	\$ -	\$ 240,063	\$ 238,585

Net Book Value at
March 31, 2015 \$ 1,827 \$ 61,746 \$ 124,901 \$ 48,033 \$ 2,078 \$ - \$ 240,063 \$ 238,585

⁽¹⁾ Historical cost includes work-in-progress at March 31, 2016 totaling \$44,125 comprised of: building \$31,558 (2015 - \$21,557), equipment \$2,961 (2015 - \$1,837), computer hardware and software \$9,335 (2015 - \$10,305) and land improvements \$271 (2015 \$274). Includes donated tangible capital assets of \$313.

⁽²⁾ Includes transfer of buildings to Alberta Infrastructure comprised of historical cost of \$0 (2015 \$66).

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED SCHEDULE OF BORROWING FROM THE GOVERNMENT OF ALBERTA
YEAR ENDED MARCH, 31 2016
(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.

	2016	2015
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%	<u>33,513</u>	<u>55,155</u>
	2,131,502	2,007,144
Accrued interest	14,503	14,431
Unamortized premium	<u>357</u>	<u>2,351</u>
	<u>\$ 2,146,362</u>	<u>\$ 2,023,926</u>

The estimated fair value at March 31, 2016 is \$2,300,316 (2015 - \$2,232,195). 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,	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>

MINISTRY OF AGRICULTURE AND FORESTRY
CONSOLIDATED SCHEDULE OF RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2016
(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.

	2016	2015 (Restated - Note 3)
Revenues:		
Grants	\$ -	\$ -
Other	1,287	4,677
	<u>\$ 1,287</u>	<u>\$ 4,677</u>
Expenses - Directly Incurred:		
Grants	\$ 11,543	\$ 10,042
Accommodation	661	742
Other services	9,633	8,438
Interest	69,214	69,761
	<u>\$ 91,051</u>	<u>\$ 88,983</u>
Tangible Capital Assets Transferred (Out)		
Ministry of Infrastructure	\$ -	\$ (66)
	<u>\$ -</u>	<u>\$ (66)</u>
Payable to		
Ministry of Treasury Board and Finance	\$ 2,246,262	\$ 2,024,053
Ministry of Environment and Parks	39,227	-
Ministry of Advanced Education	1,283	3,062
Ministry of Economic Development and Trade	74	315
Ministry of Culture and Tourism	5	-
Ministry of Service Alberta	1	7
	<u>\$ 2,286,852</u>	<u>\$ 2,027,437</u>
Receivable from		
Alberta Heritage Savings Trust	\$ -	\$ 3,050
Ministry of Environment and Parks	1,500	-
Ministry of Economic Development and Trade	2	-
Ministry of Advanced Education	34	1
Ministry of Education	147	64
	<u>\$ 1,683</u>	<u>\$ 3,115</u>
Deferred Revenue from		
Ministry of Economic Development and Trade	\$ 107	\$ 189
Ministry of Advanced Education	15	85
Ministry of Education	1,049	1,129
	<u>\$ 1,171</u>	<u>\$ 1,403</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 7.

	2016	2015 (Restated - Note 3)
Expenses incurred by others:		
Accommodation	\$ 40,339	\$ 43,773
Legal	1,523	1,931
Business services	5,362	9,157
	<u>\$ 47,224</u>	<u>\$ 54,861</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 FORESTRY
CONSOLIDATED SCHEDULE OF ALLOCATED COSTS

YEAR ENDED MARCH 31, 2016
(in thousands)

Program	2016					Total Expenses	2015 Total Expenses (Restated - Note 3)
	Expenses - Incurred by Others						
	Expenses ⁽¹⁾	Accommodation Costs ⁽²⁾	Legal Services ⁽³⁾	Business Services ⁽⁴⁾			
Ministry Support Services	\$ 19,314	\$ 8,767	\$ 205	\$ 5,284	\$ 33,570	\$ 31,958	
Agriculture Policy and Economics	\$ 14,355	2,879	15	5	\$ 17,254	\$ 19,522	
Agriculture Environment and Water	\$ 52,919	3,271	29	7	\$ 56,226	\$ 57,426	
Food Safety and Animal Health	\$ 46,338	2,399	252	16	\$ 49,005	\$ 49,013	
Industry Development	\$ 101,028	7,219	289	19	\$ 108,555	\$ 100,937	
Forests	\$ 587,003	14,002	390	31	\$ 601,426	\$ 373,127	
Lending	\$ 37,462	482	-	-	\$ 37,944	\$ 35,079	
Insurance	\$ 606,115	1,023	343	-	\$ 607,481	\$ 507,852	
Agriculture Income Support	\$ 86,669	297	-	-	\$ 86,966	\$ 135,004	
Livestock and Meat Strategy	\$ 32,199	-	-	-	\$ 32,199	\$ 33,145	
Agriculture and Food Innovation							
Endowment Account	\$ -	-	-	-	\$ -	\$ 3,058	
2013 Alberta Flooding	\$ -	-	-	-	\$ -	\$ 630	
	<u>\$ 1,583,402</u>	<u>\$ 40,339</u>	<u>\$ 1,523</u>	<u>\$ 5,362</u>	<u>\$ 1,630,626</u>	<u>\$ 1,346,751</u>	

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

⁽²⁾ Costs shown for Accommodation (includes grants in lieu of taxes) on Schedule 6, allocated by budgeted full-time equivalent employment.

⁽³⁾ Costs shown for Legal Services on Schedule 6, 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 6, allocated by costs in certain programs.

Department of Agriculture and Forestry

Financial Statements

Year Ended March 31, 2016

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Independent Auditor's Report

To the Minister of Agriculture and Forestry

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Agriculture and Forestry, which comprise the statement of financial position as at March 31, 2016, and the statements of operations, change in net debt 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 Department of Agriculture and Forestry as at March 31, 2016, and the results of its operations, its changes in net debt 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

RESULTS ANALYSIS
FINANCIAL INFORMATION

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Revenues (Schedule 1)			
Government Transfers			
Federal Government Grants	\$ 74,671	\$ 87,854	\$ 49,740
Government of Alberta Grants	-	1,593	1,778
Alberta Heritage Savings Trust Fund	-	-	3,050
Timber Rentals and Fees	83,456	21,919	18,325
Premiums, Fees and Licenses	2,232	2,713	2,519
Other Revenue	9,293	11,230	11,557
	169,652	125,309	86,969
Expenses - Directly Incurred (Note 2(b), Schedules 3, 4, and 7)			
Programs			
Ministry Support Services	19,390	19,314	17,200
Agriculture Policy and Economics	16,718	14,354	16,096
Agriculture Environment and Water	54,905	52,919	54,208
Food Safety and Animal Health	47,811	46,338	45,716
Industry Development	109,856	108,126	103,005
Forests	557,297	557,680	311,077
Livestock and Meat Strategy	25,060	23,791	23,936
Agriculture and Food Innovation Endowment Account	-	-	3,058
2013 Alberta Flooding	-	-	630
Agriculture Insurance and Lending Assistance			
Lending Assistance	12,851	12,851	17,667
Insurance	221,008	219,372	207,415
Agriculture Income Support	68,135	46,489	64,696
	1,133,031	1,101,234	864,704
Annual Deficit	\$ (963,379)	\$ (975,925)	\$ (777,735)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016

	2016	2015 (Restated - Note 3) (in thousands)
Financial Assets		
Cash	\$ 7,643	\$ 6,280
Accounts Receivable (Note 4)	48,983	55,908
	56,626	62,188
Liabilities		
Accounts Payable and Accrued Liabilities (Note 5)	406,356	125,788
Unearned Revenue	9,447	7,965
Unspent Deferred Capital Contributions (Note 6)	431	1,176
	416,234	134,929
Net Debt	(359,608)	(72,741)
Non-Financial Assets		
Tangible Capital Assets (Note 7)	200,612	195,882
Inventories of Supplies	3,782	4,380
Prepaid Expenses	23	23
	204,417	200,285
Net (Liabilities) Assets Before Deferred Capital Contributions	(155,191)	127,544
Spent Deferred Capital Contributions (Note 6)	2,315	1,771
Net (Liabilities) Assets	\$ (157,506)	\$ 125,773
Net Assets at Beginning of Year	\$ 125,773	\$ 142,134
Adjustments to Net Assets (Note 13)	-	(66)
Annual Deficit	(975,925)	(777,735)
Net Financing Provided from General Revenues	692,646	761,440
Net (Liabilities)/Assets at End of Year	\$ (157,506)	\$ 125,773

Contingent Liabilities and Contractual Obligations (Notes 8 and 9)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CHANGE IN NET DEBT

YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Annual Deficit	\$ (963,379)	\$ (975,925)	\$ (777,735)
Acquisition of Tangible Capital Assets	(21,666)	(19,944)	(27,606)
Amortization of Tangible Capital Assets (Note 7)	18,330	14,595	15,694
Loss on Sale of Tangible Capital Assets	-	36	271
Proceeds on Sale of Tangible Capital Assets	-	85	35
Write-downs of Tangible Capital Assets	-	498	451
Acquisition of Supplies of Inventories	(1,860)	(1,729)	(1,149)
Consumption of Supplies of Inventories	1,860	2,327	673
Change in Prepaid Expenses	-	-	(23)
Change in Spent Deferred Capital Contribution (Note 6)	-	544	333
Net Financing Provided from General Revenue	-	692,646	761,440
Increase in Net Debt		\$ (286,867)	\$ (27,616)
Net Debt at Beginning of Year		(72,741)	(45,125)
Net Debt at End of Year		\$ (359,608)	\$ (72,741)

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

	2016	2015 (Restated - Note 3)
	(in thousands)	
Operating Transactions		
Annual Deficit	\$ (975,925)	\$ (777,735)
Non-cash Items Included in Net Operating Results		
Amortization of Tangible Capital Assets (Note 7)	14,595	15,694
Deferred Capital Contribution recognized as Revenue (Note 6)	(481)	(324)
Loss on Disposal of Tangible Capital Assets	534	722
	(961,277)	(761,643)
Decrease (Increase) in Accounts Receivable	6,925	(4,070)
Increase in Prepaid Expenses	-	(23)
Decrease in Inventories of Supplies	598	418
Increase in Accounts Payable and Accrued Liabilities	280,568	28,428
Increase in Unearned Revenue	1,482	1,920
Cash Applied to Operating Transactions	(671,704)	(734,970)
Capital Transactions		
Acquisition of Tangible Capital Assets (Note 7)	(19,944)	(27,606)
Proceeds on Disposal of Tangible Capital Assets	85	35
Cash Applied to Capital Transactions	(19,859)	(27,571)
Financing Transactions		
Contributions Restricted for Capital	280	639
Net Financing Provided from General Revenues	692,646	761,440
Cash Provided by Financing Transactions	692,926	762,079
Increase (Decrease) in Cash	1,363	(462)
Cash at Beginning of Year	6,280	6,742
Cash at End of Year	\$ 7,643	\$ 6,280

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 Department of Agriculture and Forestry operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000. The purpose of the Department 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. The Department is exempt from income taxes 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.

(a) Reporting Entity

The reporting entity is the Department of Agriculture and Forestry, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the Minister are Agriculture Financial Services Corporation, Alberta Livestock and Meat Agency Ltd, and Environmental Protection and Enhancement Fund. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the President of Treasury Board and Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net Financing provided from General Revenues is the difference between all cash receipts and all cash disbursements made.

(b) Basis of Financial Reporting

Revenue

All revenues are reported on the accrual basis of accounting.

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 (deferred capital contributions and unearned revenue) if the eligibility criteria of the transfer, or the stipulations together with the department's actions and communications as to the use of transfers create a liability. These transfers are recognized as revenues as the stipulations are met and, when applicable, the department complies with its communicated uses of these transfers.

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

Unearned Revenue - Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Credit or Recovery - Credit or recovery initiatives provide a basis for authorizing spending. Credits or recoveries are shown in the details of the Government Estimates for a supply vote. If budgeted revenues are not fully realized, spending is reduced by an equivalent amount. If actual credit or recovery amounts exceed budget, the department may, with the approval of the Treasury Board Committee, use the excess to fund additional expenses of the program. Schedule 2 discloses information on the department's credit or recovery Initiatives.

Expenses

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

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

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, 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 department operations are not recognized and are disclosed in Schedule 7 and allocated to programs in Schedule 8.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of Cash, Accounts Receivable, and Accounts Payable and Accrued Liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

Financial Assets

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 of the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

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

Loans are recorded at cost less any discounts and allowance for credit loss.

Liabilities

Liabilities are present obligations of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

- (a) are normally employed to deliver government services;
- (b) may be consumed in the normal course of operations; and
- (c) are not for sale in the normal course of operations.

Non-financial assets of the department are limited to tangible capital assets, prepaid expenses and inventories of supplies.

Tangible capital assets of the department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. 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. All land is capitalized.

Contributed tangible capital assets are recorded at their fair value at the time of contribution.

Amortization is only charged if the tangible capital asset is put into service.

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

When physical assets (tangible capital assets and inventories of supplies) are gifted or sold for a nominal sum, the net book value of these physical assets less any nominal proceeds are recorded as grants in kind.

Inventories of supplies are valued at the lower of cost, determined on a first-in, first-out basis, and replacement cost.

Assets acquired by right are not included.

Measurement Uncertainty

(in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

The department's contribution to Agriculture Financial Services Corporation for the department's share of program payments under the AgrilInvest, AgriStability and AgriRecovery programs, recorded as \$46,489 in these financial statements, is subject to measurement uncertainty. The department's contribution for these programs could change substantially 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 AgrilInvest 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 \$57,105 to \$71,642.

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

(c) Change in Accounting Policy

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

A net debt balance indicates the extent of the department's dependence on net financing from the General Revenue fund in order to settle its liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding an additional Statement of Change in Net Debt.

(d) Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued these 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; PS3420 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)**
PS3210 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 contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.
- **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 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

PS 3450 Financial Instruments

In June 2011 the Public Sector Accounting Board issued this accounting standard effective April 1, 2019. The department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 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.

Note 3 Government Reorganization

(in thousands)

The Department of Environment and Parks transferred responsibilities for Forestry to the Department as a result of restructuring of government ministries announced on May 24, 2015.

Effective April 1, 2015, responsibility for funding the public affairs officer was transferred from the Public Affairs Bureau to the Department where they had previously been seconded.

Effective April 1, 2015, responsibility for the Major Fairs, Edmonton Northlands and Calgary Stampede, program was transferred to the Department of Culture and Tourism.

Comparatives for 2015 have been restated as if the Department had always been assigned with its current responsibilities.

	As Previously Reported	Transfer from Environment and Parks	Transfer from Public Affairs Bureau	Transfer to Culture and Tourism	As Restated
Net Liabilities at March 31, 2014	\$ (10,670)	\$ 152,738	\$ -	\$ -	\$ 142,068
Annual Deficit	(513,980)	(282,820)	(283)	19,348	(777,735)
Net Financing provided from General Revenues	488,042	292,463	283	(19,348)	761,440
Net Liabilities at March 31, 2015	\$ (36,608)	\$ 162,381	\$ -	\$ -	\$ 125,773
Net Debt at March 31, 2014	\$ (39,294)	\$ (5,831)	\$ -	\$ -	\$ (45,125)

Note 4 Accounts Receivable

(in thousands)

Accounts receivable are unsecured and non-interest bearing.

	Gross Amount	2016 Allowance for Doubtful Accounts	Net Realizable Value	2015 Net Realizable Value (Restated - Note 3)
Accounts receivable	\$ 49,036	\$ 264	\$ 48,772	\$ 45,837
Refunds from suppliers	123	-	123	10,068
Loans and Advances	111	23	88	3
	<u>\$ 49,270</u>	<u>\$ 287</u>	<u>\$ 48,983</u>	<u>\$ 55,908</u>

Note 5 Accounts Payable and Accrued Liabilities

(in thousands)

	2016	2015 (Restated - Note 3)
Accounts Payable – General	\$ 2,579	\$ 2,033
Manpower	40,157	12,424
Grants	334,450	73,924
Supplies and Services and Capital Purchases	29,170	37,407
	<u>\$ 406,356</u>	<u>\$ 125,788</u>

Note 6 Deferred Capital Contributions
(in thousands)

	2016	2015
Unspent deferred capital contributions (i)	\$ 431	\$ 1,176
Spent deferred capital contributions (ii)	2,315	1,771
	<u>\$ 2,746</u>	<u>\$ 2,947</u>

(i) Unspent deferred capital contributions

	2016				2015
	Government of Alberta	Federal Government	Non- government	Total	Total
Balance, beginning of year	\$ 69	\$ 1,107	\$ -	\$ 1,176	\$ 1,194
Cash contributions received/receivable during year	-	-	280	280	639
Transferred to spent deferred capital contributions	(69)	(687)	(269)	(1,025)	(657)
Balance, end of year	<u>\$ -</u>	<u>\$ 420</u>	<u>\$ 11</u>	<u>\$ 431</u>	<u>\$ 1,176</u>

(ii) Spent deferred capital contributions

	2016				2015
	Government of Alberta	Federal Government	Non- government	Total	Total
Balance, beginning of year	\$ 414	\$ 298	\$ 1,059	\$ 1,771	\$ 1,438
Transferred capital assets received/receivable				-	-
Transferred from unspent deferred capital contributions	69	687	269	1,025	657
Less amounts recognized as revenue	(59)	(293)	(129)	(481)	(324)
Balance, end of year	<u>\$ 424</u>	<u>\$ 692</u>	<u>\$ 1,199</u>	<u>\$ 2,315</u>	<u>\$ 1,771</u>

Note 7 Tangible Capital Assets

(in thousands)

Estimated Useful Life	Buildings	Equipment ⁽¹⁾	Computer Hardware and Software	Land Improvement	2016 Total	2015 Total
	40 years	5 - 35 years	3 - 5 years	10 years		(Restated - Note 3)
Historical Cost⁽²⁾						
Beginning of Year	\$ 73,917	\$ 248,328	\$ 46,051	\$ 5,909	\$ 374,205	\$ 343,033
Additions ⁽³⁾	12,947	4,359	2,605	33	19,944	33,650
Disposals, Including Write-downs ⁽⁴⁾	(4,083)	(2,148)	(1,263)	-	(7,494)	(2,478)
	<u>82,781</u>	<u>250,539</u>	<u>47,393</u>	<u>5,942</u>	<u>386,655</u>	<u>374,205</u>
Accumulated Amortization						
Beginning of Year	17,098	128,491	28,903	3,831	178,323	164,284
Amortization Expense ⁽⁴⁾	1,351	10,863	773	1,608	14,595	15,694
Effect of Disposals	(3,582)	(2,635)	(658)	-	(6,875)	(1,655)
	<u>14,867</u>	<u>136,719</u>	<u>29,018</u>	<u>5,439</u>	<u>186,043</u>	<u>178,323</u>
Net Book Value at March 31, 2016						
	<u>\$ 67,914</u>	<u>\$ 113,820</u>	<u>\$ 18,375</u>	<u>\$ 503</u>	<u>\$ 200,612</u>	
Net Book Value at March 31, 2015						
	<u>\$ 56,819</u>	<u>\$ 119,837</u>	<u>\$ 17,148</u>	<u>\$ 2,078</u>		<u>\$ 195,882</u>

(1) Equipment includes vehicles, heavy equipment, office equipment and furniture and other equipment.

(2) Historical cost includes work-in-progress at March 31, 2016 totaling \$38,127 comprised of: buildings \$31,558 (2015 - \$21,557); equipment \$2,961 (2015 - \$1,837); computer hardware and software \$3,337 (2015 - \$4,082) and land improvements \$271 (2015 - \$274).

(3) Includes donated tangible capital assets of \$313.

(4) Includes transfer of buildings to Alberta Infrastructure comprised of historical cost of \$0 (2015 - \$66).

Note 8 Contingent Liabilities

(in thousands)

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

The department has been named in three (2015: three) claims of which the outcome is not determinable. Of these claims, one (2015: one) has a specified amount totaling \$300 (2015: \$300). The remaining two (2015: two) have no amount specified. Two claims are 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 9 Contractual Obligations

(in thousands)

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

	2016	2015 (Restated - Note 3)
Obligations under Operating Leases, Contracts and Programs	\$ 107,381	\$ 122,639
	<u>\$ 107,381</u>	<u>\$ 122,639</u>

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

Obligations Under Operating Leases, Contracts and Programs

	Total
2016-17	\$ 40,299
2017-18	17,560
2018-19	14,495
2019-20	11,750
2020-21	7,708
Thereafter	15,569
	<u>\$ 107,381</u>

Note 10 Guarantees

(in thousands)

	2016	2015	Expiry Date
Feeder Associations	\$ 54,847	\$ 54,879	Ongoing
	<u>\$ 54,847</u>	<u>\$ 54,879</u>	

Guarantee programs and their limits are established under the following Acts:

- *Feeder Associations Guarantee Act* (authorized guarantee limit set by Order in Council is \$55 million)
- *Rural Utilities Act* (authorized guarantee limit set by statute is \$50 million). There are currently no outstanding guarantees under this act.

The lender takes appropriate security prior to issuing a loan to the borrower, which is guaranteed by the province. The security taken depends on the nature of the loan. Interest rates are negotiated with the lender by the borrower.

Note 11 Trust Funds Under Administration

(in thousands)

The department 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 department's financial statements.

As at March 31, 2016 trust funds under administration were as follows:

	2016	2015
4-H General Trust	\$ 120	\$ 106
Claude Gallinger Memorial Trust Fund	21	21
Performance Deposit Trust	1,326	1,678
Forests Act Securities General Trust	1,846	1,772
	<u>\$ 3,313</u>	<u>\$ 3,577</u>

In addition to the above trust funds under administration, the department holds bank guarantees in the form of letters of credit and promissory notes as follows:

	2016	2015
Performance Deposit Trust	\$ 5,361	\$ 4,261
Forests Act Securities General Trust	1,264	1,286
	<u>\$ 6,625</u>	<u>\$ 5,547</u>

Note 12 Payments Under Agreement

(in thousands)

The department has entered into agreements to deliver fire emergency services. Costs under these agreements are incurred by the department under the Mutual Aid Resource Sharing Agreement with other government organizations. Accounts receivable includes \$3,744 and accounts payable includes \$151 relating to payments under agreements.

Amounts paid and payable under agreement with other government organizations are as follows:

Canadian Governments	\$ 2,042
United States Governments	3,823
	<u>\$ 5,865</u>

Note 13 Adjustments to Net Assets

(in thousands)

The reconciliation of adjustments to net assets is as follows:

	2016	2015
Non-Grant Transfer of Tangible Capital Asset from other Government Departments	\$ -	\$ 66
	<u>\$ -</u>	<u>\$ 66</u>

Note 14 Subsequent Events

In November 2015, the government announced a review of agencies, board and commissions. As a result of the review, announced on April 15, 2016, the Agricultural Development Committee, Agricultural Operation Practices Act Policy Advisory Group, Alberta Farm Safety Advisory Council, Alberta Grains Council, Alberta Livestock and Meat Agency Ltd. and Alberta Next Generation Advisory Council will be dissolved with the relevant functions brought into the department. The impact of this decision cannot be determined at this time.

Note 15 Benefit Plans

(in thousands)

The department 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 \$18,429 for the year ended March 31, 2016 (2015 – \$11,592). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2015, the Management Employees Pension Plan reported a surplus of \$299,051 (2014 surplus - \$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 reported a deficiency of \$16,305 (2014 deficiency - \$17,203).

The department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2016, the Bargaining Unit Plan reported an actuarial surplus of \$83,006 (2015 surplus - \$86,888) and the Management, Opted Out and Excluded Plan an actuarial surplus of \$29,246 (2015 surplus - \$32,343). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 16 Comparative Figures

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

Note 17 Approval of the Financial Statements

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

REVENUES

YEAR ENDED MARCH 31, 2016

	2016		2015
	Budget	Actual	Actual (Restated - Note 3)
	(in thousands)		
Government of Alberta Grants	\$ -	\$ 1,593	\$ 4,828
Federal Government Grants			
BSE Surveillance	1,270	1,023	1,082
Growing Forward	48,909	47,214	42,316
Softwood Lumber Agreement ⁽¹⁾	20,000	24,943	412
Other	4,492	14,674	5,930
	<u>74,671</u>	<u>87,854</u>	<u>49,740</u>
Timber Rentals and Fees	<u>83,456</u>	<u>21,919</u>	<u>18,325</u>
Premiums, Fees and Licenses			
Publications	250	234	309
Food Processing Centre Fees	850	873	700
Livestock Water Program	140	83	106
Meat Services	297	327	149
Green Certificate and Home Study	350	570	750
Other	345	626	505
	<u>2,232</u>	<u>2,713</u>	<u>2,519</u>
Other Revenue			
Project Contributions	7,268	4,079	4,520
Rail Hopper Car Revenue	1,000	543	1,999
Refunds of Expenditures Previous Years	-	2,793	686
Surplus Sales	-	57	17
Miscellaneous	1,025	3,758	4,335
	<u>9,293</u>	<u>11,230</u>	<u>11,557</u>
Total Revenues	<u>\$ 169,652</u>	<u>\$ 125,309</u>	<u>\$ 86,969</u>

⁽¹⁾ The Softwood Lumber Agreement, 2006 requires the Minister of Natural Resources of the Government of Canada to collect a softwood lumber export tax on lumber export products to the United States. The export tax levels are based upon the *Random Lengths* Composite Framing Lumber Price Index (CFLPI). Above a CFLPI level of US\$355 the export tax rate is 0 per cent. As the CFLPI falls below US\$355, this tax rate increases in increments of 5 per cent until the export tax rate reaches 15 per cent. The export tax collected is transferred to the provinces net of the Government of Canada's administration and legal costs. (Note: Not in thousands)

The department received \$24,943 for the nine month period ended December 31, 2015 (\$412 for the nine month period ended December 31, 2014) and there are no accruals for the three month period ended March 31, 2016 (there were no accruals for the three month period ended March 31, 2015). The amount of the transfer received for the three month period will vary from that estimated by the amount of administration and legal costs incurred by the Government of Canada.

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

CREDIT OR RECOVERY

YEAR ENDED MARCH 31, 2016

	2016				
	Authorized	Actual Revenue Recognized	Deferred Revenue (in thousands)	Actual Revenue Received/ Receivable	(Shortfall)/ Excess
Program Operating					
Ministry Support Services	\$ 793	\$ 598	\$ -	\$ 598	\$ (195)
Agriculture Policy and Economics	1,582	1,679	-	1,679	97
Agriculture Environment and Water	14,403	14,426	-	14,426	23
Food Safety and Animal Health	11,771	14,149	-	14,149	2,378
Industry Development	29,215	25,364	-	25,364	(3,851)
Forests	773	1,250	-	1,250	477
	<u>\$ 58,537</u>	<u>\$ 57,466</u>	<u>\$ -</u>	<u>\$ 57,466</u>	<u>\$ (1,071) ⁽¹⁾</u>
Program Capital Investments					
Ministry Support Services	\$ -	\$ -	\$ -	\$ -	\$ -
Agriculture Policy and Economics	-	-	-	-	-
Agriculture Environment and Water	-	-	-	-	-
Food Safety and Animal Health	-	-	-	-	-
Industry Development	610	-	280	280	(330)
Forests	-	-	-	-	-
	<u>\$ 610</u>	<u>\$ -</u>	<u>\$ 280</u>	<u>\$ 280</u>	<u>\$ (330) ⁽¹⁾</u>

Ministry Support Services credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$346) fees for sale of publications (\$224) and farm implement dealers' licenses (\$28).

Agriculture Policy and Economics credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$1,671) and external contributions (\$8).

Agriculture Environment and Water credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$13,390), fees and contributions for Irrigation and Farm Water Program (\$337), contributions for Environmental Stewardship (\$699).

Food Safety and Animal Health credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$13,600), fees and contributions for Food Safety and Animal Health (\$549).

Industry Development credit or recovery initiatives include federal revenue under the Growing Forward Agreement (\$18,207), fees and contributions for Research and Extension (\$5,795), Food and Bio Processing (\$1,323) and external contributions to other projects and initiatives (\$39).

Forests credit or recovery initiatives include federal revenue through agreements with the Government of Canada to fund various forestry programs such as the country-wide framework for synthesizing data and reporting on the status of Canadian forests, as well as conducting risk analysis impacts of national significance. Forestry Youth Programs and Hinton Training Centre.

The revenue of each initiative is included in the Statement of Operations.

⁽¹⁾ Shortfall is deducted from current year's authorized budget, as disclosed in Schedule 4 to the financial statements.

DEPARTMENT OF AGRICULTURE AND FORESTRY
SCHEDULE TO FINANCIAL STATEMENTS
EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2016

	Budget	2016 Actual	2015 Actual (Restated - Note 3)
	(in thousands)		
Salaries, Wages and Employee Benefits	\$ 175,874	\$ 177,388	\$ 176,884
Supplies and Services	123,343	99,335	110,734
Grants	813,624	806,876	560,059
Consumption of Inventory	1,860	2,327	673
Financial Transactions and Other	-	713	660
Amortization of Tangible Capital Assets	18,330	14,595	15,694
	<u>\$ 1,133,031</u>	<u>\$ 1,101,234</u>	<u>\$ 864,704</u>

DEPARTMENT OF AGRICULTURE AND FORESTRYSCHEDULE TO FINANCIAL STATEMENTSLAPSE/ENCUMBRANCEYEAR ENDED MARCH 31, 2016

	Voted Estimate ⁽¹⁾	Adjustments ⁽²⁾	Adjusted Voted Estimate (in thousands)	Voted Actuals ⁽³⁾	Unexpended (Over Expended)
Program - Operating Expense					
1 Ministry Support Services					
1.1 Minister's Office	\$ 754	\$ -	\$ 754	\$ 722	\$ 32
1.2 Deputy Minister's Office	796	-	796	795	1
1.3 Farmers' Advocate	982	-	982	888	94
1.4 Corporate Services	12,571	-	12,571	12,466	105
1.5 Communications	761	-	761	802	(41)
1.6 Human Resources	2,576	-	2,576	2,459	117
	18,440	-	18,440	18,132	308
2 Agriculture Policy and Economics					
2.1 Alberta Grains Council	273	-	273	201	72
2.2 Marketing Council	970	-	970	979	(9)
2.3 Economics and Competitiveness	4,058	-	4,058	3,752	306
2.4 Policy, Strategy and Intergovernmental Affairs	5,226	-	5,226	4,464	762
2.5 International Marketing and Investment Attraction	4,591	-	4,591	3,709	882
	15,118	-	15,118	13,105	2,013
3 Agriculture Environment and Water					
3.1 Irrigation and Farm Water	12,963	-	12,963	12,630	333
3.2 Environmental Stewardship	22,242	-	22,242	20,598	1,644
	35,205	-	35,205	33,228	1,977

	Voted Estimate ⁽¹⁾	Adjustments ⁽²⁾	Adjusted Voted Estimate	Voted Actuals ⁽³⁾	Unexpended (Over Expended)
4	Food Safety and Animal Health				
4.1	Animal Health and Assurance	-	11,899	11,961	(62)
4.2	Food Safety and Animal Welfare	-	23,911	24,186	(275)
4.3	Food Chain Traceability	-	5,063	5,709	(646)
4.4	Surveillance Support	-	5,638	3,210	2,428
		-	46,511	45,066	1,445
5	Industry Development				
5.1	Rural Economic Development	-	38,005	40,067	(2,062)
5.2	Research and Extension	-	30,156	27,626	2,530
5.3	Food and Bio-Processing	-	10,833	9,198	1,635
5.4	Major Fairs and Exhibitions	(15,348)	18,140	2,792	-
5.5	Agricultural Service Boards	-	11,600	11,602	(2)
5.6	Agricultural Societies	-	8,670	8,670	-
5.7	Agriculture Initiatives	-	1,450	1,428	22
		(15,348)	118,854	101,383	2,123
6	Agriculture Insurance and Lending Assistance				
6.1	Lending Assistance	-	12,851	12,851	-
6.2	Insurance	-	221,008	219,372	1,636
6.3	Agriculture Income Support	-	68,135	46,488	21,647
		-	301,994	278,711	23,283
7	Forests				
7.1	Wildfire Management	-	472,800	477,440	(4,640)
7.2	Flat Top Complex	-	12,780	8,541	4,239
7.3	Forest Management	-	55,446	56,801	(1,355)
7.4	Forest Industry Development	-	3,081	3,640	(559)
		-	544,107	546,422	(2,315)

Schedule 4 (continued)

	Voted Estimate ⁽¹⁾	Adjustments ⁽²⁾	Adjusted Voted Estimate	Voted Actuals ⁽³⁾	Unexpended (Over Expended)
8 Livestock and Meat Strategy	25,060	-	25,060	23,791	1,269
9 Agriculture and Food Innovation Endowment Account	-	-	-	-	-
10 2013 Alberta Flooding	-	-	-	-	-
10.1 Flood Recovery Interest Rebates	-	-	-	-	-
Credit or Recovery (Shortfall) (Schedule 2)	-	(1,071)	(1,071)	-	(1,071)
Total	\$ 1,105,289	\$ (16,419)	\$ 1,088,870	\$ 1,059,838	\$ 29,032
Lapse/(Encumbrance)					\$ 29,032
Program - Capital Grants					
3 Agriculture Environment and Water	19,000	-	19,000	19,000	-
3.3 Irrigation Infrastructure Assistance					
5 Industry Development	3,900	-	3,900	3,900	-
5.1 Rural Economic Development					
Total	\$ 22,900	\$ -	\$ 22,900	\$ 22,900	\$ -
Lapse/(Encumbrance)					\$ -
Program - Capital Investment					
1 Ministry Support Services	1,982	-	1,982	1,625	357
1.4 Corporate Services					
1.6 Human Resources	35	-	35	37	(2)
2 Agriculture Policy and Economics	-	-	-	7	(7)
2.3 Economics and Competitiveness					
3 Agriculture Environment and Water	632	-	632	353	279
3.1 Irrigation and Farm Water					
3.2 Environmental Stewardship	54	-	54	56	(2)
4 Food Safety and Animal Health					
4.2 Food Safety and Animal Welfare	385	-	385	468	(83)

	Voted Estimate ⁽¹⁾	Adjustments ⁽²⁾	Adjusted Voted Estimate	Voted Actuals ⁽³⁾	Unexpended (Over/Expended)
5 Industry Development					
5.1 Rural Economic Development	-	-	-	152	(152)
5.2 Research and Extension	901	-	901	740	161
5.3 Food and Bio-Processing	710	-	710	599	111
7 Forests					
7.1 Wildfire Management	14,867	-	14,867	13,836	1,031
7.2 Flat Top Complex	2,100	-	2,100	1,705	395
7.3 Forest Management	-	-	-	53	(53)
Credit or Recovery (Shortfall) (Schedule 2)	-	(330)	(330)	-	(330)
Total	\$ 21,666	\$ (330)	\$ 21,336	\$ 19,631	\$ 1,705
Lapse/(Encumbrance)					\$ 1,705
Financial Transactions					
7 Forests					
7.1 Wildfire Management	1,860	-	1,860	1,729	131
Total	\$ 1,860	\$ -	\$ 1,860	\$ 1,729	\$ 131
Lapse/(Encumbrance)					\$ 131

(1) As per "Expense Vote by Program", "Capital Investment Vote by Program" and "Financial Transaction Vote by Program" page of 2015-16 Government Estimates.

(2) Responsibility for the Major Fairs, Edmonton Northlands and Calgary Stampede, program was transferred to Culture and Tourism.

(3) Actuals exclude non-voted amounts such as amortization and valuation adjustments.

DEPARTMENT OF AGRICULTURE AND FORESTRYSCHEDULE TO FINANCIAL STATEMENTSLOTTERY FUND ESTIMATESYEAR ENDED MARCH 31, 2016

	2015-16 Lottery Fund Estimates⁽¹⁾	2015-16 Actual (in thousands)	Unexpended (Over Expended)
Major Fairs and Exhibitions	\$ 2,792	\$ 2,792	\$ -
Agricultural Service Boards	11,600	11,600	-
Agricultural Societies	8,670	8,670	-
Agriculture Initiatives	<u>1,450</u>	<u>1,429</u>	<u>21</u>
	<u>\$ 24,512</u>	<u>\$ 24,491</u>	<u>\$ 21</u>

This table shows details of the initiatives within the department that are funded by the Lottery Fund and compares it to the actual results.

- ⁽¹⁾ Responsibility for the Major Fairs, Edmonton Northlands and Calgary Stampede, program was transferred to Culture and Tourism. The estimates are restated as though the transfer occurred at the beginning of the year.

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

SALARY AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31, 2016

	2016			2015	
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non-Cash Benefits ⁽³⁾	Total	Total (Restated - Note 3)
Department					
Deputy Minister ⁽⁴⁾⁽⁵⁾	\$ 285,446	6,709	73,944	\$ 366,099	\$ 352,897
Assistant Deputy Ministers					
Agriculture Policy and Economics	\$ 200,647	4,271	54,995	\$ 259,913	\$ 234,922
Industry Development	\$ 180,266	13,919	49,109	\$ 243,294	\$ 227,824
Food Safety and Animal Health	\$ 201,946	-	54,552	\$ 256,498	\$ 241,905
Forests	\$ 201,175	-	56,319	\$ 257,494	\$ 237,502
Executive Directors					
Human Resources	\$ 165,323	-	46,425	\$ 211,748	\$ 204,898
Senior Financial Officer	\$ 165,323	-	27,590	\$ 192,913	\$ 206,540
Extension and Communications ⁽⁶⁾	\$ 88,051	6,026	26,000	\$ 120,077	\$ -
Boards and Agencies					
Farmers' Advocate	\$ 206,654	-	8,198	\$ 214,852	\$ 208,626
General Manager, Agricultural Products Marketing Council	\$ 137,463	-	39,952	\$ 177,415	\$ 168,199

⁽¹⁾ Base salary includes regular salary and earnings such as acting pay.

⁽²⁾ Other cash benefits include vacation payouts, lump sum payments and automobile allowances. There were no bonuses paid in 2016.

⁽³⁾ Other non-cash benefits include government'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, short and long term disability plans, tuition and professional memberships.

⁽⁴⁾ Automobile allowance provided through the year, included in Other Cash Benefits.

⁽⁵⁾ The position was occupied by two individuals at different times during the year.

Occupancy of the position changed October 22, 2015.

⁽⁶⁾ Position created on August 24, 2015.

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

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. Related parties also include key management personnel in the department.

The department and its employees paid or collected certain taxes and fees set by regulation for premiums, licences 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 department 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:

	Entities in the Ministry		Other Entities	
	2016	2015 (Restated - Note 3)	2016	2015 (Restated - Note 3)
Revenues				
Grants	\$ 927	\$ 912	\$ -	\$ -
Other	-	-	1,247	4,677
	<u>\$ 927</u>	<u>\$ 912</u>	<u>\$ 1,247</u>	<u>\$ 4,677</u>
Expenses - Directly Incurred				
Grants	\$ 696,991	\$ 453,227	\$ 1,481	\$ 2,473
Other services	-	-	4,704	4,592
	<u>\$ 696,991</u>	<u>\$ 453,227</u>	<u>\$ 6,185</u>	<u>\$ 7,065</u>
Tangible Capital Assets Transferred In (Out)				
Ministry of Infrastructure	\$ -	\$ -	\$ -	\$ (66)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (66)</u>
Payable to				
Agriculture Financial Services Corporation	\$ 43,785	\$ 66,249	\$ -	\$ -
Alberta Livestock and Meat Agency	3,953	3,085	-	-
Environmental Protection and Enhancement Fund	297,490	13,077	-	-
Ministry of Environment and Parks	-	-	37,978	-
Ministry of Economic Development and Trade	-	-	74	-
Ministry of Advanced Education	-	-	127	832
Ministry of Culture and Tourism	-	-	5	-
	<u>\$ 345,228</u>	<u>\$ 82,411</u>	<u>\$ 38,184</u>	<u>\$ 832</u>
Receivable from				
Agriculture Financial Services Corporation	\$ 520	\$ 514	\$ -	\$ -
Alberta Livestock and Meat Agency	388	479	-	-
Environmental Protection and Enhancement Fund	-	3,553	-	-
Ministry of Environment and Parks	-	-	322	-
Ministry of Economic Development and Trade	-	-	2	-
Ministry of Education	-	-	147	64
Alberta Heritage Savings Trust	-	-	-	3,050
	<u>\$ 908</u>	<u>\$ 4,546</u>	<u>\$ 471</u>	<u>\$ 3,114</u>
Deferred Revenue from				
Agriculture Financial Services Corporation	\$ 424	\$ 484	\$ -	\$ -
Ministry of Advanced Education	-	-	15	85
Ministry of Economic Development and Trade	-	-	107	189
Ministry of Education	-	-	1,049	1,129
	<u>\$ 424</u>	<u>\$ 484</u>	<u>\$ 1,171</u>	<u>\$ 1,403</u>

The department 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.

	Entities in the Ministry		Other Entities	
	2016	2015 (Restated - Note 3)	2016	2015 (Restated - Note 3)
Expenses - Incurred by Others				
Accommodation	\$ -	\$ -	\$ 38,537	\$ 41,795
Legal	-	-	1,180	1,930
Business Services	-	-	5,362	9,157
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,079</u>	<u>\$ 52,882</u>

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

DEPARTMENT OF AGRICULTURE AND FORESTRY

SCHEDULE TO FINANCIAL STATEMENTS

ALLOCATED COSTS

YEAR ENDED MARCH 31, 2016

(in thousands)

2016

2015

Expenses - Incurred by Others

Program	Expenses ⁽¹⁾	Accommodation Costs ⁽²⁾	Legal Services ⁽³⁾	Business Services ⁽⁴⁾	Total Expenses	Total Expenses (Restated - Note 3)
Ministry Support Services	\$ 19,314	\$ 8,767	\$ 205	\$ 5,284	\$ 33,570	\$ 31,958
Agriculture Policy and Economics	14,354	2,879	15	5	17,253	19,522
Agriculture Environment and Water	52,919	3,271	29	7	56,226	57,940
Food Safety and Animal Health	46,338	2,399	252	16	49,005	49,013
Industry Development	108,126	7,219	289	19	115,653	108,264
Forests	557,680	14,002	390	31	572,103	333,487
Livestock and Meat Strategy	23,791	-	-	-	23,791	23,936
Agriculture and Food Innovation						
Endowment Account	-	-	-	-	-	3,058
2013 Alberta Flooding	-	-	-	-	-	630
Agriculture Insurance and Lending Assistance						
Insurance and Lending	232,223	-	-	-	232,223	225,082
Agriculture Income Support	46,489	-	-	-	46,489	64,696
	<u>\$ 1,101,234</u>	<u>\$ 38,537</u>	<u>\$ 1,180</u>	<u>\$ 5,362</u>	<u>\$ 1,146,313</u>	<u>\$ 917,586</u>

⁽¹⁾ Expenses - Directly Incurred as per 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.

Environmental Protection and Enhancement Fund

Financial Statements

Year Ended March 31, 2016

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⋮



Independent Auditor's Report

To the Minister of Agriculture and Forestry

Report on the Financial Statements

I have audited the accompanying financial statements of the Environmental Protection and Enhancement Fund, 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 Environmental Protection and Enhancement Fund 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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual (in thousands)	2015 Actual
Revenues			
<u>Government Transfers</u>			
Government of Alberta Grants (Note 9)	\$ 375,000	\$ 387,390	\$ 131,584
Timber Rentals and Fees	32,424	29,361	39,079
Investment Income	700	403	779
	408,124	417,154	171,442
Expenses			
Forest Fires	387,000	399,390	143,148
Flat Top Complex	16,070	15,749	21,376
Forest Health Program	500	326	470
Environment Emergency Response	4,474	1,167	6,187
Intercept Feeding and Fencing	80	81	43
Debt Servicing Costs	-	441	-
	408,124	417,154	171,224
Annual Surplus	-	-	218
Accumulated surplus, beginning of year	150,000	150,000	149,782
Accumulated surplus, end of year	\$ 150,000	\$ 150,000	\$ 150,000

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2016

	2016	2015
	(in thousands)	
Financial Assets		
Cash and Cash Equivalents (Note 4)	\$ 11,674	\$ 148,320
Due from Government of Alberta	298,702	13,077
Accounts Receivable	54	1,071
	310,430	162,468
Liabilities		
Accounts Payable and Accrued Liabilities	7,281	8,328
Due to Government of Alberta	150,441	-
Liability for Contaminated Sites (Note 5)	2,708	4,140
	160,430	12,468
Net Financial Assets	150,000	150,000
Net Assets		
Accumulated Surplus (Note 6)	150,000	150,000
	\$ 150,000	\$ 150,000

Contractual Obligations (Note 7)

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

YEAR ENDED MARCH 31, 2016

	2016 Budget	2016 Actual	2015 Actual
		(in thousands)	
Annual Surplus	\$ -	\$ -	\$ 218
Increase in Net Financial Assets in the Year		-	218
Net Financial Assets, Beginning of Year		150,000	149,782
Net Financial Assets, End of Year		\$ 150,000	\$ 150,000

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUND

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2016

	2016	2015
	(in thousands)	
Operating Transactions		
Annual Surplus	\$ -	\$ 218
Increase in Accounts Receivable	(284,608)	(13,079)
Increase in Accounts Payable and Accrued Liabilities	149,394	4,952
Decrease in Deferred Revenue	-	(23)
(Decrease) Increase in Liability for Contaminated Sites	(1,432)	4,140
Cash Applied to Operating Transactions	(136,646)	(3,792)
Decrease in Cash and Cash Equivalents	(136,646)	(3,792)
Cash and Cash Equivalents at Beginning of Year	148,320	152,112
Cash and Cash Equivalents at End of Year	\$ 11,674	\$ 148,320

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

The Environmental Protection and Enhancement Fund (the Fund) operates under the authority of the *Environmental Protection and Enhancement Act* (EPEA), Chapter E-12, Revised Statutes of Alberta 2000.

The components of the Fund are:

- Forest Fires
- Flat Top Complex
- Forest Health
- Environmental Emergency Response
- Intercept Feeding and Fencing

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) Reporting Entity

The reporting entity is the Fund, which is part of the Ministry of Agriculture and Forestry and for which the Minister of Agriculture and Forestry is accountable. Other entities reporting to the minister are the Department of Agriculture and Forestry, Agriculture Financial Services Corporation and Alberta Livestock and Meat Agency Ltd. The activities of these organizations are not included in these financial statements. The ministry annual report provides a more comprehensive accounting of the financial position and results of the ministry's operations for which the minister is accountable.

(b) Basis of Financial Reporting

Revenue

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.

Government transfers - Transfers from the Government of Alberta, federal and other government entities 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 Fund'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 Fund 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 Fund 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 and a reasonable estimate of the amount can be made.

Financial Assets

The Fund has no financial assets measured in the fair value category and has not engaged in Foreign Currency transactions. The Fund has no re-measurement gains or losses and consequently has not presented a statement of re-measurement gains and losses. The Fund's financial assets are measured at cost or amortized cost.

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

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.

Liabilities

Liabilities represent present obligations of the Fund 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.

Liability for Contaminated Sites - Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

- i. an environmental standard exists
- ii. contamination exceeds the environmental standard;
- iii. the Fund is directly responsible or accepts responsibility;
- iv. it is expected that future economic benefits will be given up; and
- v. a reasonable estimate of the amount can be made.

Measurement Uncertainty (in thousands)

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount.

Liability for Contaminated Sites, recorded as \$2,708 in these financial statements, are subject to measurement uncertainty.

These estimates are based on the current site assessment, including the source and type of the contaminant. During remediation, further site assessments and/or sampling results may materially change the estimate. These changes could be the result of factors such as expanded area of contamination; a revised assessment of the source or introduction of a new source; re-sampling at deeper depths; and cost fluctuations where remedial work is conducted over several years.

(c) 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 Fund's financial assets and liabilities.

A net financial assets balance indicates the extent of the Fund'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.

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.

Note 3 Future Accounting Changes (continued)

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 contingent assets; PS 3380 defines and establishes disclosure on contractual rights. Management is currently assessing the impact of these standards on the financial statements.
- **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

The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at March 31, 2016, securities held by the Fund have a time-weighted return of .8% per annum (2015: 1.2% per annum).

Note 5 Liability for Contaminated Sites (in thousands)

The composition of liabilities is as follows:

	Total	
	2016	2015
Liabilities at Beginning of Year	\$ 4,140	\$ -
Additions to Liabilities during the Year	-	4,494
Change in Estimate Related to Existing Sites	(214)	44
Remediation Work Performed	<u>(1,218)</u>	<u>(398)</u>
Liabilities at End of Year	<u>\$ 2,708</u>	<u>\$ 4,140</u>

The Fund has transferred the liability amount of the contaminated sites for Cold Creek Ranger Station and West Arrowwood to the Department of Environment and Parks.

The Fund has undertaken remediation work on behalf of the proponent at the Gas Plus site for soil and groundwater contamination due to health and environmental risks. The remedial work will be conducted over three years starting in 2014/15, for both onsite and offsite remediation. The liability estimate was based on a consultant's proposal to delineate, develop a contaminated site model, implement testing and remedial action plan. Recovery of compensation equal to the remediation costs will be pursued through the courts. The probability of recovery of all or some of the costs has been assessed as low and therefore, the liability has not been reduced for any potential recoveries.

Note 6 Accumulated Surplus

(in thousands)

Accumulated surplus is comprised of the following:

	2016	2015
Balance April 1, 2015	\$ 150,000	\$ 149,782
Annual surplus	-	218
Balance March 31, 2016	<u>\$ 150,000</u>	<u>\$ 150,000</u>

Note 7 Contractual Obligations

(in thousands)

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

	2016	2015
Service Contracts	<u>\$ 31,348</u>	<u>\$ 31,971</u>

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

	2016
2016-17	\$ 14,422
2017-18	5,295
2018-19	5,360
2019-20	3,906
2020-21	2,365
	<u>\$ 31,348</u>

Note 8 Net Assets

(in thousands)

The net assets for the Fund are capped at \$150,000 in accordance with a Treasury Board decision.

Note 9 Transfer from the Department of Agriculture and Forestry

(in thousands)

The following revenue was received or is receivable from the Department of Agriculture and Forestry:

	2016	2015
Forest Fires	<u>\$ 387,390</u>	<u>\$ 131,584</u>

Note 10 Budget Figures

(in thousands)

The revenue and expense budget amounts disclosed in these financial statements agree with the 2015-16 Government Estimates.

Note 11 Comparative Figures

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

Note 12 Approval of the Financial Statements

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

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSEXPENSES - DETAILED BY OBJECTYEAR ENDED MARCH 31, 2016

	Budget	2016 Actual (in thousands)	2015 Actual
Salaries, Wages and Employee Benefits	\$ 127,581	\$ 39,191	\$ 25,386
Supplies and Services	256,543	352,337	129,151
Grants	24,000	25,399	12,148
Financial Transactions and Other	<u>-</u>	<u>227</u>	<u>4,539</u>
	<u><u>\$ 408,124</u></u>	<u><u>\$ 417,154</u></u>	<u><u>\$ 171,224</u></u>

ENVIRONMENTAL PROTECTION AND ENHANCEMENT FUNDSCHEDULE TO FINANCIAL STATEMENTSRELATED PARTY TRANSACTIONSYEAR 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. Related parties also include key management personnel in the Fund.

The Fund 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:

	Entities in the Ministry		Other Entities	
	2016	2015	2016	2015 (Restated)
Revenues				
Grants	\$ 387,390	\$ 131,584	\$ -	\$ -
	<u>\$ 387,390</u>	<u>\$ 131,584</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses				
Grants	\$ -	\$ -	\$ -	\$ -
Other services	-	-	3,067	2,525
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,067</u>	<u>\$ 2,525</u>
Payable to				
Environment and Parks	\$ -	\$ 3,578	\$ 1,249	\$ -
Treasury Board and Finance	-	-	150,000	127
	<u>\$ -</u>	<u>\$ 3,578</u>	<u>\$ 151,249</u>	<u>\$ 127</u>
Receivable from				
Agriculture and Forestry	\$ 298,702	\$ 13,077	\$ -	\$ -
Alberta Environmental Monitoring, Evaluation and Reporting Agency	-	-	1	-
Environment and Parks	-	-	1,177	-
	<u>\$ 298,702</u>	<u>\$ 13,077</u>	<u>\$ 1,178</u>	<u>\$ -</u>

Agriculture Financial Services Corporation

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>
FINANCIAL ASSETS		
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
LIABILITIES		
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>
NON-FINANCIAL ASSETS		
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
Revenues:			
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>
Expenses:			
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)

	<u>2016</u>	<u>2015</u>
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	<u>(21,584)</u>	<u>(28,446)</u>
Net cash provided by operating activities ⁽¹⁾	<u>128,408</u>	<u>225,306</u>
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	<u>759,321</u>	<u>870,245</u>
Net cash utilized by investing activities	<u>(149,353)</u>	<u>(316,891)</u>
Capital activities:		
Purchase of tangible capital assets	(7,075)	(5,876)
Proceeds on disposal of tangible capital assets	<u>104</u>	<u>24</u>
Net cash utilized by capital activities	<u>(6,971)</u>	<u>(5,852)</u>
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	<u>(658,642)</u>	<u>(45,479)</u>
Net cash provided by financing activities	<u>131,708</u>	<u>82,289</u>
Net decrease in cash during the year	103,792	(15,148)
Cash at beginning of year	<u>216,869</u>	<u>232,017</u>
Cash at end of year	<u>\$ 320,661</u>	<u>\$ 216,869</u>

⁽¹⁾ 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

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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

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(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

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(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 ⁽¹⁾			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 ⁽²⁾	0.63%	0.86%	1.67%	0.90%	0.83%
Corporate Securities	174,234	671,824	10,225	856,283	804,647
Yield ⁽²⁾	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>

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

⁽²⁾ 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

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(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	<u>(914)</u>	<u>-</u>
	<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>-</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

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(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

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(dollars in thousands)

Note 11 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software		
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2016	2015
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

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(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

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(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

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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

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(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 ⁽¹⁾				Not Interest Rate Sensitive ⁽²⁾	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 ⁽³⁾	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	7,291	7,114
	<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	2016	2015	2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues:																		
Premiums from insured persons	\$ 247,760	\$ 231,168	\$ -	\$ -	\$ 44,574	\$ 55,316	\$ 20,730	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	485	563	88,003	87,100	98	111	46	72	784	1,521	3,535	2,130	279,535	280,291	85,398	88,410	88,410	88,410
Contribution from Government of Alberta	214,921	203,539	46,444	64,804	12,851	18,297	1,828	1,169	3,339	3,339	2,060	2,060	244,132	244,132	220,510	244,132	244,132	244,132
Contribution from Government of Canada	187,487	183,432	28,515	56,812	-	-	1,169	189	189	189	(7)	(4)	44,454	43,695	44,454	43,695	43,695	43,695
Investment income	43,554	42,234	241	371	350	231	728	231	189	189	58	56	15,250	16,535	15,250	16,535	16,535	16,535
Fees and other income	150	(95)	10,464	10,715	3,513	3,202	713	2,021	713	713	58	56	15,250	16,535	15,250	16,535	16,535	16,535
	694,357	660,901	85,430	133,266	104,717	109,327	45,151	57,679	9,457	24,862	6,925	4,242	946,037	980,277	946,037	980,277	980,277	980,277
Expenses:																		
Indemnities	485,631	367,560	71,883	117,158	-	-	32,623	61,237	8,423	(976)	6,412	3,567	604,982	548,546	604,982	548,546	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	2,065	261	337	61,700	61,401	61,700	61,401	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	126	154	22,707	25,824	22,707	25,824	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	26	36	10,001	9,650	10,001	9,650	9,650	9,650
Interest	-	-	-	-	69,690	69,886	-	-	-	-	-	-	-	69,886	69,886	69,886	69,886	69,886
Reinsurance	23,887	23,031	-	-	1,644	2,224	1,009	1,009	1,009	1,700	-	-	26,540	26,955	26,540	26,955	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	4,839	4,221	4,839	4,221	4,221	4,221
	551,083	431,868	86,669	134,641	107,152	104,817	36,814	66,517	11,916	4,456	6,825	4,184	800,459	746,483	800,459	746,483	746,483	746,483
Net operating results	143,274	229,033	(1,239)	(1,375)	4,510	8,337	(8,338)	20,406	(2,459)	20,406	100	58	145,578	243,794	145,578	243,794	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	1,289	1,241	2,156,247	1,912,453	2,156,247	1,912,453	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	\$ 1,399	\$ 1,299	\$ 2,301,825	\$ 2,156,247	\$ 2,301,825	\$ 2,156,247	\$ 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 ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non-cash Benefits ⁽³⁾	Total	Total
Chairman of Board	\$ 49	\$ -	\$ -	\$ 49	\$ 51
Board members ⁽⁴⁾	137	-	-	137	174
President and Managing Director	518	50	130	698	632
Executive Members					
Senior Vice-President, Corporate Services ⁽⁵⁾	-	-	-	-	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 ⁽⁶⁾	88	42	19	149	323
Senior Manager, Human Resources ⁽⁷⁾	97	-	28	125	-

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

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

⁽³⁾ 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.

⁽⁴⁾ The amounts relate to five Board members during 2015/16 (eleven in 2014/15).

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

⁽⁶⁾ Position was for three and one half months (3.5).

⁽⁷⁾ Position commenced on July 20, 2015.

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		2015
	Budget	Actual	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	Total
Chairman of Board ⁽⁴⁾	\$ -	\$ 133	\$ -	\$ 133	\$ 138	\$ 138
Board Members ⁽⁴⁾	-	314	-	314	348	348
President and Chief Executive Officer	\$ 201	\$ 9	\$ 47	\$ 257	\$ 253	\$ 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.

OTHER FINANCIAL INFORMATION

* Information on this page has not been audited *

Statement of Remissions, Compromises and Write-Offs for the Year Ended March 31, 2016

The following statement has been prepared pursuant to Section 23 of the *Financial Administration Act*. The statement includes all remissions, compromises and write-offs made or approved during the fiscal year.

Write-offs

Departmental accounts receivable	\$	-
Agriculture Financial Services Corporation		(3,151,934)
Total remissions, compromises and write-offs	\$	(3,151,934)

The following statement has been prepared pursuant to Section 75 of the *Financial Administration Act*. The statement includes all guarantees, indemnities, payments and recoveries made during the fiscal year.

Statement of Guarantees and Indemnities Given by Provincial Corporations for the Year Ended March 31, 2016

Program/Borrower	Amount of Guarantee or Indemnity	Payments	Recoveries
Agriculture Financial Services Corporation	\$ 27,464,939	\$ 129,143	\$ -
Total guarantees and indemnities given	\$ 27,464,939	\$ 129,143	\$ -

OTHER STATUTORY REPORTS

Statutory Report: *Public Interest Disclosure Act*

Section 32 of the *Public Interest Disclosure Act* requires the ministry to report annually on the following parts of the Act:

- a) The number of disclosures received by the designated officer of the Public Interest Disclosure Office, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;
- b) The number of investigations commenced by the designated officer as a result of disclosures;
- c) In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In 2015-16 for the ministry, there were no disclosures of wrongdoing filed with the Public Interest Disclosure Office.





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