

Ministry of Agriculture and Forestry

Consolidated Financial Statements

Year Ended March 31, 2016

52	Independent Auditor's Report	
53	Consolidated Statement of Operations	
54	Consolidated Statement of Financial Position	⋮
55	Consolidated Statement of Change in Net Financial Assets	
56	Consolidated Statement of Cash Flows	
57	Notes to the Consolidated Financial Statements	
68	Schedule 1 – Consolidated Schedule of Expenses – Directly Incurred Detailed by Object	
69	Schedule 2 – Consolidated Schedule of Loans Receivable	
70	Schedule 3 – Consolidated Schedule of Investments	
71	Schedule 4 – Consolidated Schedule of Tangible Capital Assets	
72	Schedule 5 – Consolidated Schedule of Borrowing from the Government of Alberta	
73	Schedule 6 – Consolidated Schedule of Related Party Transactions	
74	Schedule 7 – Consolidated Schedule of Allocated Costs	



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 indeterminable 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	<u>208,362</u>	<u>170,249</u>
	<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	<u>21,293</u>
	<u>\$ 194,561</u>

Loans and Advances

	Total
2016-17	<u>\$ 208,362</u>
	<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	<u>27,465</u>	<u>12,972</u>	Variable
	82,312	67,851	
Allowance for Loan Guarantees	<u>(150)</u>	<u>(150)</u>	
	<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

⁽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.