

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED FINANCIAL STATEMENTS
Year ended March 31, 2014

Independent Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

**Consolidated Schedule of Expenses – Directly
Incurred Detailed by Object**

Consolidated Schedule of Budget

Consolidated Schedule of Loans Receivable

Consolidated Schedule of Investments

Consolidated Schedule of Tangible Capital Assets

**Consolidated Schedule of Borrowing from the
Government of Alberta**

**Consolidated Schedule of Related Party
Transactions**

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 Rural Development, which comprise the consolidated statement of financial position as at March 31, 2014, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Agriculture and Rural Development as at March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]

Auditor General

June 5, 2014

Edmonton, Alberta

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2014

| | 2014 Constructed Budget (Schedule 2) | 2014 Actual (in thousands) | 2013 Actual (Restated) |
|--|---|--|---------------------------------------|
| Revenues | | | |
| Government Transfers | | | |
| Government of Alberta Grants | \$ - | \$ 812 | \$ 513 |
| Federal Government Grants | 318,899 | 294,847 | 277,512 |
| Investment Income | 124,227 | 118,022 | 111,376 |
| Premiums, Fees and Licenses | 326,998 | 394,663 | 339,860 |
| Other Revenue | 8,168 | 9,034 | 10,046 |
| Ministry Revenue | 778,292 | 817,378 | 739,307 |
| Expenses - Directly Incurred (Note 2(c) and Schedule 8) | | | |
| Program (Schedule 1) | | | |
| Ministry Support Services | 17,063 | 16,834 | 15,992 |
| Agriculture Policy and Economics | 12,954 | 11,185 | 10,386 |
| Agriculture Environment and Water | 49,799 | 50,002 | 52,610 |
| Rural and Regulatory Services | 20,076 | 19,888 | 24,782 |
| Industry Development | 113,292 | 104,908 | 98,618 |
| Food Safety and Animal Health | 36,439 | 32,618 | 33,257 |
| Farm Fuel Distribution Allowance | - | - | 35,223 |
| Lending | 37,984 | 22,546 | 37,268 |
| Agriculture Income Support | 139,709 | 73,149 | 112,142 |
| Insurance | 429,101 | 432,971 | 711,089 |
| Livestock and Meat Strategy | 29,352 | 28,964 | 36,696 |
| Program Expense | 885,769 | 793,065 | 1,168,063 |
| Other | | | |
| Debt Servicing Costs | 75,072 | 67,931 | 66,719 |
| | 75,072 | 67,931 | 66,719 |
| Ministry Expense | 960,841 | 860,996 | 1,234,782 |
| Net Operating Results | \$ (182,549) | \$ (43,618) | \$ (495,475) |

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014

| | 2014 | 2013 (Restated) |
|---|---------------------|---------------------|
| | (in thousands) | |
| Assets | | |
| Cash and Cash Equivalents | \$ 240,529 | \$ 266,086 |
| Accounts Receivable | 14,433 | 13,389 |
| Due from Government of Canada | 142,806 | 175,128 |
| Loans Receivable (Schedule 3) | 1,954,401 | 1,777,383 |
| Investments (Schedule 4) | 1,634,743 | 1,119,771 |
| Tangible Capital Assets (Schedule 5) | 75,473 | 78,231 |
| | \$ 4,062,385 | \$ 3,429,988 |
| Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 44,006 | \$ 47,483 |
| Indemnities Payable | 133,828 | 202,743 |
| Deferred Revenue (Note 5) | 24,574 | 29,972 |
| Borrowing from Government of Alberta (Schedule 6) | 1,946,568 | 1,808,219 |
| | 2,148,976 | 2,088,417 |
| Net Assets | | |
| Net Assets at Beginning of Year | 1,341,571 | 1,325,773 |
| Net Operating Results | (43,618) | (495,475) |
| Net Financing Provided from General Revenues | 615,456 | 511,273 |
| Net Assets at End of Year | 1,913,409 | 1,341,571 |
| | \$ 4,062,385 | \$ 3,429,988 |

Contractual obligations and contingent liabilities (Notes 6 and 7)

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2014

| | 2014 | 2013 (Restated) |
|---|-------------------|--------------------|
| | (in thousands) | |
| Operating Transactions | | |
| Net Operating Results | \$ (43,618) | \$ (495,475) |
| Non-cash items included in Net Operating Results | | |
| Amortization of Tangible Capital Assets | 16,749 | 15,531 |
| Deferred Capital Contribution recognized as revenue | (3,139) | (3,156) |
| Amortization of premiums and discounts | 7,499 | 5,694 |
| Unearned Revenue recognized as revenue | (17,601) | (19,682) |
| Loss on Disposal of Tangible Capital Assets | 8 | 37 |
| Gain on Sale of Investments | (3,907) | (2,972) |
| | (44,009) | (500,023) |
| Unearned Revenue Received | 10,150 | 16,300 |
| Net Change in Operating Assets and Liabilities | (46,246) | 51,325 |
| Cash Applied to Operating Transactions | (80,105) | (432,398) |
| Capital Transactions | | |
| Acquisition of Tangible Capital Assets | (14,044) | (12,062) |
| Proceeds on Disposal of Tangible Capital Assets | 45 | 67 |
| Cash Applied to Capital Transactions | (13,999) | (11,995) |
| Investing Transactions | | |
| Proceeds from Repayments of Loans Receivable | 327,660 | 316,571 |
| Loan Disbursements | (502,066) | (502,915) |
| Purchase of Investments | (1,088,998) | (524,675) |
| Proceeds on Disposal of Investments | 574,696 | 483,866 |
| Cash Applied to Investing Transactions | (688,708) | (227,153) |
| Financing Transactions | | |
| Contributions Restricted for Capital | 5,192 | 5,148 |
| Borrowing from the Government of Alberta | 330,000 | 355,000 |
| Repayment of Borrowing from the Government of Alberta | (193,393) | (226,053) |
| Previously unrecorded net assets | - | 245 |
| Net Financing Provided from General Revenues | 615,456 | 511,273 |
| Cash Provided by Financing Transactions | 757,255 | 645,613 |
| Decrease in Cash and Cash Equivalents | (25,557) | (25,933) |
| Cash and Cash Equivalents at Beginning of Year | 266,086 | 292,019 |
| Cash and Cash Equivalents End of Year | \$ 240,529 | \$ 266,086 |

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

Notes to the Consolidated Financial Statements for the Year Ended March 31, 2014

Note 1 Authority and Purpose

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

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(a) Reporting Entity

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

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

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

(b) Method of Consolidation

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

(c) Basis of Financial Reporting

Revenue Accounting Policy - All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year-end is recorded as deferred revenue. Interest revenue on loans receivable is recognized as earned unless the ultimate collection of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is a risk of loss for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

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

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

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

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

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

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

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

Expenses

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

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

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

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

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

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

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

Investments are carried at cost or amortized cost, unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

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

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

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

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

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

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

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

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

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

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

Accounts Receivable, recorded as \$14,433 in these financial statements, includes an allowance for doubtful accounts of \$19,886 (2013 – \$20,159) 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 \$1,954,401 (2013 – \$1,777,383) in these financial statements, include a specific allowance of \$15,622 (2013 – \$17,447) and a general allowance of \$16,969 (2013 – \$19,945) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$32,591 (2013 – \$37,392) 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 \$133,828 (2013 – \$202,743) 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 AgriStability and AgriInvest program are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of \$67,259 to \$115,832.

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

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

Note 3 Restatement of Prior Year Figures

(in thousands)

Net Assets at March 31, 2012 is made up as follows:

| | |
|---|---------------------|
| Net Assets as previously reported | \$ 1,319,418 |
| Tangible Capital Asset additions relating to prior year | 453 |
| Previously unrecorded net assets | 245 |
| Accounting Policy Change | (25) |
| Elimination for Opening Capital Deferred Revenue | 5,682 |
| Net Assets at March 31, 2012 | <u>\$ 1,325,773</u> |

The change in the opening net assets reflects recognition of the net book value of previously unrecorded tangible capital assets in the amount of \$453, net assets in the amount of \$245 related to transactions previously managed by an industry partner and an elimination for opening capital deferred revenue balance \$5,682.

And as a result of capital transfers and restricted capital contributions policy change, capital transfers and restricted capital contributions are recognized as deferred revenue upon receipt and transferred to revenue over the useful life of capital assets based on relevant stipulations by transferring government. As a result, the opening net assets have been decreased by \$25.

Net operating results have been restated to reflect the revenues and expenses that should have been recorded as a result of these transactions as follows:

| | |
|---|---------------------|
| Net Operating Results, as previously reported at March 31, 2013 | \$ (495,172) |
| Previously unrecorded revenue | 57 |
| Accounting Policy Change | (336) |
| Operating Expense erroneously recorded as Capital Expense | (24) |
| Net Operating Results, as restated at March 31, 2013 | <u>\$ (495,475)</u> |

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.

| | 2014 | | 2013 | |
|--|---------------------|-------------|---------------------|-------------|
| | Dollar | Percentage | Dollar | Percentage |
| Loans receivable by individual sector: | | | | |
| Grain and Oilseeds | \$ 945,750 | 48% | \$ 832,017 | 47% |
| Cattle | 472,814 | 24% | 442,863 | 25% |
| Accommodations and Other Services | 122,898 | 6% | 110,349 | 6% |
| Manufacturing | 101,849 | 5% | 87,934 | 5% |
| Trade - Retail and Wholesale | 69,352 | 4% | 69,063 | 4% |
| Other Livestock | 68,073 | 3% | 66,545 | 4% |
| Commercial and Industrial | 49,174 | 3% | 52,096 | 3% |
| Transportation and Warehousing | 38,092 | 2% | 33,598 | 2% |
| Professional Services | 30,674 | 2% | 26,055 | 1% |
| Other | 88,317 | 5% | 94,256 | 5% |
| Allowance | (32,592) | -2% | (37,393) | -2% |
| | <u>\$ 1,954,401</u> | <u>100%</u> | <u>\$ 1,777,383</u> | <u>100%</u> |

Note 4 Credit and Interest Rate Risk (continued)

Interest Rate Risk - Interest rate risk is the impact future changes in interest rates have 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 loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

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

| | Within 1 Year | Scheduled Repayment ⁽¹⁾ | | | Over 10 Years | Not Interest Rate Sensitive ⁽²⁾ | 2014 | 2013 |
|-----------------------|-------------------|------------------------------------|---------------------|------------------|--------------------|---|--------------------|------|
| | | 1 to 5 Years | 6 to 10 Years | Total | | | Total | |
| <i>(in thousands)</i> | | | | | | | | |
| Loan balances | \$ 177,499 | \$ 588,352 | \$ 566,444 | \$ 613,664 | \$ 8,440 | \$ 1,954,399 | \$ 1,777,381 | |
| Yield ⁽³⁾ | 4.69% | 4.33% | 4.41% | 3.75% | - | 4.34% | 4.77% | |
| Rural utilities | \$ 2 | \$ - | \$ - | \$ - | \$ - | \$ 2 | \$ 2 | |
| Borrowing from | | | | | | | | |
| Government of Alberta | \$ 45,479 | \$ 549,020 | \$ 752,403 | \$ 580,721 | \$ 18,946 | \$ 1,946,569 | \$ 1,808,219 | |
| Yield ⁽³⁾ | 3.69% | 3.76% | 3.61% | 3.12% | - | 0.00% | 3.72% | |
| Net gap | <u>\$ 132,022</u> | <u>\$ 39,332</u> | <u>\$ (185,959)</u> | <u>\$ 32,943</u> | <u>\$ (10,506)</u> | <u>\$ 7,832</u> | <u>\$ (30,836)</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 payments of interest and repayment of principal. The interest rates are fixed until maturity.

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

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

Note 5 Deferred Revenue

(in thousands)

| | | |
|--|------------------|------------------|
| | 2014 | 2013 |
| Unearned Revenue (a) | \$ 11,170 | \$ 18,621 |
| Spent deferred capital contributions (b) | 13,404 | 11,351 |
| | <u>\$ 24,574</u> | <u>\$ 29,972</u> |

| | | | | | |
|---------------------------------------|--------------------|-----------------------|-----------------|------------------|------------------|
| (a) Unearned Revenue | 2014 | | | | 2013 |
| | Federal Government | Government of Alberta | Non-government | Total | Total |
| Balance, beginning of year | \$ 5 | \$ 1,479 | \$ 17,137 | \$ 18,621 | \$ 22,003 |
| Received/receivable during year | 302 | 1,120 | 8,685 | 10,107 | 16,219 |
| Restricted Realized Investment Income | - | - | 43 | 43 | 81 |
| Less amounts recognized as revenue | (307) | (1,114) | (16,180) | (17,601) | (19,682) |
| Balance, end of year | <u>\$ -</u> | <u>\$ 1,485</u> | <u>\$ 9,685</u> | <u>\$ 11,170</u> | <u>\$ 18,621</u> |

| | | | | | |
|--|--------------------|-----------------------|-----------------|------------------|------------------|
| (b) Spent deferred capital contributions | 2014 | | | | 2013 |
| | Federal Government | Government of Alberta | Non-government | Total | Total |
| Balance, beginning of year | \$ 10,990 | \$ - | \$ 361 | \$ 11,351 | \$ 9,359 |
| Received/Receivable | 4,191 | - | 1,001 | 5,192 | 5,148 |
| Less amounts recognized as revenue | (3,096) | - | (43) | (3,139) | (3,156) |
| Balance, end of year | <u>\$ 12,085</u> | <u>\$ -</u> | <u>\$ 1,319</u> | <u>\$ 13,404</u> | <u>\$ 11,351</u> |

Note 6 Contingent Liabilities

(in thousands)

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

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

The ministry has been named in one (2013: two) claim of which the outcome is not determinable. The claim has a specified amount totalling \$300 (2013: \$897). This claim is covered in whole by the Alberta Risk Management Fund. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

Note 7 Contractual Obligations

(in thousands)

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

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Obligations under Operating Leases, Contracts and Programs | \$ 71,347 | \$ 64,563 |
| Approved, Undisbursed Loans | 181,981 | 153,436 |
| | <u>\$ 253,328</u> | <u>\$ 217,999</u> |

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

Obligations Under Operating Leases, Contracts and Programs

| | Total |
|------------|------------------|
| 2014-15 | \$ 52,764 |
| 2015-16 | 10,760 |
| 2016-17 | 2,995 |
| 2017-18 | 1,767 |
| 2018-19 | 1,052 |
| Thereafter | 2,009 |
| | <u>\$ 71,347</u> |

Loans and Advances

| | Total |
|---------|-------------------|
| 2014-15 | \$ 181,981 |
| | <u>\$ 181,981</u> |

Note 8 Guarantees

(in thousands)

| | 2014 | 2013 | Expiry Date |
|--------------------------------|------------------|------------------|-------------|
| Feeder Associations | \$ 48,417 | \$ 46,544 | Ongoing |
| Agriculture Financial Services | | | |
| Corporation Guarantees | 10,226 | 1,944 | Variable |
| | 58,643 | 48,488 | |
| Allowance for Loan Guarantees | (150) | (150) | |
| | <u>\$ 58,493</u> | <u>\$ 48,338</u> | |

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

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

Note 9 Trust Funds Under Administration

(in thousands)

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

As at March 31, 2014 trust funds under administration were as follows:

| | 2014 | 2013 |
|--------------------------------------|---------------|---------------|
| 4-H General Trust | \$ 110 | \$ 98 |
| Wheat Board Monies Trust Fund | - | 123 |
| Claude Gallinger Memorial Trust Fund | 21 | 21 |
| | <u>\$ 131</u> | <u>\$ 242</u> |

Responsibility for the administration of the Wheat Board Monies Trust Fund was transferred to the Ministry of Innovation and Advanced Education, Heritage Scholarship Trust on January 31, 2014.

Note 10 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 \$17,355 for the year ended March 31, 2014 (2013 - \$16,022). Ministries are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2013, the Management Employees Pension Plan reported a surplus of \$50,457 (2012 deficiency – \$303,423), the Public Service Pension Plan reported a deficiency of \$1,254,678 (2012 deficiency - \$1,645,141) and the Supplementary Retirement Plan for Public Service Managers had a deficiency of \$12,384 (2012 deficiency - \$51,870).

The ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2014, the Bargaining Unit Plan reported an actuarial surplus of \$75,200 (2013 surplus – \$51,717) and the Management, Opted Out, and Excluded Plan an actuarial surplus of \$24,055 (2013 surplus - \$18,327). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 11 Comparative Figures

Certain 2013 figures have been reclassified to conform to the 2014 presentation.

Note 12 Budget

The 2013-2014 Government and Lottery Fund Estimates were approved on April 29, 2013.

Note 13 Approval of the Consolidated Financial Statements

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT
YEAR ENDED MARCH 31, 2014

| | 2014 | | 2013 |
|--|-------------------------------|-------------------|------------------------------|
| | Constructed Budget | Actual | Actual (Restated) |
| | (in thousands) | | |
| Indemnities | \$ 469,670 | \$ 410,739 | \$ 729,955 |
| Grants | 130,453 | 125,599 | 169,606 |
| Salaries, Wages, Employment Contracts and Benefits | 161,640 | 158,028 | 156,646 |
| Interest | 75,072 | 67,931 | 66,719 |
| Supplies and Services | 67,026 | 54,511 | 56,304 |
| Amortization of Tangible Capital Assets | 15,944 | 16,749 | 15,532 |
| Other Expenses | 41,036 | 27,439 | 40,020 |
| Total | \$ 960,841 | \$ 860,996 | \$ 1,234,782 |

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

SCHEDULE TO FINANCIAL STATEMENTS

BUDGET

YEAR ENDED MARCH 31, 2014

| | 2013-14 Estimate | Adjustment to Conform to Accounting Policy (in thousands) | 2013-14 Constructed Budget |
|-------------------------------------|---------------------|---|----------------------------------|
| Revenues | | | |
| Federal Government Grants | \$ 318,899 | \$ - | \$ 318,899 |
| Investment Income | 124,227 | - | 124,227 |
| Premiums, Fees and Licenses | 326,998 | - | 326,998 |
| Other Revenue | 8,068 | 100 | 8,168 |
| | <u>778,192</u> | <u>100</u> | <u>778,292</u> |
| Expenses - Directly Incurred | | | |
| Programs | | | |
| Ministry Support Services | 17,063 | - | 17,063 |
| Agriculture Policy and Economics | 12,954 | - | 12,954 |
| Agriculture Environment and Water | 30,799 | 19,000 | 49,799 |
| Rural and Regulatory Services | 16,176 | 3,900 | 20,076 |
| Industry Development | 113,292 | - | 113,292 |
| Food Safety and Animal Health | 36,439 | - | 36,439 |
| Farm Fuel Distribution Allowance | - | - | - |
| Lending | 37,984 | - | 37,984 |
| Agriculture Income Support | 139,709 | - | 139,709 |
| Insurance | 429,101 | - | 429,101 |
| Livestock and Meat Strategy | 29,352 | - | 29,352 |
| Program Expense | <u>862,869</u> | <u>22,900</u> | <u>885,769</u> |
| Debt Servicing Costs | <u>75,072</u> | <u>-</u> | <u>75,072</u> |
| Total Expense | <u>937,941</u> | <u>22,900</u> | <u>960,841</u> |
| Net Operating Results | <u>\$ (159,749)</u> | <u>\$ (22,800)</u> | <u>\$ (182,549)</u> |
| Capital Spending | <u>\$ 33,646</u> | <u>\$ (21,900)</u> | <u>\$ 11,746</u> |

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENTCONSOLIDATED SCHEDULE OF LOANS RECEIVABLEYEAR ENDED MARCH 31, 2014

| | 2014 | 2013 |
|--------------------------------------|-----------------------|---------------------|
| | (in thousands) | |
| Loans Receivable | \$ 1,960,817 | \$ 1,789,703 |
| Accrued Interest | <u>26,266</u> | <u>25,199</u> |
| | 1,987,083 | 1,814,902 |
| Less Allowance for Doubtful Accounts | \$ (32,592) | (37,393) |
| Less Loan Discounts | <u>(90)</u> | <u>(126)</u> |
| | <u>\$ 1,954,401</u> | <u>\$ 1,777,383</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 \$32,592 (2013 – \$37,393) includes a specific allowance of \$15,622 (2013 – \$17,447) on impaired loans outstanding of \$30,035 (2013 - \$33,787), excluding unamortized loan discounts.

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF INVESTMENTS

YEAR ENDED MARCH 31, 2014

(in thousands)

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| Bonds and Debentures | | |
| Government of Canada, direct and guaranteed | \$ 843,492 | \$ 516,450 |
| Other provincial, direct and guaranteed | <u>135,728</u> | <u>180,011</u> |
| | 979,220 | 696,461 |
| Corporate Securities | <u>646,547</u> | <u>416,537</u> |
| | 1,625,767 | 1,112,998 |
| Accrued interest | <u>8,976</u> | <u>6,773</u> |
| | <u>\$ 1,634,743</u> | <u>\$ 1,119,771</u> |

| | <u>Term to Maturity</u> | | | <u>2014</u> | <u>2013</u> |
|----------------------|-------------------------|---------------------|------------------|---------------------|---------------------|
| | <u>Within</u> | <u>1 to 5</u> | <u>6 to 10</u> | | |
| | <u>1 Year</u> | <u>Years</u> | <u>Years</u> | <u>Total</u> | <u>Total</u> |
| Bonds and Debentures | \$ 117,318 | \$ 835,991 | \$ 25,911 | \$ 979,220 | \$ 696,461 |
| Yield | 0.95% | 1.44% | 2.23% | 1.40% | 1.30% |
| Corporate Securities | - | 582,535 | 64,012 | 646,547 | 416,537 |
| Yield | - | <u>1.83%</u> | <u>2.58%</u> | <u>1.90%</u> | <u>1.73%</u> |
| | 117,318 | 1,418,526 | 89,923 | 1,625,767 | 1,112,998 |
| Accrued Interest | <u>625</u> | <u>7,972</u> | <u>379</u> | <u>8,976</u> | <u>6,773</u> |
| | <u>\$ 117,943</u> | <u>\$ 1,426,498</u> | <u>\$ 90,302</u> | <u>\$ 1,634,743</u> | <u>\$ 1,119,771</u> |

The fair value of investments at March 31, 2014 is \$1,639,850 (2013 - \$1,132,523). Fair value is based on quoted market prices including accrued interest.

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

YEAR ENDED MARCH 31, 2014
(in thousands)

| Estimated Useful Life | Land Indefinite | Buildings 25 - 40 years | Equipment and Vehicles 5 - 10 years | Computer Hardware and Software 2 - 10 years | Rail Hopper Cars 35 years | Leasehold Improvements 5 years | 2014 Total | 2013 Total (Restated) |
|---------------------------------------|--------------------|----------------------------|---|--|---------------------------------|--------------------------------------|---------------|-----------------------------|
| | | | | | | | | |
| Historical Cost ^(a) | | | | | | | | |
| Beginning of Year | \$ 347 | \$ 11,945 | \$ 62,422 | \$ 102,115 | \$ 49,294 | \$ 133 | \$ 226,256 | \$ 216,371 |
| Additions | - | 66 | 4,445 | 9,533 | - | - | 14,044 | 12,062 |
| Disposals | - | - | (471) | (1,724) | (322) | - | (2,517) | (2,177) |
| | \$ 347 | \$ 12,011 | \$ 66,396 | \$ 109,924 | \$ 48,972 | \$ 133 | \$ 237,783 | \$ 226,256 |
| Accumulated Amortization | | | | | | | | |
| Beginning of Year | \$ - | \$ 4,862 | \$ 38,647 | \$ 59,209 | \$ 45,207 | \$ 100 | \$ 148,025 | \$ 134,567 |
| Amortization Expense | - | 411 | 4,810 | 10,097 | 1,404 | 27 | 16,749 | 15,531 |
| Effect of Disposals | - | - | (448) | (1,714) | (302) | - | (2,464) | (2,073) |
| | \$ - | \$ 5,273 | \$ 43,009 | \$ 67,592 | \$ 46,309 | \$ 127 | \$ 162,310 | \$ 148,025 |
| Net Book Value at | | | | | | | | |
| March 31, 2014 | \$ 347 | \$ 6,738 | \$ 23,387 | \$ 42,332 | \$ 2,663 | \$ 6 | \$ 75,473 | |
| Net Book Value at | | | | | | | | |
| March 31, 2013 | \$ 347 | \$ 7,083 | \$ 23,775 | \$ 42,906 | \$ 4,087 | \$ 33 | \$ 78,231 | \$ 78,231 |

^(a) Historical cost includes work-in-progress at March 31, 2014 totaling \$9,515 comprised of: equipment \$5,669 (2013 - \$1,129) and computer hardware and software \$3,846 (2013 - \$5,672).

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF BORROWING FROM THE GOVERNMENT OF ALBERTA
YEAR ENDED MARCH 31, 2014
(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.

| | 2014 | 2013 |
|-----------------------------|---------------------|---------------------|
| Annual Interest Rate | | |
| Less than 2% | \$ 120,000 | \$ - |
| 2.01% to 3.00% | 433,000 | 383,000 |
| 3.01% to 4.00% | 784,238 | 734,238 |
| 4.01% to 5.00% | 514,751 | 574,751 |
| 5.01% to 6.00% | <u>75,634</u> | <u>99,027</u> |
| | 1,927,623 | 1,791,016 |
| Accrued interest | 14,045 | 14,266 |
| Unamortized premium | <u>4,900</u> | <u>2,937</u> |
| | <u>\$ 1,946,568</u> | <u>\$ 1,808,219</u> |

The estimated fair value at March 31, 2014 is \$2,025,893 (2013 - \$1,945,413). 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, | 2015 | \$ 45,479 |
| | 2016 | 228,642 |
| | 2017 | 65,506 |
| | 2018 | 68,780 |
| | 2019 | 186,092 |
| | Thereafter | <u>1,333,124</u> |
| | | <u>\$ 1,927,623</u> |

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
CONSOLIDATED SCHEDULE OF RELATED PARTY TRANSACTIONS

YEAR ENDED MARCH 31, 2014

(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.

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Revenues: | | |
| Grants | \$ - | \$ - |
| Other | 820 | 513 |
| | <u>\$ 820</u> | <u>\$ 513</u> |
| Expenses - Directly Incurred: | | |
| Grants | \$ 9,164 | \$ 11,276 |
| Accommodation | 784 | 799 |
| Other services | 4,441 | 3,453 |
| Interest | 67,752 | 66,719 |
| | <u>\$ 82,141</u> | <u>\$ 82,247</u> |
| Payable to | | |
| Ministry of Treasury Board and Finance | \$ 1,946,569 | \$ 1,809,259 |
| Ministry of Innovation and Advanced Education | 3,177 | 930 |
| Ministry of Service Alberta | 4 | 4 |
| Ministry of Infrastructure | 66 | - |
| Ministry of International and Intergovernmental Relations | - | 35 |
| Receivable from | | |
| Ministry of Innovation and Advanced Education | 1 | 127 |
| Deferred Revenue from | | |
| Ministry of Innovation and Advanced Education | 169 | 439 |
| Ministry of Education | 1,316 | 1,041 |
| | <u>\$ 1,951,302</u> | <u>\$ 1,811,835</u> |

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

| | 2014 | 2013 |
|------------------------------|------------------|------------------|
| Expenses incurred by others: | | |
| Accommodation | \$ 26,478 | \$ 26,108 |
| Legal | 1,141 | 1,123 |
| Other services | 4,631 | 5,455 |
| | <u>\$ 32,250</u> | <u>\$ 32,686</u> |

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

MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

CONSOLIDATED SCHEDULE OF ALLOCATED COSTS

YEAR ENDED MARCH 31, 2014
(in thousands)

| Program | Expenses ⁽¹⁾ | 2014 | | | | | | | Total Expenses (Restated) |
|-----------------------------------|-------------------------|------------------------------------|-------------------------------|--------------------------------|-----------------------------|--|--------------------------------|----------------|---------------------------|
| | | Accommodation Costs ⁽²⁾ | Legal Services ⁽³⁾ | Service Alberta ⁽⁴⁾ | Air Services ⁽⁶⁾ | Corporate Internal Audit Services ⁽⁶⁾ | Learning Centre ⁽⁷⁾ | Total Expenses | |
| Ministry Support Services | \$ 16,834 | \$ 2,659 | \$ 347 | \$ 4,353 | \$ 143 | \$ 102 | 4 | \$ 24,442 | \$ 24,271 |
| Agriculture Policy and Economics | 11,185 | 2,001 | 29 | - | - | - | 3 | 13,218 | 16,592 |
| Agriculture Environment and Water | 50,002 | 3,879 | 85 | - | - | - | 5 | 53,971 | 52,610 |
| Rural and Regulatory Services | 19,888 | 2,879 | 121 | - | - | - | 4 | 22,892 | 27,973 |
| Industry Development | 104,908 | 9,954 | 222 | - | - | - | 13 | 115,097 | 111,674 |
| Food Safety and Animal Health | 32,618 | 3,172 | 333 | - | - | - | 4 | 36,127 | 33,257 |
| Farm Fuel Distribution Allowance | - | - | - | - | - | - | - | - | 35,223 |
| Agriculture Income Support | 73,149 | 357 | - | - | - | - | - | 73,506 | 112,228 |
| Lending | 22,546 | 817 | - | - | - | - | - | 23,363 | 38,014 |
| Insurance | 432,971 | 760 | - | - | - | - | - | 433,731 | 712,205 |
| Livestock and Meat Strategy | 28,964 | - | 4 | - | - | - | - | 28,968 | 36,675 |
| | \$ 793,065 | \$ 26,478 | \$ 1,141 | \$ 4,353 | \$ 143 | \$ 102 | 33 | \$ 825,315 | \$ 1,200,722 |

⁽¹⁾ Expenses - Directly incurred per Consolidated Statements of Operations, excluding valuation adjustments and debt servicing costs.

⁽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 Service Alberta on Schedule 7 (Other services), allocated by estimated costs incurred by each program.

⁽⁵⁾ Costs shown for Air Transportation on Schedule 7 (Other services), allocated by estimated costs incurred by each program.

⁽⁶⁾ Costs shown for Corporate Internal Audit Services on Schedule 7 (Other services), allocated by estimated costs incurred by each program.

⁽⁷⁾ Costs shown for Learning Centre on Schedule 7 (Other services), allocated by budgeted full-time equivalent employment.