2012–13
Annual Report

Agricorp®

An agency of the Government of Ontario

Focused on what matters

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About Agricorp

As an agency of the government of Ontario, Agricorp has a mandate to deliver programs, such as risk management, that help Ontario's producers manage their agricultural risk and support the industry. We're responsible to the provincial government to deliver these programs while maintaining the highest standards for fiscal responsibility, accountability and customer service.

To effectively deliver on its mandate, Agricorp relies on:

- A governance model that provides effective stewardship of government resources and ensures the necessary checks and balances are in place.
- Specialized industry expertise and professional capabilities to deliver effectively and responsibly with the flexibility and confidence to respond efficiently to program changes.
- Predictable, consistent and high-quality processes to ensure effective and professional delivery of programs.
- Integrated technology solutions that support processes required to deliver the programs.
- Transparent reporting practices that ensure performance is measured and monitored, targeted results are achieved and issues are identified and managed proactively.

Vision

To be a versatile, customer-focused organization that works with partners to innovatively deliver programs and services that enhance the vitality of Ontario agriculture.

Mission

We connect producers with programs. We partner to deliver risk management programs that are responsive to the changing needs of agriculture.

Delivery is our strength. We focus on efficient and effective delivery of programs with quality, integrity and transparency.

Customers are our priority. We want to deliver consistently professional services and programs that provide security today while helping our customers manage their risks in the future.

Our people are the foundation of our success. Collaboration and continuous improvement harness our many strengths for a common focus.

We are publicly accountable. Through the prudent expenditure of public funds, we deliver programs on behalf of our agricultural and government partners with consistency, openness and dependability.

Chair's message

Agriculture: a fundamentally important economic industry for Ontarians

As Agricorp's board chair, I am proud of the role we play in supporting Ontario's vital agricultural industry. The industry contributes $33 billion annually to Ontario's economy, makes up 13 per cent of the province's gross domestic product and creates 700,000 jobs.[1] Agriculture is a key driver of Ontario's economy and what happens in the industry is fundamental to Ontario's economic future. This incredibly diverse, resilient, yet inherently risky industry contributes so much to the province's economic engine and is critical for maintaining economically healthy rural communities in Ontario.

With agriculture being an economic imperative, governments all over the world support this sector through risk management programs. In Canada, the new Growing Forward 2 policy framework announced this spring invests in innovation, competitiveness and market development plus risk management programs. The framework is a significant vote of confidence in the value of permanent risk management programs to Ontario's agriculture industry. When producers can manage risk appropriately, they can innovate, improve productivity and introduce more sustainability practices on their farms.

Our role in connecting producers with programs requires hard work and collaboration. We work with producers to help them understand the programs and to provide timely customer service. We work with commodity groups to understand how the programs are meeting the needs of the industry. We work with both the provincial and federal levels of government to ensure their needs are met and to support their role in policy and program design while prudently managing public funds.

The fundamentals don't change

Agricorp annually executes thousands of program transactions with producers. We need to perform these transactions accurately and consistently. This is possible when the fundamentals are established and securely in place, and a solid strategic plan charts the direction. Every year the board sets the vision for Agricorp and reviews the rolling three-year strategic plan, which ensures our direction and initiatives align with our customer's needs, industry expectations, government priorities and mandate. We also work to find efficiencies through streamlined processes, lower administrative costs, better use of technology, ongoing cost avoidance and cost reduction strategies.

Agricorp was able to deliver on its plans by balancing resources between delivering established programs and developing new initiatives, collaborating with government and stakeholder groups and leveraging the knowledge and skills of our workforce. We heard directly from our customers, through the annual customer satisfaction survey that we delivered. The board was very pleased we were able to maintain very strong customer satisfaction scores given a very challenging year. The 2012-13 key performance indicators detailed in this annual report verify that we delivered.

"Our role to connect producers with programs requires hard work and collaboration. We work with producers to help them understand the programs and to provide timely customer service."

[1] Ontario Ministry of Agriculture and Food website, modified June 17, 2013.

To do our work well, we also need to have strong governance practices in place. We follow a governance model that provides effective stewardship of government resources and ensures the right checks and balances are in place while also meeting public expectations. Ninety-five per cent of our customers recognize we operate with integrity. I am very proud of the fact that our customers realize it. That tells me the work we're doing is on the right track and that our whole process stands up to scrutiny. We are getting results and doing it with integrity.

"Our reputation is built on every interaction with our customers, through the efficient delivery of programs and services, through our knowledge of the agricultural industry, through our unrelenting focus on customer service, and through our commitment to continuous improvement."

Earning our reputation every day

We know we have to earn the trust of Ontario producers every day and we take that job very seriously. Annually, employees, senior management and board members sign a code of conduct reaffirming our commitment to serve our customers ethically and responsibly. Our reputation is built on every interaction with our customers, through the efficient delivery of programs and services, through our knowledge of the agricultural industry, through our unrelenting focus on customer service, and through our commitment to continuous improvement. Our employee engagement results confirm we have the right culture and that employees experience personal satisfaction when helping our customers.

A job well done

This level of achievement would not be possible without the contribution of everyone at Agricorp. I'd like to acknowledge all employees for their efforts this year in pulling together to deliver programs and services under exceptional circumstances. I also want everyone on the Agricorp team to know what a privilege it is to work on their behalf. On that note, I have been reappointed as Agricorp's board chair for another three-year term – a role I am very pleased to continue.

I'm confident in the course we have set for Agricorp but I know there is much work ahead. Variables such as economic trends, changes in technology and increased accountability and transparency requirements will continue to impact how we operate. To meet this challenge, we are implementing a strategy that maintains current levels of service, leverages the agency's expertise and infrastructure to support government direction, reduces the burden on producers and achieves overall economies of scale all while keeping in mind our changing environment.

Agricorp, its board of directors and I are looking to the future to see how we can continue to improve how we serve the sector.

Larry Skinner
Chair

Agricorp governance

Agricorp is committed to maintaining the highest standards of conduct and corporate governance, refining and reviewing our governance practices to adapt and strengthen our policies and procedures as they evolve. Strong governance ensures agency objectives are realized, resources are well managed, and the interests of all stakeholders are protected and reflected in key decisions.

Legislative framework

Agricorp is a provincial crown corporation created under the *AgriCorp Act, 1996* and is classified as an operational enterprise agency. The act outlines Agricorp's purpose, powers, mandate and structure. Agricorp follows leading governance practices and daily activities are guided by the highest standards of conduct. Agricorp is responsible for the judicious use of public resources and for carrying out established mandates.

As an agency of the provincial government, Agricorp is publicly accountable and undergoes regular audits by internal, provincial and federal auditors. Agricorp upholds best management principles, including ethical behaviour and prudent use of public funds.

Government directives

Agricorp must comply with provincial government directives that guide agencies in the delivery of services to the public. The Agency Establishment and Accountability Directive provides the accountability framework within which Agricorp operates. Specific directives fall under three broad categories. Business planning and financial management includes directives on delegation of authority, and travel, meal and hospitality expenditures. Accountability and governance includes directives on procurement and internal audit. Information and information technology management includes directives on privacy and freedom of information. General directives include the *Ontario Public Service Act,* the *French Language Services Act,* the *Accessibility for Ontarians with Disabilities Act* and the *Freedom of Information and Protection of Privacy Act.*

Memorandum of understanding

A memorandum of understanding is in place. In addition to the clarification of expectations and reporting requirements, it defines the relationship between the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA) and Agricorp, including the roles and responsibilities of the minister, the deputy minister, the chair of the board, the board of directors and the chief executive officer.

Board governance

Board structure and accountabilities

Board governance guidelines as well as the roles and responsibilities of the chair, board members and board committees are documented in the board's bylaws. They include:

- Fiduciary and operational oversight
- Strategic planning
- Risk management and internal controls
- Legal and ethical conduct
- Director orientation, continuing education and evaluation
- Liaison with OMAF and MRA

Board performance

The board regularly assesses its performance through an established process of self-evaluation facilitated by an external consultant. This work helps identify any gaps and informs future board training requirements and the contracting of external expertise for specific assignments. The board also engages in an annual strategic planning session to ensure Agricorp remains relevant and responsive to industry needs and government priorities.

As an agency of the provincial government, Agricorp is publicly accountable and undergoes regular audits by internal, provincial and federal auditors. Agricorp upholds best management principles, including ethical behaviour and prudent use of public funds.

Board committees

Agricorp's board committees reinforce the role of the board of directors. Currently, two committees, the finance and audit committee and the governance and human resources committee, provide oversight and advice to the board in these two specific areas.

Finance and audit committee

The finance and audit committee is appointed by the board of directors to oversee and advise on the financial management of Agricorp. This includes the following activities:

- Monitoring, controllership and governance at Agricorp.
- Reviewing Agricorp's risk assessment and management plan, and audit plan.
- Ensuring compliance with provincial internal audit directives.
- Reviewing the year-end financial statements.

The committee also oversees the employee pension fund and Agricorp's investment management activities, including periodic reviews of the investment policy statements.

The committee focuses on the following areas:

- Implementing the audit control framework by developing and recommending approval of the annual audit plan, meeting regularly with Ontario Internal Audit, receiving and reviewing audit reports, and reviewing how management responds to and acts on audit recommendations.
- Reviewing and recommending the annual financial attestation audit plan.
- Overseeing and monitoring how management assessed and planned to respond to business risks and identifying emerging risks.
- Reviewing, recommending, and overseeing Agricorp's investment policies for funds such as the Production Insurance fund and the pension plan fund.
- Overseeing the financial reporting process.
- Reviewing and recommending approval to the board of the Agricorp audited financial statements and the pension plan financial statements.

Governance and human resources committee

The governance and human resources committee provides oversight and advice on corporate governance and human resource matters at Agricorp. This includes activities such as recommending changes to Agricorp's mandate and role, reviewing and recommending a memorandum of understanding between the chair and the minister, and annually reviewing all corporate governance documents.

The committee also reviews and makes recommendations on Agricorp's compensation philosophy and guidelines, advises on criteria and potential candidates for appointment to the board, and monitors and recommends training and development programs for directors.

The committee focuses on the following areas:

- Overseeing and reviewing Agricorp's compensation policy and program, specifically ensuring compliance with compensation restraint legislation.
- Identifying opportunities to improve the director nomination and appointment process.
- Monitoring and recommending improvements to the annual process of assessing board effectiveness, including committees and individual directors.
- Recommending appropriate engagement strategies for key stakeholders with whom the board interacts.

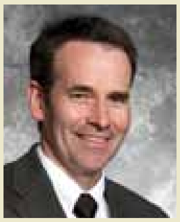
Code of Ethics, Oaths of Office and Allegiance

Agricorp has a comprehensive code of ethics outlining professional conduct and standards of ethical behaviour and responsibility which Agricorp expects from its employees and board members. All employees and board members sign an annual acknowledgement of this code. The Oaths of Office and Allegiance for new employees reinforce the serious obligations and responsibilities employees fulfill as members of the public service.

Board of directors

Agricorp's board members are appointed by the lieutenant governor through an order-in-council on the recommendation of the Minister of Agriculture and Food. Members serve terms of up to three years and may be reappointed.

During 2012-13, Agricorp's board of directors consisted of the following members:



Larry Skinner – Chair (Perth County) • **May 13, 2009 – May 12, 2015**

Larry is a full-time swine farmer who served on the board of Ontario Pork for eight years, three of those as chair. Before he began farming, he worked as an agricultural lender for TD Bank. He graduated May 2013 with a master of divinity degree from the University of Toronto. In May 2012, Larry was re-appointed as chair for another three-year term.

David Epp – Vice-Chair (Essex County) • **February 7, 2007 – June 24, 2014**

A third-generation farmer and co-owner of Lycoland Farms Ltd., David served 14 years with the Ontario Processing Vegetable Growers Association, two of those as chair. He grows processing vegetables and cash crops.

William (Bill) Allison (Halton Region) • **April 30, 2008 – April 29, 2014**

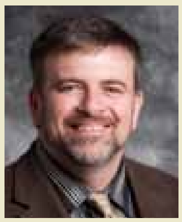
Bill is a field crop producer and former director with the Ontario Federation of Agriculture, past director and chairperson of the Ontario Soybean Growers, and a former chair of AGCare.

Rosemary Davis (Northumberland County) • **May 6, 2009 – May 5, 2015**

An agrologist, Rosemary owns Sunhil Farms Ltd. and Sunhil Investments Ltd. and is a director on the board of the Northumberland Community Futures Development Corporation. She was also the first female chair of the Farm Credit Canada board of directors. In May 2012, Rosemary was re-appointed for another three-year term.

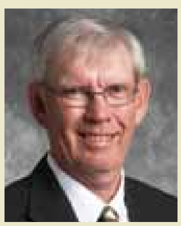
Robert Emerson (Bruce County) • **June 25, 2008 – June 24, 2014**

Robert has farmed since 1961. He is president and CEO of a feedlot and cash crop operation, and has also served in municipal politics.



Harry Stoddart (Kawartha Lakes) • **May 30, 2012 – May 29, 2015**

Harry has been involved in agriculture for more than 20 years, owning a successful crop and livestock farm he continues to operate. He also has 15 years' experience as a management consultant with PricewaterhouseCoopers, IBM and his own consulting firm working on key projects in Ontario's public sector and agri-food industry.



Rod Stork (Guelph) • **January 4, 2011 – January 3, 2014**

Rod has held many roles in his more than 30 years with the Ontario Ministry of Agriculture and Food, including chair of the Ontario Farm Products Marketing Commission and director of Economic Development. Following retirement, he served as part-time chair of the Agriculture, Food and Rural Affairs Appeal Tribunal. In 2008 and 2009, he facilitated the grains and oilseeds working group, which led to the formation of the Grain Farmers of Ontario.

Left to right:
William Allison,
Robert Emerson,
David Epp,
Rosemary Davis,
Rod Stork,
Larry Skinner
and Harry Stoddart.

CEO's message

What a year

2012 was one for the record books.

The key adjective I'd use to describe this year is variable with many producers experiencing their worst – or best – year ever. We had a very early spring followed by a frost that significantly impacted tree-fruit growers. This was followed by an extremely hot growing season with extended dry periods and a harvest that, for many, was derailed by heavy rains. Yields and quality were variable from region to region, crop to crop and, sometimes, within the same field. Still, soybean producers enjoyed their largest crop in the province's history and grape growers had a tremendous season.

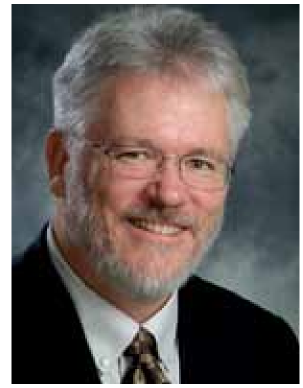
That's agriculture in Ontario: variable, unpredictable and yet so fundamentally important.

This variability demanded flexibility as a business. We continually adjusted resources to deliver on customer service and claims processing targets while completing work on key initiatives in our strategic plan. Not only were weather and yields variable but so were our claims forecasts. At one point we were projecting, if drought conditions persisted, claims could easily escalate to $600 million. In the end, we paid out over $130 million – still among the highest in recent years.

The importance of business risk management programs

A year like this one demonstrated the importance of the permanent programs we deliver. They are responding exactly as they should – protecting Ontario producers against major business and agricultural risks outside their control.

Close to 15,000 producers are enrolled in Production Insurance plans for 100 different commodities. Production Insurance plans paid out $10 million in interim payments. AgriStability protected more than 16,000 customers from margin declines and paid out $6 million in interim payments. The Risk Management Program protected 12,000 producers from fluctuating costs and market prices.



In addition to these permanent core programs, Agricorp delivered two targeted, one-time initiatives designed by the federal and provincial governments to address specific challenges posed by the year's extreme weather. The first helped apple and tender fruit producers start developing risk mitigation strategies. The second, an AgriRecovery initiative, provided assistance for livestock producers to help offset transportation costs for feed and livestock in drought stricken areas. While the initiatives were complementary to Agricorp's existing programs, we continue to work with both producer groups and OMAF and MRA to review our risk management programs. This includes the creation of a provincial forage review committee with the intent of looking at options to improve current coverage.

"It is Agricorp's responsibility to manage risk management programs prudently to ensure funds are available when they are needed."

"Across the organization, we strive to have excellent governance, solid controls, well-established processes, compliance with the intent of all rules and directives and a culture of learning."

Keeping the fundamentals in mind

It is Agricorp's responsibility to manage risk management programs prudently to ensure funds are available when they are needed. In 2012, the liability for the Production Insurance program exceeded $3.5 billion for the first time since the program's inception – effectively tripling the liability over the past decade. The number of acres insured has remained fairly stable over the past several years; the increase in liability is attributable to rising commodity prices and enhanced coverage. Even with the increase in total liability in recent years, premiums have remained stable and, in some cases, dropped relative to overall liability.

We've made significant headway on our information technology strategy this year. Implementation of a customer relationship management tool consolidated all customer data into a single system. We also developed a new website that producers will begin to see later this year which is the foundation for more online services in the future.

Of course, Agricorp employees are behind all of these accomplishments. Many of them are producers themselves – they understand the challenges of farming in Ontario and are dedicated to working together and with producers to provide outstanding service. They act with integrity and demonstrate our core qualities: professionalism, proactivity, collaboration, efficiency and quality focus.

Across the organization, we strive to have excellent governance, solid controls, well-established processes, compliance with all rules and directives and a culture of learning.

In the industry, we continue to be part of conversations around the issues that matter to agriculture. Our board chair, Larry Skinner, and I make it a priority to meet with farm and commodity groups and with other stakeholders to ensure we understand their needs and priorities and they understand how the programs work together.

Successfully meeting producer expectations begins with a clear understanding of what Ontario producers care most about. They care about prompt and efficient program delivery. They care about accurate processing of their claims. They care about being able to do business in a way that's most convenient for them.

That's why Agricorp is here. To connect producers to programs. To help them understand their program options, enable innovation and help ensure a thriving sustainable Ontario agriculture industry.

I'm looking forward to continuing on this journey.

Randy Jackiw
Chief Executive Officer

Program highlights

Ontario boasts 13.3 million acres of agricultural lands and produces more than 200 commodities. The Ontario agri-food industry contributes $33 billion annually to the Ontario economy and 13 per cent of the province's gross domestic product.[2] Agriculture is big business for Ontario and both the federal and provincial governments are committed to supporting this vital industry. When factors like unpredictable weather, unstable market conditions and production loss interfere with a farming business, Agricorp delivers three permanent programs: AgriStability, Production Insurance and the Risk Management Program that help producers manage their operations. The programs each offer a specific type of protection and work together to provide broader peace of mind for producers.

AgriStability

Agricorp delivers AgriStability on behalf of the federal and provincial governments. AgriStability protects producers of all agricultural commodities from large declines in their farming income due to market conditions, production loss or increased costs of production. All AgriStability participants also have access to interim payments, if needed.

2012-13 highlights

- More than 16,000 participants were enrolled in the 2011 program and Agricorp delivered $38 million in program payments. An additional $6 million was delivered in 2012 interim payments for producers in financial distress.
- The new Growing Forward 2 framework was announced. Effective from 2013 to 2018, it provides an investment of $3 billion in strategic initiatives to foster innovation, competitiveness and market development and to support risk management programs. The framework also introduced changes to AgriStability including:
  - A single coverage level of 70 per cent, down from 85 per cent, along with a lower program fee to reflect the new coverage level.
  - A payment rate of 70 per cent for both positive and negative margins, simplifying the payment calculation and increasing assistance for producers with a negative production margin.
  - A change in the calculation of the reference margin, which is now based on either the recent production margins or the average adjusted expenses, whichever is lower.
  - The removal of the Production Insurance premium adjustment calculation.

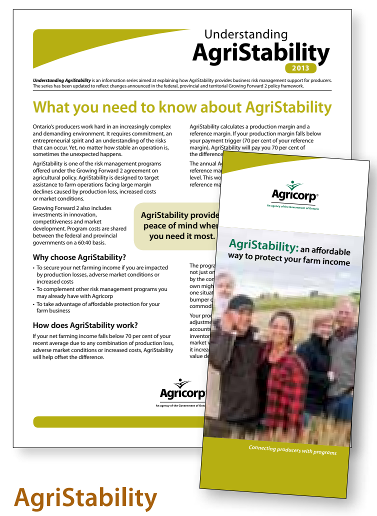
Updates to processes, staff training, customer forms and other written materials were developed to ensure customers and other stakeholders had clear information to help them understand the changes and the ongoing value of the program.

Appeals process

When customers disagree with an Agricorp decision about their AgriStability file they can request a review from the Business Risk Management Review Committee (BRMRC), an advisory agency that reviews all requests and makes non-binding recommendations to Agricorp. In July 2012, BRMRC replaced the Ontario AgriStability Review Committee (OARC). Less than one tenth of a per cent of AgriStability decisions resulted in a request for review – that's 43 review requests out of 99,733 AgriStability decisions made since 2007. Of the 43 review requests, OARC agreed with Agricorp's original decision in 23 cases. Of the remaining 20, Agricorp implemented seven of OARC's recommendations, partially implemented three and Agricorp has upheld ten of its original decisions in order to adhere to the intent and principles of the program policy.

Looking ahead

We will ensure customers and stakeholders are fully aware of the changes to AgriStability. We continue to adjust our systems to address changes in program delivery and benefit calculation in the coming year. An end-to-end review of AgriStability processes will ensure Agricorp is providing efficient operations while maintaining high standards for customer service and recognizing the government's fiscal reality.



AgriStability
Updates to processes, staff training, customer forms and other written materials were developed to ensure producers had clear information on plan changes under Growing Forward 2.

[2] Ontario Federation of Agriculture, 2013.

15,000 producers

Almost 15,000 producers enrolled in Production Insurance for 2012, representing more than 5 million acres and a record high $3.5 billion in liability.

Production Insurance

Agricorp delivers Production Insurance on behalf of the federal and provincial governments. Covering 100 commercially-grown crops in Ontario, Production Insurance compensates Ontario producers for yield reductions and crop losses caused by adverse weather and other insured perils. Producers participate in a variety of plans and coverage is available on a total-yield, dollar-value, or acreage-loss basis.

Agricorp is one of the lowest cost providers of Production Insurance in Canada, due to a focus on quality, continuous improvement and our ability to leverage strengths gained from years of experience.

2012-13 highlights

- Almost 15,000 producers enrolled in Production Insurance for 2012, representing more than 5 million acres and a record high $3.5 billion in liability. Agricorp delivered over $130 million in total program payments. Production Insurance claim processing error rates were less than one per cent.
- Unseasonably warm temperatures in March caused apple and tender fruit trees to break dormancy. Heavy frost in April then killed vulnerable fruit blossoms, devastating many orchards. Agricorp adjusters contacted customers within 48 hours of the event to apprise them of their options. In the end, apple claims totalled $27 million, 77 per cent of the total liability for the plan and the highest level since 2007. Other fruit claims exceeded $4.4 million. Ontario's three largest crops – corn, soybeans and wheat – cover 4.2 million acres and represent roughly $2.7 billion in liability. These crop yields were highly variable across the province, resulting in approximately $76 million in claim payments. Drought in many parts of the province meant a scarcity of forage and some producers looked to the western provinces for alternate forage sources transported as part of the Hay East program. Forage claims, due to both excess and insufficient rainfall, totalled approximately $5.7 million.
- Every year, we collaborate with our stakeholders to respond to changing markets, crops and farming methods. In 2012, a number of plans were enhanced.
  - Brix pricing was added to the grape plan, providing more targeted coverage based on the grower's production capabilities for those who use Brix pricing schedules.
  - In addition to the existing levels of 70, 75 and 80 per cent, a new coverage level of 85 per cent was added to the plan for peaches, pears and nectarines, giving growers more coverage options.
  - In response to market changes in the tender fruit industry, the quality factor calculation was removed in the sour cherry plan, allowing producers with a marketable crop to maintain higher average yields over the years.
  - The maximum value for insuring hay and pasture was increased from $300 to $400, allowing producers to increase their coverage for higher value crops.

"This has been a challenging summer for many of our members due to the drought and we are thankful that programs like Production Insurance are available to protect our crops from weather conditions beyond our control. Production Insurance is a good, predictable program for Ontario's grain producers."

Henry Van Ankum, Chair of Grain Farmers of Ontario, August 1, 2012

- A new plan to cover ginseng seedlings and to support acreage measurement was developed in collaboration with the Ontario Ginseng Growers Association. The new plan will be offered for ginseng planted in the fall of 2013.
- The price factor used in the processing pea average farm yield calculation was updated to better reflect the current industry tenderometer levels.

Appeals process

When customers disagree with an Agricorp decision about their Production Insurance claim or their eligibility for coverage they can contact us to request a review. If the results of the internal review are not satisfactory, customers can then contact the Agriculture, Food & Rural Affairs Appeal Tribunal, an independent body that makes final decisions on disputes between Agricorp and Production Insurance customers. In 2012-13, there were no appeals made to the Tribunal, as compared to the average of one or two appeals per year in recent history.

Looking ahead

Agricorp and representatives of the apple and tender fruit industry are exploring alternatives for average farm yield calculations, price options by variety and ways to provide separate orchard coverage. Ongoing discussions regarding risk and priorities and continued data collection through Agricorp's data management system will support this analysis.

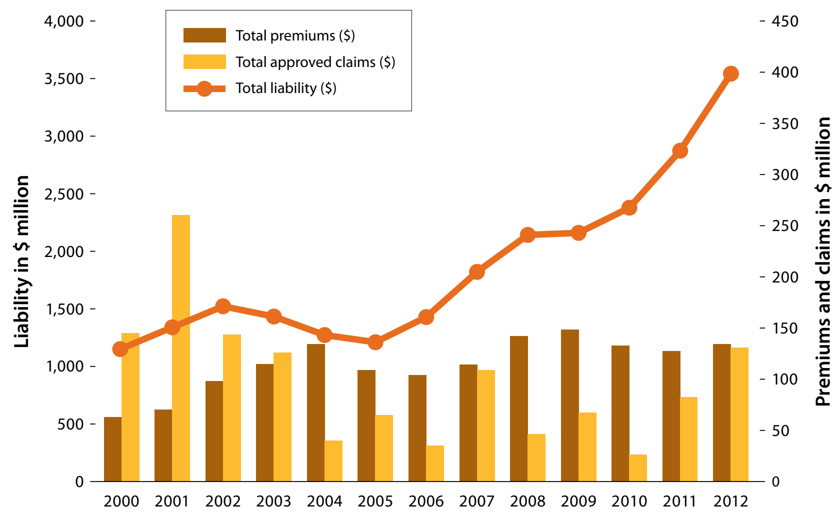
The forage review will provide recommendations for improvements to the plan. Agricorp continues to work with farm and commodity groups to improve programs, services and materials.

87%

According to the 2013 customer satisfaction survey, 87 per cent of customers were satisfied or very satisfied with Agricorp's delivery of Production Insurance and agree the program helps them manage their risk.

Production Insurance Ontario

Liability, Claims and Premiums (2000-2012)



Balancing liability with sustainability

With rising commodity prices and enhanced insurance coverage for crops, liability for the Production Insurance program continues to grow. Although the number of acres insured has remained stable over the years, the total liability increased from $2 billion to more than $3.5 billion in the past five years. Despite this increase, premiums have remained relatively stable and decreased in some cases.

Production Insurance premium rates are calculated annually for each plan and take into consideration a number of factors including claims experience, commodity price and level of coverage, so that premium funds in the Production Insurance Reserve Fund can cover claims paid over the long term. In 2013, Agricorp's premium rate methodology received actuarial certification and was approved by Agriculture and Agri-Food Canada. The methodology is designed to provide appropriate coverage, stable rates and an adequate reserve of funds to ensure long-term sustainability. Due to this, premiums remain affordable for both producers and government relative to the liability the program covers.

Annually, Agricorp is required to submit to Agriculture and Agri-Food Canada Probable Yield Tests (PYT) and Unit Price Tests (UPT) according to Canada Production Insurance Regulations. The PYT ensures yield guarantees (average farm yields and final average yields) do not exceed the productive capacity of insured producers. The UPT ensures crop prices used to settle claims do not exceed the actual market prices. Another requirement under the regulations is that periodically, the unit price and probable yield methodologies undergo actuarial reviews.

74%

According to the 2013 customer satisfaction survey, 74 per cent of customers were satisfied or very satisfied with Agricorp's delivery of RMP and 69 per cent agree the program helps them manage their business risks.

$90 million

The livestock sector had a difficult year due to higher feed costs and lower market prices, resulting in $90 million in RMP livestock payments.

Risk Management Program

Agricorp delivers Ontario's Risk Management Program (RMP) on behalf of the provincial government. RMP offers six coverage plans for the edible horticulture, grain and oilseed, cattle, hog, sheep and veal sectors. The program helps producers manage risks beyond their control, like fluctuating costs and market prices. For most plans, RMP works like insurance, with producer premiums based on a choice of coverage levels and options. Payments are triggered if the average market price for a commodity falls below its support level, as calculated by OMAF and MRA. The self-directed risk management (SDRM) plan for edible horticulture works differently; producers make deposits based on a percentage of their eligible sales and receive matching government contributions. Funds may be withdrawn from SDRM accounts to cover risks to the farm business.

AgriStability enrollment is a requirement for RMP participation.

2012-13 highlights

- More than 12,000 producers were enrolled in one or more plans. Agricorp issued $112 million under all six plans. Claim processing error rates were less than one per cent for RMP: Grains and Oilseeds claims.
- The livestock sector had a difficult year due to higher feed costs and lower market prices, resulting in $90 million in payments.
- Under the SDRM: Edible Horticulture plan, matching government funds of $21.4 million were deposited into SDRM accounts. To date, Agricorp has processed 1,414 SDRM withdrawal requests totalling $34.2 million.
- For RMP: Grains and Oilseeds $726,000 in 2011 post-harvest payments was issued. 2012 payments of $21,000 were not significant due to strong market prices.
- In spring 2012, the Ontario government announced it would cap government funding at $100 million to cover RMP payments and administration costs. A new funding approach was developed with OMAF and MRA and RMP reference committees to ensure the needs of producers are met equitably within the available funding and that annual funding is not exceeded for 2013 and onward. Given the number of changes in RMP over the past three years, regular reporting kept industry stakeholders informed about our progress, issues and results. This included interim performance reports and an annual RMP report submitted to OMAF and MRA. RMP reference committees also received operational reports at key program development or delivery milestones, such as when program payments are issued or new program features are launched.
- While maintaining solid customer service levels, significant savings for program administration costs were achieved due to careful planning and a focus on efficient program delivery.

Appeals process

When customers disagree with an Agricorp decision about their RMP file, they can contact us to request a review. If the results of the internal review are not to their satisfaction, they can request a review from the Business Risk Management Review Committee (BRMRC), an advisory agency that reviews all requests and makes non-binding recommendations to Agricorp.

Looking ahead

Agricorp achieved cost savings for RMP administration in 2012-13 and has budgeted further savings for delivery of RMP in 2013-14. With the 2013 RMP delivery plan in place, a formal efficiency review of RMP is planned in the second quarter of 2013-14.

Other programs

In addition to the three core programs, Agricorp administers other programs that assist with the needs of the agricultural industry.

The 2012 Canada-Ontario Forage and Livestock Transportation Assistance Initiative

In December 2012, the provincial and federal governments announced up to $2.4 million to assist those producers impacted by drought. This AgriRecovery initiative would help fund transportation of eligible livestock to feed sources or transportation of eligible forage to breeding stock. Producers have until June 14, 2013 to apply and all payments should be completed by August, 2013.

The Canada-Ontario Apple and Tender Fruit Weather Risk Mitigation Strategy Initiative

Announced in January 2013, apple and tender fruit producers were eligible for up to $2 million to encourage development of a risk mitigation strategy for dealing with adverse weather. With a tight application deadline of February 28, 2013, Agricorp processed applications within four weeks and issued $1.6 million to 460 producers.

Farm Business Registration

All farm businesses in Ontario that gross $7,000 or more annually are required by law to register their farm business with Agricorp. Agricorp manages the registration process on behalf of the province by collecting and disbursing registration fees and approving program eligibility. The *Farm Registration and Farm Organizations Funding Act, 1993* provides accredited farm organizations with a stable source of operational funding. Producers who register their farm business qualify for a lower property tax rate and become a member of the accredited farm organization of their choice. The data collected through this process helps OMAF and MRA develop sound public policy for Ontario producers. More than 44,000 farms registered in 2012 and were able to choose from two accredited farm organizations: Christian Farmers Federation of Ontario and Ontario Federation of Agriculture.

Grain Financial Protection Program

Agricorp delivers the Grain Financial Protection Program on behalf of the provincial government. This program protects the financial interests of Ontario producers of grain corn, soybeans, wheat and canola, who store their grain at licensed elevators or who sell their grain to licensed dealers. New regulations for the *Grains Act* and the *Farms Products Payment Act* came into effect on July 1, 2012. Changes were introduced relating to payment timelines, deferred payment arrangements and the handling of basis contracts. Dealers and elevator operators were notified of changes and provided with updated materials including new manuals and claims forms. As well, a searchable list of licensed dealers is published on the Agricorp website to support producers in selecting and entering into business agreements with licensed dealers. For the 2012-13 fiscal year, Agricorp licensed 269 dealers and 352 elevators across Ontario, covering grain sales of approximately $2.9 billion.

Orchards and Vineyards Transition Program

Between 2008 and 2010, the Canada-Ontario Orchards and Vineyards Transition Program issued payments of $18 million to grape, apple and tender fruit producers for some of the costs of removing fruit trees and grapevines. Under the program, Agricorp continues to monitor farms that received funds to ensure they comply with the requirement to keep the land in, or available for, agricultural use for five years. In 2012-13, Agricorp audited 27 operations and found that all had complied with the requirement to keep the land in agriculture.

Ontario Vineyard Improvement Program

The Ontario Vineyard Improvement Program helps wine grape producers fund vineyard improvement projects, such as transitioning to new grape varieties, installing irrigation systems, bird-netting and purchasing new equipment. Agricorp supports OMAF and MRA with program delivery by providing field expertise in acreage and project completion verification and mapping services along with access to web-based data management services. In 2012-13, Agricorp field staff completed 54 requests for field verifications.

$2 million

Apple and tender fruit producers were eligible for up to $2 million to encourage development of a risk mitigation strategy for dealing with adverse weather.

Services to industry

Agricorp provides a number of important services that support Ontario's agriculture sector.

Dairy Credit Program

Agricorp delivers the Dairy Credit Program, which protects the financial interests of milk producers, under contract to the Dairy Farmers of Ontario. In 2012-13, Agricorp analyzed the quarterly and annual financial statements of Ontario's 51 dairy processing plants, which purchase $2 billion worth of milk annually from producers.

Data Management Services (DMS)

In partnership with the fruit industry, Agricorp operates a web-based data management service using GPS technology to accurately measure and map growers' vineyards and orchards for grapes, apples and tender fruit. Agricorp works with the Grape Growers of Ontario, Ontario Apple Growers and the Ontario Tender Fruit Producers Marketing Board to capture agronomic information and establish trends in areas such as plant inventory, variety, age, yield and quality.

In 2012, the data management service was expanded to include tender fruit. As a result, Agricorp is collecting tree inventory and orchard data to help guide improvements to the tender fruit Production Insurance plans. The first two releases of the DMS database have been completed to support collection, analysis and reporting of varietal specific crop production information. The third phase for the collection of yield is on track to be completed in the second quarter of 2013-14.

Data management

Agricorp operates a web-based data management service that uses GPS technology to accurately measure and map growers' vineyards and orchards for grapes, apples and tender fruit.

Alternative Land Use Services

This not-for-profit program, funded by the Delta Waterfowl Foundation (formerly the Norfolk Federation of Agriculture's Alternative Land Use Services), compensates producers for removing environmentally sensitive land from agricultural production. Agricorp provides verification services using GPS technology to map and validate acreage and collect agronomic information to ensure land owners comply with their Alternative Land Use Services agreement. In 2012-13, Agricorp validated 40 producer projects.

Grain Financial Protection Board (GFPB)

Agricorp provides governance, secretariat and financial support services to the GFPB, a trust agency that administers the four grain funds established by the *Farm Products Payments Act* regulations. The board's mandate is to administer funds, investigate claims, grant or refuse claim payments, and recover any money to which it is entitled. Agricorp's key deliverables, funded by the GFPB, include: coordination and support of board meetings; facilitation of succession management; development of process and policy documents; claim adjudication support; development and coordination of all board governance materials; and the management of check-off fees including reporting, investment and the annual audit.

Business Risk Management Review Committee (BRMRC)

Agricorp provided secretariat support to the Ontario AgriStability Review Committee until December 31 and subsequently to BRMRC, an advisory agency that conducts reviews requested by producers who are appealing program payment decisions. In 2012-13, Agricorp worked with OMAF and MRA to support the transfer of responsibilities from the Ontario AgriStability Review Committee to the Business Risk Management Review Committee (BRMRC) by December 31.

Support provided to this committee includes administrative services such as scheduling panel meetings and requests for hearings, and distributing review materials to the committee and hearing participants.

Key corporate initiatives

Agricorp's three-year plan outlines a clear strategy on how the organization will deliver risk management programs and services efficiently and effectively. The goal is to provide a holistic customer experience no matter where and how a customer comes into contact with Agricorp – in person, on the phone, in the mail or through the website. To achieve this goal, the focus is placed squarely on leveraging Agricorp's core capabilities, making improvements to core businesses and standardizing business processes.

In 2012-13, advancements were made on a number of fronts: from moving forward with the organization's information technology strategy to providing customers with enhanced online services to formalizing more processes.

Modernizing technology

Progress was achieved in 2012-13 with the implementation of Common Foundations, the first step in the multi-phased information technology renewal plan. New customer relationship management capabilities were introduced and the groundwork was developed for enhanced interactive web services to be launched later in 2013. The next phase of the Common Foundations strategy will begin consolidating accounting functions across multiple systems. As well, contingent on securing funds, the next phases will also include the replacement of program administration systems.

Implementing the new customer relationship management (CRM) tool

A new CRM tool was implemented to consolidate customer data in a single resource. This gives staff a comprehensive view of a customer's information in one place and enables us to provide improved customer experience. The CRM tool provides a holistic view of the customer's entire portfolio with Agricorp.

Enhancing online services

Customers have told us they would like to do more of their business online. In 2012, work was completed to build a foundation for a transactional site that will allow customers the option to do program transactions on line. When the new web portal is launched in 2013, customers will immediately benefit from consolidated online services that allow easy and secure access using one login. Immediate benefits also include a customizable username and password, downloadable and fillable forms, and access to electronic copies of forms and documents. Over time, the portal will expand its range of online services to provide customers with greater functionality.

Pursuing a fair recoveries process

In light of the province's fiscal environment and in response to an earlier auditor general's recommendation, Agricorp implemented a new debt recovery protocol for overpayments in 2012-13. Overpayments may occur for a number of reasons, including incomplete program applications, processing errors, changes to farm operations and by advance payments for producers in financial distress. While Agricorp had always recovered overpayments from program benefits, the new protocol required producers to repay their balance owing within three years and interest charges that were previously waived started to accrue in January 2013. Working with OMAF and MRA, a flexible, fair, consistent and timely approach for debt repayment was developed.

$4 million

At year-end, Agricorp was $4 million under its $51.4 million budget (and $0.4 million under forecast), providing savings to federal and provincial governments at a time of fiscal constraint.

Online services

When the new web portal is launched in 2013, customers will immediately benefit from consolidated online services that allow easy and secure access using one log-in.

Improving and documenting processes
Customer-facing processes were improved and streamlined to allow for faster, more accurate processing of customer files.

More than 4,100 customers with outstanding accounts were personally contacted and statements were issued over the course of the summer. Financial systems were updated to support the new calculation of interest and the production of monthly account statements. By year-end, more than 70 per cent of producers with past debt had either paid in full or established repayment plans, for a total of $16 million. In all cases, Agricorp worked with producers to identify the approach that would best suit their business cycle and demonstrated flexibility with producers who experienced a difficult crop year.

Improving processes

Internal processes were improved and streamlined to allow for faster, more accurate processing of customer files. Having clearly documented processes ensures an effective, responsible approach to program delivery.

In 2012-13, new processes were developed and documented to support a wide range of functions from underwriting to claims to customer accounts. This has ensured an efficient and consistent approach to the services Agricorp provides.

Conducting a review of Agricorp

The Agricorp Review is part of the provincial government's transforming public services strategy, announced in the 2012 provincial budget. Undertaken jointly by Agricorp, OMAF and MRA, this initiative will review policies, programs and processes to identify opportunities for efficiencies. This work will include documenting Agricorp's mandate and history, benchmarking Agricorp against comparators and developing a performance framework for the agency and ministry. The review will be completed in 2013.

How Agricorp manages its business

As a government agency, Agricorp is required to comply with a number of laws, directives and guidelines and undergoes significant internal and external scrutiny in the form of regular audits and reviews. The organization has a comprehensive risk assessment in place and a strategic plan including the necessary checks and balances to ensure operations are transparent and results are measured.

Ensuring public accountability

As stewards and administrators of funding from both the federal and provincial governments, Agricorp is focused on responsible management and adopts a conservative approach to risk. Directives and guidelines for strong and consistent governance throughout the organization are adhered to and reporting requirements, as measured by compliance to those outlined in the Agency Establishment Accountability Directive, are met. Regular reports on programs and services are provided to commodity groups, government and stakeholders.

Given its prudent fiscal management, Agricorp achieved significant in-year savings in 2012-13. At year-end, the agency was $4.0 million under its $51.4 million budget, providing savings to federal and provincial governments at a time of fiscal constraint.

Savings were achieved through decreased personnel costs by maintaining a conservative approach to allocating resources, managing role vacancies and salaries. The direction and intent of the provincial government's public sector compensation framework and ongoing expectations concerning public sector restraint continue to guide the organization.

Agricorp's salary ranges are reviewed annually against the market (encompassing both public and private sector benchmarking data) and anchored to the 50th percentile (P50).

The use of the market P50 reflects Agricorp's conservative approach to compensation by taking the middle ground, aligning with the majority of the market and being conscious of its public sector accountabilities. Salary ranges were last amended in April 2007 and total executive compensation, including performance incentives, remains frozen at 2011 levels.

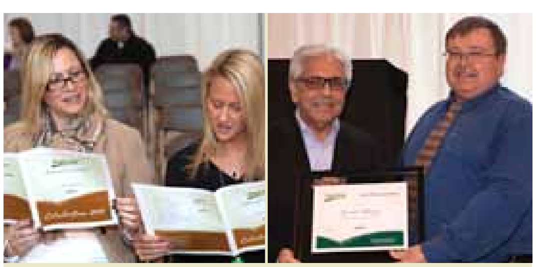
In 2012, new accounting policies based on requirements from the Public Sector Accounting Board were adopted and implemented for Agricorp's March 2013 year-end, including restatement of the 2011-12 financial statements and ending balances from March 2011.

Offsetting risk with reinsurance

Agricorp purchases reinsurance with two key objectives: to manage the risk exposure of the Production Insurance fund and to stabilize premium rates for both producers and government. To help ensure these objectives are met, significant analysis of the entire program is conducted annually. The analysis informs the optimal level of reinsurance coverage required to maintain risk tolerances at consistent levels. Reinsurance is a key risk management tool for Production Insurance across the country.

Engaging skilled people

In a year of significant challenge, Agricorp continued to leverage and rely on the skills, agricultural knowledge and experience of its workforce. Many Agricorp employees are producers themselves, so they understand farm businesses and their needs. Dedicated senior industry specialists liaise with industry groups and field staff across the province, provide one-on-one service to producers and participate in industry group meetings. In addition to the knowledge staff bring with them when they come to Agricorp, in-depth training and ongoing professional development ensure they remain current and equipped to serve Ontario's producers. Agricorp's annual employee survey results confirm employees have a high level of commitment with a strong focus on customer service. Employees who go above and beyond are recognized through an employee recognition program.



Employees who go above and beyond are recognized through an employee recognition program.

Soliciting customer feedback

Agricorp solicits customer feedback regularly and more formally through our annual customer satisfaction survey. The results provide a clear picture of where the organization needs to focus its future efforts. This year, Ipsos Reid surveyed 600 producers who are participants in Agricorp programs. Despite numerous changes and challenges in 2012, the survey results tell a positive story:

- 87 per cent are satisfied with Production Insurance program delivery.
- 74 per cent are satisfied with the Risk Management Program delivery.
- 68 per cent are satisfied with AgriStability program delivery, however, some cite program complexity as a key issue.
- 89 per cent say that Agricorp performs the same or better than other agricultural companies/institutions, a result that is stable with previous surveys.

According to the customer satisfaction survey, the organization's strongest attributes are operating with the utmost integrity, getting things done in a reasonable amount of time and communicating effectively.

89%

Of customers surveyed say Agricorp performs the same or better than other agricultural companies/institutions, a result that is stable with previous surveys.

Agricultural knowledge

Dedicated senior industry specialists liaise with industry groups and field staff across the province, provide one-on-one service to producers and participate in industry group meetings.

Working collaboratively

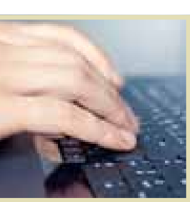
In 2012-13, Agricorp worked with a number of commodity groups and industry associations to ensure open communication, efficient program delivery and program relevancy. A number of formal program and project committees and working groups helped resolve issues, from customer service concerns to program enhancements. This close collaboration with stakeholders enabled Agricorp to stay current on sector and producer information. Key collaborative efforts include working with OMAF and MRA and the Farm Business Registration Program Committee to address delays in the accreditation for farm organizations and continued collaboration with the Agriculture Wildlife Conflict Working Group to track wildlife damage to crops.

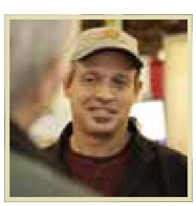
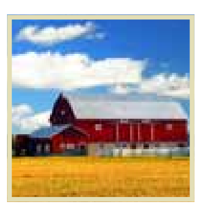
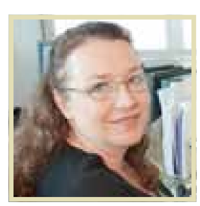
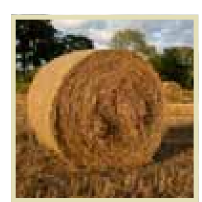
Focusing on what matters

Agricorp's core business is to deliver risk management programs to producers in Ontario's diverse agricultural industry. In doing so, Agricorp's ongoing challenge is to carefully manage program delivery that meets producers' service needs while maintaining effective and transparent processes. Agricorp continues to align its operations and strategy with funding partners' expectations and priorities.

To deliver on its mandate, Agricorp regularly engages with industry by informing, listening to, and consulting with commodity groups to ensure programs support their ongoing needs. Getting it right for producers means focusing on what matters to them – having a consistent customer service experience, a reliable infrastructure to deliver programs and prompt claims processing. Taken as a whole, this annual report speaks to both Agricorp's financial measures of performance and confidence in the direction and strategic priorities that guide Agricorp's pursuit of its longer-term objectives.

According to the customer satisfaction survey, the organization's strongest attributes are operating with the utmost integrity, getting things done in a reasonable amount of time and communicating effectively.




2012-13 Performance targets and results

Target	Results
Achieve a consistently high overall customer service rating equal to the previous three-year average.	In the 2013 customer satisfaction survey, Agricorp's overall performance rating was 3.49*, stable and comparable to the previous three-year average. Agricorp is focused on continuous improvement in customer service and will continue to monitor trends in its customer service performance.
Process 95 per cent of AgriStability files by December 31, 2012.	Agricorp processed 95 per cent of the 2011 AgriStability files by December 27, 2012.
Process Production Insurance claims paid within 20 business days of receipt.	The average processing time for Production Insurance claims in 2012-13 was 15.7 days.
Process 95 per cent of RMP payments within 60 days of receipt of all required information.	Agricorp processed 93 per cent of the RMP: Grains and Oilseeds payments within 60 days. Agricorp processed 90 per cent of the RMP for livestock payments within 60 days. Agricorp is developing methodology to track and report against this target for edible horticulture payments. Agricorp continues to review its processes to enable consistent achievement of targets for grain and oilseed and livestock.
Provide quality processing of AgriStability files by reducing the number of amendments by two per cent over the previous year.	The number of AgriStability file amendments for the 2010 program year was reduced by 38 per cent, with 315 amendments compared to 509 amendments for the 2009 program year.
Provide quality processing of Production Insurance files with less than two per cent error rate.	The error rate was less than one per cent for Production Insurance files.
Provide quality processing of RMP files with a payment error rate of less than two per cent.	The error rate for RMP: Grains and Oilseeds claims was less than one per cent. Agricorp is developing methodology to track and report against this target for livestock and edible horticulture payments.

Target	Results
Complete annual chair and CEO attestation, as required, for compliance with applicable legislation, directives and policies.	Agricorp continues to refine its compliance oversight processes. Agricorp has not yet been required to complete any attestations. Agricorp will continue to collaborate with the ministry and build on the current governance framework.
Submit a three-year business plan, which includes a budget and risk management plan to the minister by March 1, 2013.	Agricorp's 2013-16 business plan was submitted to the minister on June 6, 2013. Agricorp will continue to collaborate with the ministry and build on the current governance framework.
Provide sound and balanced operational performance and financial reports to OMAF and MRA quarterly.	Operational and financial reports were provided to the ministry on a monthly and quarterly basis.
Submit an annual report to the minister within 120 days of Agricorp's year-end.	Agricorp's 2011-12 annual report was submitted to the minister on July 25, 2012, 116 days after year-end.
Ensure a comprehensive audit control framework is monitored annually by Agricorp's board of directors.	The annual audit control framework was developed, implemented and monitored.
Achieve a mean customer satisfaction rating of 3.50 or higher for Production Insurance.	In the 2013 customer satisfaction survey Production Insurance received a rating of 4.23.**
Achieve a mean customer satisfaction rating of 3.50 or higher for AgriStability.	In the 2013 customer satisfaction survey, AgriStability received a rating of 3.35.** Agricorp will continue to provide input to the ministry on program policy and design and to implement targeted product information enabling producers to make informed risk management decisions.
Achieve a mean customer satisfaction rating of 3.50 or higher for the Risk Management Program.	In the 2013 customer satisfaction survey the Risk Management Program received a rating of 3.66.**

* Customer satisfaction survey results are scores out of five.

** The effectiveness of current programs is a function of program policy and design and of program delivery. Agricorp is responsible for program delivery. The ministry is accountable for program policy and design.

Management's responsibility for financial reporting

The accompanying financial statements and the financial information in the annual report have been prepared by management. The financial statements have been prepared in accordance with Canadian public sector accounting standards. Management is responsible for the accuracy, integrity, and objectivity of the information contained in the financial statements. Financial information contained elsewhere in the annual report is consistent with that contained in the financial statements.

The financial statements include some amounts, such as provision for claims, that are necessarily based on management's best estimates and have been made using careful judgment.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The systems include formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The board of directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The board meets regularly to oversee the financial activities of the agency and annually reviews the financial statements.

The financial statements have been examined independently by the office of the auditor general on behalf of the legislature and the board of directors. The auditor's report outlines the scope of his examination and expresses his opinion on the financial statements of the company.

Randy Jackiw
Chief Executive Officer

Erich Beifuss
Chief Financial Officer

June 19, 2013

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To Agricorp
and to the Minister of Agriculture and Food

I have audited the accompanying financial statements of Agricorp, which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011, and the statements of operations and fund balances, and cash flows for the years ended March 31, 2013 and March 31, 2012, and the statement of remeasurement gains and losses for the year ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Agricorp as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012, and its remeasurement gains and losses for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 19, 2013

Gary Peall, CPA, CA, LPA
Acting Auditor General

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Statements of financial position

March 31, 2013, March 31, 2012 and April 1, 2011

($ thousands)	General Fund	Production Insurance	March 31, 2013	March 31, 2012	April 1, 2011
Assets				(note 4)	(note 4)
Cash	714	1,429	2,143	493	1,080
Investments (note 7)	5,917	696,951	702,868	691,933	630,825
Accounts receivable (note 6)	6,553	6,568	13,121	13,850	15,356
Funds under administration (note 5)	69,942	–	69,942	54,355	57,241
Prepaid expenses	952	–	952	782	629
Accrued pension asset (note 13)	4,543	–	4,543	2,618	2,160
Capital assets (note 8)	3,323	–	3,323	3,215	1,099
Total assets	**91,944**	**704,948**	**796,892**	**767,246**	**708,390**
Liabilities and fund balances					
Accounts payable and accrued liabilities	5,683	106	5,789	6,512	5,264
Unearned premiums and revenue (note 11)	8,142	25,560	33,702	24,180	27,767
Provision for claims	–	1,674	1,674	416	345
Funds under administration (note 5)	69,942	–	69,942	54,355	57,241
Total liabilities	83,767	27,340	111,107	85,463	90,617
Fund balances	8,177	657,651	665,828	681,783	617,773
Accumulated remeasurement gains	–	19,957	19,957	–	–
Total liabilities and fund balances	**91,944**	**704,948**	**796,892**	**767,246**	**708,390**

Commitments and contingencies (note 14)

See accompanying notes to financial statements.

Approved on Behalf of the Board

Larry Skinner
Chair

Randy Jackiw
Chief Executive Officer

Statements of operations and fund balances

Years ended March 31, 2013 and 2012

($ thousands)	General Fund	Production Insurance	2013	2012
Revenue				(note 4)
Operating funding – Ontario and Canada (note 10)	46,308	–	46,308	43,593
Premiums from producers	–	52,769	52,769	50,317
Funding – Ontario and Canada	–	81,153	81,153	76,829
Sales, consulting and other services	958	–	958	916
Investment income	76	20,709	20,785	24,146
Total revenue	**47,342**	**154,631**	**201,973**	**195,801**
Expenses				
Claims	–	131,246	131,246	82,667
Reinsurance (note 12)	–	19,520	19,520	15,172
Administration	47,074	–	47,074	44,484
Bad debts (recovery)	–	23	23	(32)
Total expenses	47,074	**150,789**	**197,863**	**142,291**
Excess of revenue over expenses	268	3,842	4,110	53,510
Change in fair value of assets	–	–	–	10,500
Fund balances, beginning of year as restated	7,909	673,874	681,783	617,773
Adjustment on adoption of the financial instruments standards (note 3)	–	(20,065)	(20,065)	–
Fund balances, end of year	**8,177**	**657,651**	**665,828**	**681,783**

See accompanying notes to financial statements.

Statement of remeasurement gains and losses

Year ended March 31, 2013

($ thousands)	2013
Accumulated remeasurement gains, beginning of year	–
Adjustment on adoption of financial instruments standard (note 3)	20,065
	20,065
Unrealized losses:	
Attributed to portfolio investments	(108)
Net remeasurement losses for the year	(108)
Accumulated remeasurement gains, end of year	**19,957**

See accompanying notes to financial statements.

Statements of cash flows

Years ended March 31, 2013 and 2012

($ thousands)	General Fund	Production Insurance	2013	2012
Cash provided by operating activities				(note 4)
Excess of revenue over expenses	268	3,842	4,110	53,510
Items not requiring an outlay of cash				
Amortization of capital assets	2,589	–	2,589	1,608
	2,857	3,842	6,699	55,118
Changes in non-cash working capital				
Accounts receivable	3,607	(2,878)	729	1,506
Prepaid expenses	(170)	–	(170)	(153)
Accrued pension asset	(1,925)	–	(1,925)	(458)
Accounts payable and accrued liabilities	22	(745)	(723)	1,248
Unearned premiums and revenue	1,279	8,243	9,522	(3,587)
Provision for claims	–	1,258	1,258	71
	2,813	5,878	8,691	(1,373)
Financing activities				
Increase in investments	(2,364)	(8,571)	(10,935)	(61,108)
Unrealized gains (losses) on investments	–	(108)	(108)	10,500
Capital activities				
Purchase of capital assets	(2,697)	–	(2,697)	(3,724)
Increase (decrease) in cash	609	1,041	1,650	(587)
Cash, beginning of year	105	388	493	1,080
Cash, end of year	**714**	**1,429**	**2,143**	**493**

See accompanying notes to financial statements.

Notes to the financial statements

Years ended March 31, 2013 and 2012

1. Nature of operations

The *AgriCorp Act, 1996* established AgriCorp as a provincial crown corporation without share capital, on January 1,1997. As an agency of the Ontario government, AgriCorp's mandate is to deliver government and non-government business risk management programs to Ontario's agriculture industry on behalf of the Ontario Ministry of Agriculture and Food and Ministry of Rural Affairs (OMAF and MRA).

These initiatives can be segregated into non-entitlement program - Production Insurance and entitlement programs.

Non-entitlement program

Production Insurance was established in 1966 and currently operates pursuant to the *Crop Insurance Act (Ontario,1996)*. For over 100 commercially grown crops in Ontario, Production Insurance provides insured producers with financial protection against yield reduction caused by natural perils.

Entitlement programs

AgriStability and Ontario Risk Management Program (RMP) are current examples of Entitlement Programs. These programs, as detailed under note 5, are administered by AgriCorp on behalf of OMAF and MRA, the federal government, or other organizations. The rules regarding payments to customers are determined by the programs and in formal agreements with AgriCorp. The funds paid out under these programs flow from either Ontario or Canada or both through AgriCorp to qualified applicants, and are held in segregated accounts in funds under administration.

Other

AgriCorp is responsible for the delivery of the Farm Business Registration Program (FBR) established under the *Farm Registration and Farm Organizations Funding Act, 1993*. Under an agreement with OMAF and MRA, AgriCorp's primary obligations include registration of farm businesses, collection of registration fees, and disbursement of the fees net of an administrative charge to Ontario's Accredited Farm Organizations (AFO).

2. Significant accounting policies

Effective April 1, 2012, AgriCorp adopted Canadian Public Sector Accounting ("PSA") Standards. AgriCorp has also elected to apply the 4200 standards for government not-for-profit organizations. These are the first financial statements prepared in accordance with PSA.

In accordance with the transitional provisions in PSA, AgriCorp has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2011 and all comparative information provided has been presented by applying PSA.

A summary of transitional adjustments recorded is provided in note 4.

(a) Basis of accounting

The financial statements of AgriCorp have been prepared by management in accordance with Canadian PSA. These financial statements are, in management's opinion, properly prepared within reasonable limits of materiality, statutory requirements and the framework of the accounting policies summarized below.

AgriCorp uses fund accounting whereby the activities in each program are accounted for in separate funds. The General Fund is used to account for all administrative costs and revenues, as well as for all unsegregated activities.

(b) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided using the straight line method over the estimated useful lives of the assets as follows:

Furniture and fixtures	4 years
Computer hardware	3 years
Computer software	2 years
Leasehold improvements	5 years

(c) Employee future benefits

AgriCorp provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include pension plan and accumulated sick leave.

(i) Pension plan

AgriCorp sponsors a contributory defined benefit registered pension plan for all full-time and eligible part-time employees. AgriCorp contributes to the plan based on employee contributions and a factor determined by the plan's independent actuary. The cost of pension benefits for the defined benefit plan is determined by an independent actuary using the projected benefit method prorated on service and management's best estimates of expected plan investment performance, salary escalation, and retirement ages of employees. Pension plan assets are valued using current fair values and any actuarial adjustments are amortized on a straight line basis over the average remaining service life of the employee group.

(ii) Accumulated sick leave

AgriCorp provides a non-vested sick leave benefit to all full-time and part-time employees. Employees are granted 6 days of sick leave per year and are eligible to accumulate up to 30 days of sick leave. Employees are not paid for unused sick leave.

(d) Revenue recognition

Under the General Fund, AgriCorp accounts for government funding under the deferral method of accounting. Government funding used for the purchase of capital assets is deferred and amortized into revenue on the same basis and at rates corresponding to those of the related capital assets. All remaining government funding is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Sales, consulting and other services revenue is recognized as services are performed, collection of the relevant receivable is probable and persuasive evidence of an arrangement exists.

Production Insurance government funding and Production Insurance producer premiums are recognized as revenue in the year in which the related crops are harvested.

(e) Financial instruments

AgriCorp's financial instruments consist of cash, short-term investments, long-term investments, accounts receivable, accounts payable and accrued liabilities, and a provision for claims.

Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations. Any unrealized gain or loss on investments is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

(i) Level 1 – Unadjusted quoted market prices in active markets for identical assets or liabilities;

(ii) Level 2 – Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and

(iii) Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(f) Use of estimates

The preparation of financial statements in conformity with PSA requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amounts of accounts receivable, capital assets, accounts payable and accrued liabilities, unearned premiums and revenue, provision for claims and accrued pension asset. Actual results could differ from those estimates.

3. Change in accounting policy

On April 1, 2012, AgriCorp adopted PSA PS 3450 – Financial Instruments. The standard was adopted prospectively from the date of adoption. The new standard provides comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments.

Under PS 3450, all financial instruments are included on the statements of financial position and are measured either at fair value or amortized cost based on the characteristics of the instrument and AgriCorp's accounting policy choices (note 2).

In accordance with the provisions of this new standard, AgriCorp reflected the following adjustment at April 1, 2012:

A decrease of $20,065,000 to fund balances and an increase of $20,065,000 to accumulated remeasurement gains (losses) is due to the unrealized gain of AgriCorp's investments previously classified as available-for-sale being reclassified to accumulated remeasurement gains (losses).

4. Transitional adjustments

AgriCorp issued financial statements dated March 31, 2012 using generally accepted accounting principles prescribed by the CICA handbook - Part V - Pre-changeover Accounting Standards. The adoption of PSA standards for government not-for-profit organizations resulted in adjustments to the previously reported assets, liabilities, net assets and cash flows of AgriCorp as set out in the following notes and tables:

(a) Net assets

The following table summarizes the impacts of the transition to PSA Standards on AgriCorp's net assets:

($ thousands)	March 31, 2012	April 1, 2011
Net assets as previously reported under Canadian generally accepted accounting principles	681,783	617,773
Transition adjustment to recognize liability for accumulated sick leave	(589)	(553)
Transition adjustment to recognize net unamortized actuarial pension plan losses as an offset to prior period service costs	(1,686)	(2,241)
Increase to government funding related to electing to recognize all cumulative actuarial gains and losses and past service costs	2,275	2,794
Restated to PSA standards	**681,783**	**617,773**

AgriCorp has elected to recognize all cumulative actuarial gains and losses and past service costs in opening net assets. Pre-changeover Accounting Standards required that the discount rate be equal to the yield on high-quality corporate bonds. AgriCorp has chosen to discount these liabilities using its expected return on plan assets. The change in the discount rate resulted in changes to net assets noted above and changes to excess of revenue over expenses noted below.

(b) Statement of operations

As a result of the above noted elections and the retrospective application of PSA Standards, AgriCorp recorded the following adjustments to excess of revenue over expenses for the year ended March 31, 2012:

($ thousands)	
Excess of revenue over expenses as previously reported under Canadian generally accepted accounting principles, March 31, 2012	53,510
Increase to employee future benefit expense as a result of electing to recognize accumulated sick leave	(36)
Decrease to pension expense as a result of recognizing net actuarial losses as an offset to prior period service costs	555
Decrease to government funding related to electing to recognize all cumulative actuarial gains and losses and past service costs	(519)
Restated to PSA standards	**53,510**

The changes AgriCorp effected as outlined above resulted in a change in its accounting for pension expense and sick pay under PSA. The change in accounting resulted in a retroactive increase to these costs.

In keeping with AgriCorp's cost recovery model of funding, OMAF and MRA and Canada agreed to a retroactive increase in funding revenue equal to the increase in expense relating to the transitional adjustment. Accordingly, there was no impact on the accumulated surplus reported for the April 1, 2011 transition date or the March 31, 2012 comparative period.

5. Funds under administration

AgriCorp provides administration services on a cost recovery basis to process and disburse payments to producers enrolled in business risk management and non-business risk management agricultural programs. These programs are generally administered on behalf of OMAF and MRA for producers in Ontario, and cover joint Canada-Ontario programs, Canada-only programs, and Ontario-only programs. Individual program delivery agreements are in place for each program. Program payments are calculated according to program requirements and the program delivery agreements. Funding is provided by Canada and/or Ontario and all funds are segregated in accounts under administration by program until such time as payments are processed for the producers. Funds for these programs are held in accounts with Canadian banks, bankers' acceptances or bank discount notes and all are highly liquid. Due to the nature of these programs that AgriCorp administers, it does not recognize program revenue or expenses or receivables or payables for them.

(a) AgriStability

AgriStability was established under the Growing Forward Framework Agreement as a continuation of the Canadian Agricultural Income Stabilization (CAIS) program. AgriStability is in effect for 2007 and subsequent years. This program provides agricultural producers with some financial protection against declines in farm margin. Producers must enroll in the program and pay administration and enrollment fees based on the selected level of coverage and a reference margin based on the participant's production margin for specified prior years. A program benefit is paid based on the participant's selected level of coverage and when current production margin falls below the set reference margin. AgriStability provides coverage for margin declines greater than 15% for program years up to and including 2012.

Effective for program year 2013, the Growing Forward 2 agreement on agricultural policy has resulted in a simplified program, with one level of coverage available. A program benefit is paid to the participant when the participant's current production margin declines by more than 30% below the lower of the reference margin or the average adjusted expenses.

AgriStablity is cost shared by Canada and Ontario at a basis of 60% and 40% respectively.

(b) Risk Management Program pilot (RMP pilot)

RMP pilot came into effect August 16, 2007 and expired on March 31, 2013. The program provided Ontario grain and oilseed producers with commodity specific price support based on cost of production for the 2007, 2008, 2009 and 2010 crop years. The program was fully funded by Ontario and was an advance against Ontario's share of AgriStability program costs and reduced its share of AgriStability payments.

(c) Risk Management Program (RMP)

RMP was launched by the Ontario government as a permanent program effective April, 2011 and extended to additional sectors. RMP helps producers offset losses caused by low commodity prices and fluctuating production costs. RMP is fully funded by Ontario and is an advance against Ontario's share of AgriStability program costs and reduces its share of AgriStability payments. RMP includes the following plans:

RMP: Grains and Oilseeds (RMP-GO)

The program provides Ontario grain and oilseed producers with commodity specific price support based on cost of production. To participate, producers must pay premiums, provide a premises identification number and participate in both AgriStability and Production Insurance, if available for their crop.

RMP for Livestock (RMP-LS)

RMP for Livestock includes individual plans for cattle, hogs, sheep and veal. The program provides producers with commodity specific price support based on cost of production. To participate, producers must pay premiums, provide a premises identification number and participate in AgriStability.

RMP: Self-Directed Risk Management Program: Edible Horticulture (RMP-SDRM)

Under the terms of the program, edible horticulture producers deposit into the program account a percentage of their eligible net sales and a matching contribution is made into the account by the Ontario government. Funds can be withdrawn to cover risks to the farm business, such as a reduction in income or other farm-related expenses or losses. To participate, producers must make a deposit into their SDRM account, provide a premises identification number and participate in AgriStability.

(d) Self-Directed Risk Management Program (SDRM)

SDRM program delivery agreement between OMAF and MRA and AgriCorp came into effect April 1, 2007 and expired on March 31, 2013. Under the terms of the program, producers deposited into the program account a percentage of their eligible net sales and a matching contribution was also made into the account by Canada and/or Ontario. Claims were paid out of the program account to participants, but the total payment amount for a program year could not exceed the total available funds in the account.

(e) General Top-Up Program (GTUP)

GTUP was established under the Canada-Ontario Implementation Agreement and expired on March 31, 2008. Under the terms of the agreement, producers that participated in CAIS and received a payment under that program were eligible for a top-up payment based on a fixed percentage of their 2003 and 2004 CAIS government benefits.

(f) Plum Pox Program (PPV)

The program delivery agreement between OMAF and MRA and AgriCorp came into effect April 1, 2008 and expired on December 31, 2011. The Plum Pox Program was established pursuant to the Canada-Ontario Agreement on Responding to the Presence of the Plum Pox Virus in Ontario and came into effect on June 29, 2001. The program is a multi-year plan to carry out plum pox detection surveys and other activities to help contain or eradicate the plum pox virus in Ontario. In addition, the program assists commercial tender fruit growers with the asset loss incurred when trees are removed as part of the plum pox control measures. Canada and Ontario have agreed to share overall program costs based on funds available for agricultural assistance at each level of government.

(g) Canada-Ontario Apples and Tender Fruit Weather Risk Mitigation Strategy Initiative (ATM)

The ATM program came into effect January 7, 2013 under an agreement between OMAF and MRA and AgriCorp that expires on March 31, 2014. The program provides a one-time payment to qualifying apple and tender fruit producers to support and encourage them to develop a weather risk mitigation strategy. ATM is fully funded by Ontario.

(h) Canada-Ontario Forage and Livestock Transportation Assistance Initiative (COFLTAI)

The COFLTAI program came into effect December 14, 2012 under an agreement between OMAF and MRA and AgriCorp that expires on March 31, 2014. The program will cover a portion of the extraordinary costs of transporting feed to Ontario livestock producers who faced severe forage shortages for their breeding herds, or transporting breeding herds to areas with surplus feed. This is an AgriRecovery program and is cost shared by Canada and Ontario at a basis of 60% and 40% respectively.

(i) Farm Business Registration (FBR)

In accordance with the Farm Registration and Organizations Funding Act, 1993, farm businesses in Ontario whose gross farm income is equal to or greater than $7,000 are required to register their farm business. In return for the registration fee, the farm business pays a reduced property tax rate on agricultural land (25% versus 100%), and is granted membership in an AFO of their choice. AgriCorp collects the fee from the producer and remits it, less an administrative charge, to the chosen AFO.

(j) Other programs

AgriCorp administers several other programs that are in the process of being wound down on behalf of OMAF and MRA and the federal government. These programs continue to be funded by OMAF and MRA and the federal government in accordance with each program delivery agreement.

The following summarizes the transactions related to the funds under administration:

Year ended March 31, 2013

($ thousands)	Opening balance 2013	Federal funding	Provincial funding	Other	Payments	Closing balance 2013
AgriStability	45,206	35,504	18,400	8,542	(49,764)	57,888
RMP-GO	20	-	805	35	(797)	63
RMP-LS	5,306	-	90,492	(346)	(90,010)	5,442
RMP-SDRM	1,094	-	21,463	2,533	(21,469)	3,621
GTUP	2,249	-	-	227	(103)	2,373
ATM	-	-	1,644	-	(1,644)	-
Other	480	-	2	234	(161)	555
Total	**54,355**	**35,504**	**132,806**	**11,225**	**(163,948)**	**69,942**

In 2013, RMP Pilot, SDRM and PPV are classified under "Other".

Year ended March 31, 2012

($ thousands)	Opening balance 2012	Federal funding	Provincial funding	Other	Payments	Closing balance 2012
AgriStability	50,881	35,852	17,889	5,334	(64,750)	45,206
RMP Pilot	1,213	-	1,401	(808)	(1,785)	21
RMP-GO	-	-	671	22	(673)	20
RMP-LS	-	-	76,600	1,734	(73,028)	5,306
RMP-SDRM	-	-	19,773	1,990	(20,669)	1,094
SDRM	2,266	-	-	(650)	(1,447)	169
GTUP	2,202	-	-	113	(66)	2,249
PPV	64	1,310	873	(86)	(2,158)	3
Other	615	-	-	(269)	(59)	287
Total	**57,241**	**37,162**	**117,207**	**7,380**	**(164,635)**	**54,355**

6. Accounts receivable

Accounts receivable are comprised primarily of amounts due from Canada and Ontario governments and amounts due from producers.

($ thousands)	March 31, 2013	March 31, 2012	April 1, 2011
Government funding – Canada	9,032	8,882	9,143
Government funding – Ontario	3,787	4,665	5,560
Other	2,193	2,169	2,545
	15,012	15,716	17,248
Less allowance for doubtful accounts	(1,891)	(1,866)	(1,892)
Total	**13,121**	**13,850**	**15,356**

7. Investments

Legislation restricts AgriCorp's investments to highly liquid, high-grade instruments such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance.

(a) Portfolio profile

Investments, at carrying amount and fair value, are as follows:

($ thousands)	March 31, 2013	March 31, 2012	April 1, 2011
Short-term	230,926	116,504	123,447
Long-term bonds			
Government of Canada	12,749	25,149	53,632
Province of Ontario	142,046	180,417	133,554
Other provincial governments	207,072	231,888	174,714
Provincial utilities	54,583	45,783	37,707
Financial institutions	55,492	92,192	107,771
	471,942	575,429	507,378
Total investments	**702,868**	**691,933**	**630,825**

(b) Maturity profile of the investment portfolio

($ thousands)	March 31, 2013	March 31, 2012	April 1, 2011
<1 Year	230,926	116,504	123,447
1-3 Years	227,962	258,003	241,973
3-5 Years	168,460	174,430	167,640
>5 Years	75,520	142,996	97,765
Total	**702,868**	**691,933**	**630,825**

(c) Fair value hierarchy

The fair market value of all investments was determined using Level 1 information (note 2e i).

8. Capital assets

Year ended March 31, 2013

($ thousands)	Cost	Accumulated amortization	March 31, 2013 Net book value
Furniture and fixtures	1,212	1,113	99
Computer hardware	8,146	7,070	1,076
Computer software	11,718	9,625	2,093
Leasehold improvements	1,945	1,890	55
Total	**23,021**	**19,698**	**3,323**

Year ended March 31, 2012

($ thousands)	Cost	Accumulated amortization	March 31, 2012 Net book value
Furniture and fixtures	1,198	1,073	125
Computer hardware	7,338	6,546	792
Computer software	9,879	7,654	2,225
Leasehold improvements	1,909	1,836	73
Total	**20,324**	**17,109**	**3,215**

April 1, 2011

($ thousands)	Cost	Accumulated amortization	April 1, 2011 Net book value
Furniture and fixtures	1,060	996	64
Computer hardware	6,607	6,160	447
Computer software	7,025	6,632	393
Leasehold improvements	1,908	1,713	195
Total	**16,600**	**15,501**	**1,099**

9. Financial instruments risk management

(a) Fair value of financial assets and financial liabilities

The carrying values of cash, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair value of investments is based on quoted market values.

(b) Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on AgriCorp's cash flows, financial position and its operations.

Fluctuations in interest rates have a direct impact on the market valuation of AgriCorp's fixed income securities portfolio. The average return on investments is 3.95% (2012 was 4.16%). Fluctuations in interest rates could have a significant impact on the fair value of the bond portfolio. Although bonds are generally held to maturity, realized gains or losses could result if actual Production Insurance claim levels differ significantly from expected claims, and liquidation of long-term investments is required to meet obligations.

(c) Credit risk

Credit risk is the risk that other parties fail to perform as contracted. AgriCorp is exposed to credit risk principally through balances receivable from the federal and provincial governments and producers as well as through its investment securities.

Credit risk on balances receivable arises from the possibility that the entities which owe funds to AgriCorp may not fulfill their obligation. Collectability is reviewed regularly and an allowance for doubtful accounts is established to recognize the impairment risks identified.

Credit risk on investment securities arises from AgriCorp's positions in term deposits, corporate debt securities and government bonds. Legislation restricts the types of investments AgriCorp may hold to high grade Canadian debt instruments and investments approved by the Ministry of Finance which significantly reduces credit risk.

10. Operating funding – Ontario and Canada

The governments of Canada and Ontario have agreed to share the costs of administering Production Insurance, AgriStability, COFLTAI and GTUP at the rate of 60% and 40% respectively. The costs to administer RMP-GO, RMP-LS, RMP-SDRM and ATM programs are funded by Ontario.

11. Unearned premiums and revenue

Unearned premiums represent premiums of $25.6 million (March 31, 2012 – $17.3 million; April 1, 2011 – $23.3 million) paid in advance to Production Insurance for crops that have yet to be harvested. These crops are not harvested until after the balance sheet date, giving rise to the deferral of the premiums received. Unearned revenue includes operating funding related primarily to the unamortized value of capital assets of $3.3 million (March 31, 2012 – $3.2 million; April 1, 2011 – $1.1 million) and other unearned amounts of $4.8 million (March 31, 2012 – $3.7 million; April 1, 2011 – $3.4 million).

12. Reinsurance agreement

AgriCorp has an ongoing program of reinsurance with a number of insurance carriers. This program provides for the reinsuring companies to assume Production Insurance losses based on negotiated thresholds. AgriCorp purchased reinsurance to mitigate losses for 2012 Production Insurance claims in excess of $460 million to a maximum of $672 million. As actual claims for the 2012 crop year were less than the minimum threshold, no reinsurance payments were received by AgriCorp.

AgriCorp signed an agreement in December, 2012 whereby it purchased reinsurance through a number of carriers for the 2013 crop year. The amount purchased under this agreement is to mitigate a fixed percentage of losses between 13% and 19% of insured liability, subject to a maximum of $4.21 billion (2012 – $3.67 billion).

13. Pension plan

AgriCorp has a mandatory contributory defined benefit plan for its full-time and part-time employees. The changes for the defined benefit plan of AgriCorp during the year are as follows:

($ thousands)	March 31, 2013	March 31, 2012
Accrued benefit obligation		
Balance, beginning of year	26,680	22,045
Current service cost	2,183	2,136
Interest cost	1,798	1,776
Employee contributions	1,561	1,449
Benefits paid	(993)	(726)
Actuarial loss (gain)	(223)	-
Balance, end of year	**31,006**	**26,680**

($ thousands)	March 31, 2013	March 31, 2012
Plan assets		
Fair value, beginning of year	29,298	24,205
Actual return on plan assets	1,099	1,684
Employer contributions	3,857	2,686
Employee contributions	1,561	1,449
Benefits paid	(993)	(726)
Fair value, end of year	**34,822**	**29,298**

($ thousands)	March 31, 2013	March 31, 2012	April 1, 2011
Funded status			
Plan deficit	3,816	2,618	2,160
Unamortized actuarial loss	727	-	-
Accrued pension asset	**4,543**	**2,618**	**2,160**

The significant actuarial assumptions adopted in measuring the accrued benefit obligations of AgriCorp are as follows:

	March 31, 2013 %	March 31, 2012 %
Discount rate to determine accrued benefit obligation	6.5%	6.5%
Discount rate to determine benefit cost	6.5%	6.5%
Expected long-term rate of return on plan assets	6.5%	6.5%
Rate of compensation increase	4.0%	4.0%

The net benefit plan expense is as follows:

($ thousands)	2013	2012
Current services cost	2,183	2,136
Interest cost	1,798	1,776
Expected return on plan assets	(2,048)	(1,684)
Net benefit plan expense	**1,933**	**2,228**

The percentage of total fair value of plan assets by category is as follows:

Security type	March 31, 2013 % of plan	March 31, 2012 % of plan	April 1, 2011 % of plan
Canadian equities	34.0	33.4	36.7
US equities	17.6	17.5	16.8
International equities	11.2	12.9	11.4
Bonds	25.9	27.0	32.6
Real estate	4.7	4.0	-
Cash and cash equivalents	6.2	5.2	2.5
Other	0.4	-	-
Total fund	**100.0**	**100.0**	**100.0**

An external investment advisor manages the investments held by the pension plan.

The most recent pension plan actuarial valuation was as of January 1, 2013 and at that time, the plan had a going concern actuarial surplus of $0.9 million and had a solvency and wind up deficiency of $7.3 million. These estimates are determined under the provisions of Section 76 of the Regulations to the *Pension Benefits Act, 1990 (Ontario)*. The next actuarial valuation is expected to be completed as of January 1, 2014.

14. Commitments and contingencies

(a) Lease commitments

AgriCorp leases its office premises. The minimum aggregate rentals for the unexpired terms of these leases are:

($ thousands)	
2014	2,704
2015	1,729
2016	1,712
2017	144
	6,289

(b) Contingencies

During the normal course of business, certain claims or program payments may be denied by AgriCorp. As a result, various claims or proceedings have been, or may be, initiated against AgriCorp. The disposition of the matters that are pending or asserted is not expected by management to have a material effect on the financial position of AgriCorp or on its results of operations.

15. Related party transactions

AgriCorp has entered into several agreements to acquire services from OMAF and MRA. The cost for administrative, legal and audit services amounted to $213,000 (2012 – $180,000). In addition, AgriCorp rents its head office location from the Ontario Realty Corporation for a total cost for the year of $1.6 million (2012 – $1.6 million). AgriCorp earned revenue of $58.6 million (2012 – $55.2 million) from OMAF and MRA as its share of Production Insurance premium and operating funding.

16. Board remuneration and salary disclosure

Total remuneration to members of the board of directors was $33,647 during calendar 2012 (2011 – $31,227).

The *Public Sector Salary Disclosure Act, 1996*, requires AgriCorp to disclose employees paid an annual salary in excess of $100,000. The complete disclosure for AgriCorp is included in the "Public Sector Salary Disclosure 2013: Crown Agencies" listing on the Government of Ontario website:

http://www.fin.gov.on.ca/en/publications/salarydisclosure/pssd/pdf/crown_2012.pdf

For the 2012 calendar year, the amounts paid to the five employees with the highest annual salaries are:

Name	Position	Salary	Taxable benefits
Beifuss, Erich	Chief Financial Officer	$ 163,647	$ 606
Jackiw, Randy	Chief Executive Officer	184,363	9,349
LaRose, Doug	Chief Information Officer	185,852	688
Meneray, Debra	Senior Director, Program Delivery	146,528	557
Sayer, Greg	Senior Counsel and Director Legal Services	158,949	602

The taxable benefit for the chief executive officer is comprised mainly of a taxable benefit for a vehicle, provided under the terms of his employment contract, and is an "allowable special consideration" under the government directives.

Agricorp®

An agency of the Government of Ontario

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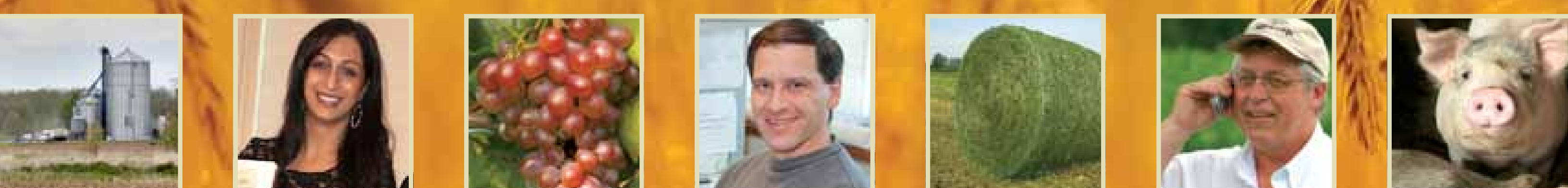

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Growing Forward 2

Ontario

Canada