



An agency of the Government of Ontario

## 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 provisions 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 Agricorp and annually reviews the financial statements.

These financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian Public Sector Accounting Standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

Original signed by

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Doug LaRose  
Chief Executive Officer

Original signed by

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Monika Sawa  
Chief Financial Officer

June 19, 2018



Office of the Auditor General of Ontario  
Bureau de la vérificatrice générale de l'Ontario

*Independent Auditor's Report*

To Agricorp

I have audited the accompanying financial statements of Agricorp, which comprise the statement of financial position as at March 31, 2018, and the statements of operations and fund balances, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Agricorp as at March 31, 2018 and the results of its operations, remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Susan Klein, CPA, CA, LPA  
Assistant Auditor General

Toronto, Ontario  
June 19, 2018

20 Dundas Street West  
Suite 1530  
Toronto, Ontario  
M5G 2C2  
416-327-2381  
fax 416-327-9862  
tty 416-327-6123

20, rue Dundas ouest  
suite 1530  
Toronto (Ontario)  
M5G 2C2  
416-327-2381  
télécopieur 416-327-9862  
ats 416-327-6123  
[www.auditor.on.ca](http://www.auditor.on.ca)

# Agricorp

## Statement of financial position

As at March 31, 2018 with comparative information for 2017

| (In thousands of dollars)   | General Fund     | Production Insurance Fund | 2018              | 2017                |
|---|------------------|---------------------------|-------------------|---------------------|
| <b>Current assets</b>   |                  |                           |                   |                     |
| Cash  | \$ 3,015         | \$ 33,716                 | \$ 36,731         | \$ 42,762           |
| Short term investments (note 5)                                       | 481              | 883,568                   | 884,049           | 735,979             |
| Accounts receivable (note 4)  | 3,759            | 8,606                     | 12,365            | 8,086               |
| Funds under administration (note 3)                                   | 32,986           | -                         | 32,986            | 111,193             |
| Prepaid expenses  | 597              | -                         | 597               | 650                 |
| <b>Total current assets</b>   | <b>40,838</b>    | <b>925,890</b>            | <b>966,728</b>    | <b>898,670</b>      |
| Long term investments (note 5)  | -                | -                         | -                 | 108,856             |
| Accrued pension asset (note 11)                                       | 9,278            | -                         | 9,278             | 8,276               |
| Capital assets (note 6)   | 2,722            | -                         | 2,722             | 638                 |
| <b>Total assets</b>   | <b>52,838</b>    | <b>925,890</b>            | <b>978,728</b>    | <b>1,016,440</b>    |
| <b>Current liabilities</b>  |                  |                           |                   |                     |
| Accounts payable and accrued liabilities                              | 5,205            | 169                       | 5,374             | 5,682               |
| Unearned premiums and revenue (note 9)                                | 5,837            | 17,690                    | 23,527            | 20,667              |
| Provision for claims  | -                | 4,600                     | 4,600             | 1,200               |
| Funds under administration (note 3)                                   | 32,986           | -                         | 32,986            | 111,193             |
| <b>Total current liabilities</b>                                      | <b>44,028</b>    | <b>22,459</b>             | <b>66,487</b>     | <b>138,742</b>      |
| <b>Fund balances</b>  |                  |                           |                   |                     |
| Unrestricted funds  | 8,810            | -                         | 8,810             | 8,662               |
| Restricted funds  | -                | 903,139                   | 903,139           | 866,228             |
| <b>Total fund balances</b>  | <b>8,810</b>     | <b>903,139</b>            | <b>911,949</b>    | <b>874,890</b>      |
| Accumulated remeasurement gains                                       | -                | 292                       | 292               | 2,808               |
| <b>Liabilities, fund balances and accumulated remeasurement gains</b> | <b>\$ 52,838</b> | <b>\$ 925,890</b>         | <b>\$ 978,728</b> | <b>\$ 1,016,440</b> |

Commitments and contingencies (note 12)

*See accompanying notes to financial statements*

Approved on behalf of the Board

Original signed by

Murray Porteous  
Board Chair

Original signed by

Patricia Lorenz  
Finance and Audit Committee Chair

# Agricorp

## Statement of operations and fund balances

Year ended March 31, 2018 with comparative information for 2017

| (In thousands of dollars)                | General<br>Fund | Production<br>Insurance Fund | 2018              | 2017              |
|--|-----------------|------------------------------|-------------------|-------------------|
| <b>Revenue</b>                           |                 |                              |                   |                   |
| Funding – provincial government (note 8) | \$ 20,476       | \$ 31,489                    | \$ 51,965         | \$ 52,055         |
| Funding – federal government (note 8)    | 19,510          | 47,249                       | 66,759            | 68,024            |
| Premiums from producers                  | -               | 52,529                       | 52,529            | 54,210            |
| Consulting and other services            | 910             | -                            | 910               | 852               |
| Investment income                        | 58              | 16,613                       | 16,671            | 16,970            |
| <b>Total revenue</b>                     | <b>40,954</b>   | <b>147,880</b>               | <b>188,834</b>    | <b>192,111</b>    |
| <b>Expenses</b>                          |                 |                              |                   |                   |
| Claims                                   | -               | 108,031                      | 108,031           | 127,709           |
| Reinsurance (note 10)                    | -               | 2,926                        | 2,926             | 3,641             |
| Administration (note 15)                 | 40,806          | -                            | 40,806            | 40,020            |
| Bad debts                                | -               | 12                           | 12                | 6                 |
| <b>Total expenses</b>                    | <b>40,806</b>   | <b>110,969</b>               | <b>151,775</b>    | <b>171,376</b>    |
| Excess of revenue over expenses          | 148             | 36,911                       | 37,059            | 20,735            |
| Fund balances, beginning of year         | 8,662           | 866,228                      | 874,890           | 854,155           |
| <b>Fund balances, end of year</b>        | <b>\$ 8,810</b> | <b>\$ 903,139</b>            | <b>\$ 911,949</b> | <b>\$ 874,890</b> |

Related party transactions (note 13)

See accompanying notes to financial statements

# Agricorp

## Statement of remeasurement gains and losses

Year ended March 31, 2018 with comparative information for 2017

| <u>(In thousands of dollars)</u>                                      | <u>2018</u>   | <u>2017</u>     |
|---|---------------|-----------------|
| Accumulated remeasurement gains, beginning of year                    | \$ 2,808      | \$ 6,752        |
| Unrealized (losses) on investments                                    | (2,194)       | (3,010)         |
| Realized (gains) reclassified to the statement of operations and fund | (322)         | (934)           |
| Net change for the year   | (2,516)       | (3,944)         |
| <b>Accumulated remeasurement gains, end of year</b>                   | <b>\$ 292</b> | <b>\$ 2,808</b> |

*See accompanying notes to financial statements*

# Agricorp

## Statement of cash flows

Year ended March 31, 2018 with comparative information for 2017

| (In thousands of dollars)                    | General<br>Fund | Production<br>Insurance Fund | 2018             | 2017             |
|--|-----------------|------------------------------|------------------|------------------|
| <b>Cash provided by operating activities</b> |                 |                              |                  |                  |
| Excess of revenue over expenses              | \$ 148          | \$ 36 911                    | \$ 37 059        | \$ 20 735        |
| <b>Items not requiring an outlay of cash</b> |                 |                              |                  |                  |
| Realized (gains) on investments              | -               | (322)                        | (322)            | (934)            |
| Amortization of capital assets               | 520             | -                            | 520              | 572              |
| <b>Total</b>                                 | <b>668</b>      | <b>36 589</b>                | <b>37 257</b>    | <b>20 373</b>    |
| <b>Changes in non-cash working capital</b>   |                 |                              |                  |                  |
| Accounts receivable                          | (1 125)         | (3 154)                      | (4 279)          | 401              |
| Prepaid expenses                             | 53              | -                            | 53               | 20               |
| Accrued pension asset                        | (1 002)         | -                            | (1 002)          | (262)            |
| Accounts payable and accrued liabilities     | (261)           | (47)                         | (308)            | (8 461)          |
| Unearned premiums and revenue                | 2 059           | 801                          | 2 860            | (6 744)          |
| Provision for claims                         | -               | 3 400                        | 3 400            | (2 970)          |
| <b>Total</b>                                 | <b>(276)</b>    | <b>1 000</b>                 | <b>724</b>       | <b>(18 016)</b>  |
| <b>Investing activity</b>                    |                 |                              |                  |                  |
| Net (purchase) proceeds of investments       | (5)             | (41 403)                     | (41 408)         | 17 311           |
| <b>Capital activity</b>                      |                 |                              |                  |                  |
| Purchase of capital assets                   | (2 604)         | -                            | (2 604)          | (398)            |
| (Decrease) increase in cash                  | (2 217)         | (3 814)                      | (6 031)          | 19 270           |
| <b>Cash, beginning of year</b>               | <b>5 232</b>    | <b>37 530</b>                | <b>42 762</b>    | <b>23 492</b>    |
| <b>Cash, end of year</b>                     | <b>\$ 3 015</b> | <b>\$ 33 716</b>             | <b>\$ 36 731</b> | <b>\$ 42 762</b> |

See accompanying notes to financial statements

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 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 business risk management programs to Ontario's agriculture industry on behalf of the Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). These programs are as follows:

#### Government – Production Insurance

Production Insurance was established in 1966 and currently operates pursuant to the *Agricultural Products 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.

#### Government – Other Business Risk Management

These programs, as detailed under note 3, are administered by Agricorp on behalf of OMAFRA and the government of Canada ("federal government"). 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 the government of Ontario ("provincial government") or federal government 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 OMAFRA, 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.

As an Ontario Crown agency, Agricorp is exempt from income taxes.

### 2. Significant accounting policies

#### a) Basis of accounting

The financial statements of Agricorp have been prepared by management in accordance with Canadian Public Sector Accounting Standards (PSAS) for governments as recommended by the Public Sector Accounting Board of Chartered Professional Accountants of Canada (CPA Canada). Agricorp has also elected to apply the section 4200 standards for Government Not-For-Profit Organizations.

Agricorp follows the accrual method of accounting for revenues and expenses. Revenue is recognized in the year in which it is earned and measurable. Expenses are recognized, as they are incurred and measurable, as a result of receipt of goods or services.

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 revenues and expenses, as well as for all unsegregated activities. The Production Insurance Fund is used to account for activities specific to the Production Insurance program.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### b) Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided for 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 |

Software under development is recorded at cost, which includes amounts directly related to the acquisition, development, customization and installation, as well as directly attributable labour. Software under development is not amortized until it is available for use.

### c) Employee future benefits

Agricorp provides defined retirement benefits 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 as well as a supplemental defined benefit pension plan for eligible employees. Unless otherwise noted, information on Agricorp's post-employment benefit programs is presented on a consolidated basis.

Agricorp contributes to the plans based on employee contributions and a factor determined by the plans' independent actuary. The cost of pension benefits for the defined benefit plans is determined by an independent actuary using the projected benefit method pro-rated 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 5 days of sick leave per year. Unused sick leave days are eligible to accumulate up to 47 days, which can only be used to supplement the short term disability benefit. 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.

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 producer premiums are recognized as revenue in the year in which the related agricultural products are harvested. Premiums received for future years are classified as unearned premiums and revenue on the statement of financial position.



# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### e) Financial instruments

Agricorp's financial instruments consist of cash, investments, accounts receivable, accounts payable and accrued liabilities.

All financial instruments are recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record short-term demand deposit type investments at amortized cost, which approximates fair value, and all other investments at fair value. Guaranteed Investment Certificates (GICs) are valued based on cost plus accrued interest, which approximates fair value.

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

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 and fund balances. Any unrealized gain or loss on investments is adjusted through the statement of remeasurement gains and losses. When an asset is sold, unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations and fund balances.

Agricorp is required to classify fair value measurements using a fair value hierarchy, which indicates three levels of information that may be used to measure fair value:

Level 1 – unadjusted quoted market prices in active markets for identical assets or liabilities;

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

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 PSAS 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.

### g) Provision for claims

The provision for claims liability represents management's estimate of the total cost of Production Insurance claims outstanding at year-end. Measurement of this provision is uncertain as not all of the necessary information for reported claims is always available as of the year-end date and therefore estimates are made as to the value of these claims.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 3. Funds under administration

Agricorp processes and disburses payments to producers enrolled in agricultural business risk management and other programs. These programs are generally administered on behalf of OMAFRA for producers in the province, and cover joint federal-provincial, federal-only and provincial-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 the federal and/or provincial governments and all funds are segregated in accounts under administration by program until payments are processed for the producers.

Funds for these programs are held in accounts with Canadian banks, bankers' acceptance or bank discount notes and all are highly liquid. As Agricorp only administers these programs, no recognition is made for program revenue, expense, receivables or payables.

#### a) AgriStability

AgriStability was established under the Growing Forward Framework Agreement in 2007 as a continuation of the Canadian Agricultural Income Stabilization program. This program provides agricultural producers with financial protection against large declines in farm margin. To participate, producers must enroll in the program and pay administration and enrollment fees based on their reference margin for specified prior years. Producers are also required to submit an application that includes production data and farming income (or loss) reported for income tax purposes.

AgriStability is cost shared by the federal and provincial governments at a basis of 60% and 40% respectively.

#### b) Risk Management Program (RMP)

RMP helps producers offset losses caused by low commodity prices and fluctuating production costs. RMP is fully funded by the provincial government and is an advance against Ontario's share of AgriStability program costs and reduces its share of AgriStability payments. Effective January 2015, AgriStability participation is no longer an eligibility requirement of RMP. RMP includes the following plans:

##### ***RMP: Grains and Oilseeds (RMP-GO)***

The plan 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 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 plans provide producers with commodity-specific price support based on cost of production. To participate, producers must pay premiums and provide a premises identification number.

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

Under the terms of the plan, producers of edible horticulture deposit into their account a percentage of their eligible net sales and a contribution is made into the account by the provincial 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 and provide a premises identification number.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### c) General Top-Up Program (GTUP)

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

### d) Marketing and Vineyard Improvement Program (MVIP)

The MVIP initiative provides grape growers with funds to help with the cost of improvements related to production of wine grapes. Agricorp began administering this program on behalf of OMAFRA. MVIP is fully funded by the provincial government.

### e) Vintners Quality Alliance Wine Support Program (VQA-WSP)

The VQA-WSP provides grants to help wineries invest in growing their VQA wine business, including export and tourism development activities. Agricorp began administering this program on behalf of OMAFRA. This program is fully funded by the provincial government.

### f) Other programs

Agricorp administers other programs on behalf of OMAFRA and the federal government, some of which are in the process of being wound down. These programs continue to be funded by OMAFRA and the federal government in accordance with their program delivery agreement. Examples include:

#### ***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, the farm business pays a reduced property tax rate on agricultural land and is granted membership in an accredited farm organization of their choice. Agricorp collects these fees and remits them, less an administrative charge, to the chosen accredited farm organization.

#### ***Provincial Premises Registry (PPR)***

Established in 2008, the PPR registers unique parcels of land in Ontario associated with agri-food activities. The PPR collects information including agri-food business location, activities and emergency contacts, and maintains a current database for access by the Ministry for emergency response and preparedness. As part of the National Agri-Food Traceability System, all provinces are responsible for having a premises registration system in place to enable the swift response to incidents and emergencies that could harm agri-food businesses and consumers. Agricorp began administering this program on behalf of OMAFRA in February 2018.

#### ***Edible Horticulture Support Program (EHSP)***

The EHSP is a two-year support program announced by the provincial government in the 2017 fall economic statement. The program supports Ontario's fruit and vegetable farmers and other horticultural producers, by helping them adapt to evolving cost pressures facing the sector, and adapt to a new small business climate. Agricorp began administering this program on behalf of OMAFRA in January 2018.

#### ***Farm Property Class Tax Rate Program (FPCTRP)***

Under FPCTRP, eligible farm properties pay a reduced property tax rate for their acreage. Currently, OMAFRA delivers the FPCTRP, completes eligibility assessments for all valued and assessed farm properties, and reports the properties that meet all the FPCTRP requirements to the Municipal Property Assessment Corporation (MPAC). MPAC in turn forwards this information to the local municipalities. The municipality will then tax the properties at the farm rate that meet the requirements.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

In July 2017, the provincial government signaled that their activities related to the delivery of FPCTRP will be transferred to Agricorp in early 2019. In the meantime, Agricorp will work to design, develop and implement business processes and system capabilities to facilitate this transfer. There are no changes related to the involvement of MPAC or the municipalities in this program.

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

| (In thousands of dollars) | Opening balance 2018 | Funding, federal government | Funding, provincial government | Other              | Payments            | Closing balance 2018 |
|---------------------------|----------------------|-----------------------------|--------------------------------|--------------------|---------------------|----------------------|
| AgriStability             | \$ 92,889            | \$ 40,910                   | \$ 17,183                      | \$ (82,022)        | \$ (54,371)         | \$ 14,589            |
| RMP-GO                    | 144                  | -                           | 31,893                         | 4                  | (30,516)            | 1,525                |
| RMP-LS                    | 4,913                | -                           | 37,677                         | (170)              | (38,667)            | 3,753                |
| RMP-SDRM                  | 9,419                | -                           | 25,402                         | (3,010)            | (22,657)            | 9,154                |
| GTUP                      | 2,533                | -                           | -                              | 29                 | -                   | 2,562                |
| MVIP                      | 783                  | -                           | 1,822                          | 1                  | (1,731)             | 875                  |
| VQA-WSP                   | -                    | -                           | 7,500                          | -                  | (7,500)             | -                    |
| Other programs            | 512                  | -                           | 2,038                          | 11                 | (2,033)             | 528                  |
| <b>Total</b>              | <b>\$ 111,193</b>    | <b>\$ 40,910</b>            | <b>\$ 123,515</b>              | <b>\$ (85,157)</b> | <b>\$ (157,475)</b> | <b>\$ 32,986</b>     |

| (In thousands of dollars) | Opening balance 2017 | Funding, federal government | Funding, provincial government | Other           | Payments            | Closing balance 2017 |
|---------------------------|----------------------|-----------------------------|--------------------------------|-----------------|---------------------|----------------------|
| AgriStability             | \$ 73,018            | \$ 45,940                   | \$ 23,085                      | \$ 9,649        | \$ (58,803)         | \$ 92,889            |
| RMP-GO                    | 256                  | -                           | 36,335                         | (9)             | (36,438)            | 144                  |
| RMP-LS                    | 6,432                | -                           | 40,059                         | (1,383)         | (40,195)            | 4,913                |
| RMP-SDRM                  | 8,879                | -                           | 21,070                         | 223             | (20,753)            | 9,419                |
| GTUP                      | 2,507                | -                           | -                              | 26              | -                   | 2,533                |
| MVIP                      | 306                  | -                           | 1,868                          | 465             | (1,856)             | 783                  |
| VQA-WSP                   | -                    | -                           | 7,000                          | -               | (7,000)             | -                    |
| Other programs            | 467                  | -                           | 4                              | 45              | (4)                 | 512                  |
| <b>Total</b>              | <b>\$ 91,865</b>     | <b>\$ 45,940</b>            | <b>\$ 129,421</b>              | <b>\$ 9,016</b> | <b>\$ (165,049)</b> | <b>\$ 111,193</b>    |

The Other column in the tables above includes items such as producer fees and premiums, and changes in program receivables and payables.

#### 4. Accounts receivable

Accounts receivable are comprised primarily of amounts due from the federal and provincial governments and from producers.

| (In thousands of dollars)            | 2018             | 2017            |
|--------------------------------------|------------------|-----------------|
| Funding – federal government         | \$ 8,948         | \$ 5,403        |
| Funding – provincial government      | 2,100            | 1,408           |
| Other                                | 1,464            | 1,411           |
|                                      | 12,512           | 8,222           |
| Less allowance for doubtful accounts | (147)            | (136)           |
| <b>Total</b>                         | <b>\$ 12,365</b> | <b>\$ 8,086</b> |

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 5. Investments

Legislation restricts Agricorp's investments to highly liquid, high-grade investments 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

| (In thousands of dollars)                                   | 2018              | 2017              |
|---|-------------------|-------------------|
| <b>Short-term</b>   |                   |                   |
| Province of Ontario   | \$ 11 625         | \$ 21 905         |
| Other provincial governments                                | 37 888            | 31 932            |
| Provincial utilities  | 22 012            | 11 634            |
| Financial institutions – deposits held                      | 277 660           | 195 775           |
| Financial institutions – guaranteed investment certificates | 534 864           | 469 692           |
| Financial institutions – bonds                              | -                 | 5 041             |
| <b>Total short-term</b>                                     | <b>884 049</b>    | <b>735 979</b>    |
| <b>Long-term</b>  |                   |                   |
| Province of Ontario   | -                 | 11 507            |
| Other provincial governments                                | -                 | 39 358            |
| Provincial utilities  | -                 | 22 514            |
| Financial institutions – guaranteed investment certificates | -                 | 35 477            |
| <b>Total long-term</b>                                      | <b>-</b>          | <b>108 856</b>    |
| <b>Total investments</b>                                    | <b>\$ 884 049</b> | <b>\$ 844 835</b> |

#### b) Maturity profile of the investment portfolio

| (In thousands of dollars) | 2018              | 2017              |
|---------------------------|-------------------|-------------------|
| < 1 Year                  | \$ 884,049        | \$ 735,979        |
| 1 – 3 Years               | -                 | 108,856           |
| <b>Total</b>              | <b>\$ 884,049</b> | <b>\$ 844,835</b> |

#### c) Fair value hierarchy

| (In thousands of dollars)          | Level | 2018              | 2017              |
|------------------------------------|-------|-------------------|-------------------|
| Cash and equivalents               | 1     | \$ 277,660        | \$ 195,775        |
| Guaranteed investment certificates | 2     | 534,864           | 505,168           |
| Bonds                              | 1     | 71,525            | 143,892           |
| <b>Total</b>                       |       | <b>\$ 884,049</b> | <b>\$ 844,835</b> |

There were no transfers of investments between Level 1 and Level 2.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 6. Capital assets

| (In thousands of dollars)  | Cost             | Accumulated<br>amortization | 2018<br>Net book<br>value | 2017<br>Net book<br>value |
|----------------------------|------------------|-----------------------------|---------------------------|---------------------------|
| Furniture and fixtures     | \$ 1,218         | \$ 1,217                    | \$ 1                      | \$ 3                      |
| Computer hardware          | 3,726            | 2,991                       | 735                       | 566                       |
| Leasehold improvements     | 1,958            | 1,952                       | 6                         | 10                        |
| Computer software          | 13,315           | 13,178                      | 137                       | 59                        |
| Software under development | 1,843            | -                           | 1,843                     | -                         |
| <b>Total</b>               | <b>\$ 22,060</b> | <b>\$ 19,338</b>            | <b>\$ 2,722</b>           | <b>\$ 638</b>             |

### 7. Financial instruments risk management

#### a) Market risk

Market risk is the risk that changes in market prices will affect the fair value of reported assets and liabilities. Market factors include three types of risk: interest rate risk, currency risk and equity risk. Agricorp is not exposed to significant currency or equity risk as it does not transact materially in foreign currency or hold equity financial instruments.

Agricorp operates within investment guidelines constraints set out by legislation that restricts Agricorp's investments to highly liquid, high-grade investments, such as federal and provincial bonds, deposit notes issued by domestic financial institutions and other securities approved by the Minister of Finance.

#### b) Interest rate risk

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

Agricorp's bond portfolio has interest rates ranging from 3.64% to 5.50% (2017 – 2.28% to 5.50%) with maturities ranging from August to December 2018 (2017 – June 2017 to December 2018). As at March 31, 2018, a 1% fluctuation in interest rates, with all other variables held constant, would increase/decrease the value of bonds by an estimated \$0.4 million (2017 - \$1.6 million).

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 2.01% (2017 - 2.20%). Fluctuations in interest rates could have a significant impact on the fair value of the fixed income securities profile. Although investments 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. There have been no significant changes from the previous year in the exposure to risk or to the policies, procedures and methods used to measure the risk.

#### c) Credit risk

##### *General*

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

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### *Reinsurance*

Agricorp is exposed to credit risk on the reinsurance contracts that are placed with reinsurers. In order to minimize this risk, Agricorp places reinsurance with a number of different reinsurers and evaluates the financial condition of each of these reinsurers in order to minimize exposure to a significant loss from any one reinsurer in the event of insolvency.

Reinsurers are typically required to have a minimum financial strength rating of A-, based on the rating agencies A.M. Best, and Standard and Poor's. Based on professional judgment, management set limits to establish the maximum amount of business that can be placed with a single reinsurer.

### *Collectability*

Credit risk on balances receivable arises from the possibility that the entities that 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.

### *Investments*

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 Minister of Finance, which significantly reduces credit risk.

## **8. Funding – provincial and federal**

### **a) Production Insurance Fund**

Premiums from producers represent 40% of the total funding of the Production Insurance program. The federal and provincial governments fund the remaining premiums at a basis of 60% and 40% respectively.

### **b) General Fund**

Agricorp provides administration services on a cost recovery basis to process and disburse payments to producers enrolled in agricultural business risk management and other programs. The provincial and federal governments have agreed to share the costs of administering Production Insurance, AgriStability and GTUP at the ratio of 60% and 40% respectively. The costs to administer RMP-GO, RMP-LS, RMP-SDRM, MVIP, VQA-WSP, PPR, EHSP and FPCTRP are funded by the provincial government.

## **9. Unearned premiums and revenue**

Unearned premiums represent Production Insurance premiums of \$17.7 million (2017 - \$16.9 million) received by Agricorp in the current fiscal year, and are recognized as revenue in the year in which the related agricultural products are harvested. Unearned revenue includes operating funding related primarily to the unamortized value of capital assets of \$2.7 million (2017 - \$0.7 million) and other unearned amounts of \$3.1 million (2017 - \$3.1 million).

## **10. 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 a fixed percentage of losses for 2017 Production Insurance claims in excess of \$598 million to a maximum of \$661 million (2016 production year – in excess of \$495 million to a maximum of \$587 million). As actual claims for the 2017 production year were less than the minimum threshold, no reinsurance payments were received by Agricorp.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

Agricorp signed an agreement in December 2017 whereby it purchased reinsurance through a number of carriers for the 2018 production year. The amount purchased under this agreement is to mitigate a fixed percentage of losses between 16% and 21% (on a 50% co-reinsurance basis) of insured liability, subject to a maximum of \$4.0 billion (2017 19% – 21% subject to a maximum of \$3.75 billion).

### 11. Pension

Agricorp has a mandatory contributory defined benefit plan for all full-time and eligible part-time employees as well as a supplemental defined benefit plan for eligible employees. The changes for the defined benefit plans of Agricorp during the year are as follows:

| <b>(In thousands of dollars)</b>  | <b>2018</b>     | <b>2017</b>     |
|-----------------------------------|-----------------|-----------------|
| <b>Accrued benefit obligation</b> |                 |                 |
| Balance, beginning of year        | \$ 50,828       | \$ 45,337       |
| Current service cost              | 2,917           | 2,557           |
| Interest cost                     | 3,116           | 2,798           |
| Employee contributions            | 1,650           | 1,438           |
| Benefits paid                     | (2,358)         | (1,545)         |
| Actuarial (gain) loss             | (1,379)         | 146             |
| Plan amendment                    | -               | 97              |
| <b>Balance, end of year</b>       | <b>54,774</b>   | <b>50,828</b>   |
| <b>Plan assets</b>                |                 |                 |
| Fair value, beginning of year     | 61,239          | 52,622          |
| Actual return on plan assets      | 2,937           | 6,211           |
| Employer contributions            | 3,152           | 2,513           |
| Employee contributions            | 1,650           | 1,438           |
| Benefits paid                     | (2,358)         | (1,545)         |
| <b>Fair value, end of year</b>    | <b>66,620</b>   | <b>61,239</b>   |
| <b>Funded status</b>              |                 |                 |
| Plan surplus                      | 11,846          | 10,411          |
| Unamortized actuarial (gain)      | (2,568)         | (2,135)         |
| <b>Accrued pension asset</b>      | <b>\$ 9,278</b> | <b>\$ 8,276</b> |

The significant actuarial assumptions adopted in measuring the accrued benefit obligations of Agricorp are:

|   | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
|   | <b>(%)</b>  | <b>(%)</b>  |
| Discount rate to determine accrued benefit obligation | 6.00        | 6.00        |
| Discount rate to determine benefit cost               | 6.00        | 6.00        |
| Expected long-term rate of return on plan assets      | 6.00        | 6.00        |
| Rate of compensation increase                         | 2.75        | 3.25        |



# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

The net benefit plan expense is as follows:

| <b>(In thousands of dollars)</b>         |           | <b>2018</b>  |           | <b>2017</b>  |
|--|-----------|--------------|-----------|--------------|
| Current service cost                     | \$        | 2,917        | \$        | 2,557        |
| Interest cost                            |           | 3,116        |           | 2,798        |
| Expected return on plan assets           |           | (3,748)      |           | (3,233)      |
| Amortization of unrecognized (gain) loss |           | (136)        |           | 44           |
| Plan amendment                           |           | -            |           | 97           |
| <b>Net benefit plan expense</b>          | <b>\$</b> | <b>2,149</b> | <b>\$</b> | <b>2,263</b> |

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

| <b>Security type</b>      | <b>2018</b>  | <b>2017</b>  |
|---------------------------|--------------|--------------|
|                           | <b>(%)</b>   | <b>(%)</b>   |
| Canadian equities         | 28.4         | 30.5         |
| U.S. equities             | 18.2         | 18.6         |
| International equities    | 12.7         | 11.6         |
| Bonds                     | 24.2         | 28.8         |
| Real estate               | 10.1         | 8.9          |
| Cash and cash equivalents | 6.4          | 1.6          |
| <b>Total plan</b>         | <b>100.0</b> | <b>100.0</b> |

An external investment advisor manages the investments held by the pension plan. Administration expenses on the statement of operations and fund balances include pension expense of \$2.1 million (2017 - \$2.3 million).

The most recent pension plan actuarial valuation is as of January 1, 2017. At that time, the plan had a going concern actuarial surplus of \$7.0 million and had a solvency and wind-up deficit of \$9.2 million. These estimates are determined under the provisions of Section 76 of the *Regulations to the Pension Benefits Act, 1990 (Ontario)*. Payment of the solvency deficit is required to be made over 5 years. An allowable election was made to defer these payments for 2 years, thus commencing January 1, 2019, \$2.1 million will be contributed to the pension plan annually for 5 years. The next actuarial valuation is required to be completed as of January 1, 2020.

## 12. Commitments and contingencies

### a) Commitments

Agricorp is committed to several leases for office space, weather data and sites, print services, mainframe support and operating leases for vehicles. The minimum aggregate costs for the remaining terms of these leases are:

| <b>(In thousands of dollars)</b> | <b>Head office location</b> | <b>Others</b>   | <b>Total</b>     |
|----------------------------------|-----------------------------|-----------------|------------------|
|                                  | <b>(note 13)</b>            |                 |                  |
| 2019                             | \$ 1,153                    | \$ 2,605        | \$ 3,758         |
| 2020                             | 1,170                       | 859             | 2,029            |
| 2021                             | 1,189                       | 611             | 1,800            |
| 2022                             | 1,207                       | 449             | 1,656            |
| 2023                             | 1,226                       | 391             | 1,617            |
| Thereafter                       | 3,799                       | 1,265           | 5,064            |
| <b>Total</b>                     | <b>\$ 9,744</b>             | <b>\$ 6,180</b> | <b>\$ 15,924</b> |

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 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.

### 13. Related party transactions

Agricorp has entered into several agreements to acquire services from OMAFRA. The cost for administrative, legal and internal auditing services amounted to \$0.2 million (2017 - \$0.2 million). In addition, Agricorp rents its head office location from the Ontario Infrastructure and Lands Corporation for a total cost for the year of \$1.1 million (2017 - \$1.1 million). Agricorp earned revenue of \$52.0 million (2017 - \$52.1 million) from OMAFRA as their share of Production Insurance premium and operating funding.

### 14. Board remuneration and salary disclosure

Total remuneration to members of the Board of Directors was \$32 thousand (2017 - \$43 thousand). *The Public Sector Salary Disclosure Act, 1996* requires Agricorp to disclose employees paid an annual salary in excess of \$100 thousand. Complete disclosure for Agricorp is included in the "Public Sector Salary Disclosure 2017: Crown Agencies" listing on the Government of Ontario website: <https://www.ontario.ca/page/public-sector-salary-disclosure-2017-all-sectors-and-seconded-employees>.

For the 2017 calendar year, actual amounts paid to the five employees with the highest annual salaries are:

| Name            | Position   | Salary     | Taxable benefits |
|-----------------|--|------------|------------------|
| Beifuss, Erich  | Chief Financial Officer                                    | \$ 165,203 | \$ 527           |
| Dosanjh, Baljit | Director, Systems Development & Computing Network Services | 154,014    | 505              |
| Fazil, Abbas    | Director, Architecture Services                            | 153,654    | 485              |
| LaRose, Doug    | Chief Executive Officer                                    | 190,803    | 595              |
| Sayer, Greg     | Senior Director, Legal Services                            | 157,296    | 524              |

### 15. Administration

| (In thousands of dollars)   | 2018      | 2017      |
|-----------------------------|-----------|-----------|
| Salaries and benefits       | \$ 32,062 | \$ 31,459 |
| Equipment and maintenance   | 2,610     | 2,471     |
| Consulting and professional | 1,750     | 1,972     |
| Facilities                  | 1,498     | 1,387     |
| Office                      | 782       | 590       |
| Telephone and postage       | 767       | 787       |
| Vehicle and travel          | 586       | 582       |
| Amortization                | 520       | 572       |
| Other                       | 231       | 200       |
| Total                       | \$ 40,806 | \$ 40,020 |

### 16. Comparative figures

Certain figures have been reclassified to conform to the current year's presentation.

# Agricorp

## Notes to the financial statements

Year ended March 31, 2018 with comparative information for 2017

### 17. Subsequent events

#### New agricultural policy framework

Canada's federal, provincial and territorial agriculture ministers reached agreement on a new agricultural policy framework, called the *Canadian Agricultural Partnership* (the *Partnership*), which came into effect in April 2018, replacing the Growing Forward 2 (GF2) framework that expired in March 2018. The intent of the new framework is to strengthen the agriculture, agri-food and agri-based products sector, ensuring continued innovation, growth and prosperity. In addition, producers will continue to have access to a robust suite of Business Risk Management (BRM) programs. Similar to GF2, the *Partnership* is a five-year investment by federal, provincial and territorial governments to strengthen the agriculture and agri-food sector. For a full list of changes to the BRM suite of programs under the *Partnership*, visit the Government of Canada - Agriculture and Agri-Food Canada website.