2012
annual report

SASKATCHEWAN MUNICIPAL HAIL
INSURANCE ASSOCIATION
AND
ADDITIONAL MUNICIPAL HAIL LIMITED

OFFICERS & MANAGEMENT STAFF

President	Wayne Black
Vice-President	Arnold Boyko
Member of Executive Committee	Murray Purcell
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Field Operations Manager	Darryl Tiefenbach
Office Manager	Lynette Miller
Assistant Office Manager	Melody Koronkiewicz

DIRECTORS

ELECTED UNTIL 2013	ELECTED UNTIL 2014	ELECTED UNTIL 2015
Jim Moen, Cabri	Arnold Boyko, Watson	Wayne Black, Tisdale
Pauline Ziehl Grimsrud, Estevan	Ken McBride, Kindersley	Maurice Berry, Carievale
Foster Warriner, Alameda	Murray Purcell, Saskatoon	Arnold Petracek, Esterhazy

In accordance with the provisions of section 16 of *The Municipal Hail Insurance Act*, the following reports are presented to the Minister and to the Reeve and Administrator of each Rural Municipality in the Province of Saskatchewan.

annual report 2012

Contents

directors' report

(As presented to the Annual General Meeting of the Association in Saskatoon, Saskatchewan, March 12, 2013)

Ladies and Gentlemen:

The Directors take pleasure in presenting the Ninety-sixth Annual Report with the Auditors' Report for the year ended January 31, 2013. Also included are the details of the Eighty-ninth Annual Report covering the operations of Additional Municipal Hail Limited for the year ended December 31, 2012.

Hot and dry weather in the fall allowed producers to harvest the 2012 crop in mostly good condition. Despite excessive moisture in much of the province this spring, the majority of producers were able to seed and harvest a crop this year. For some in the southeast, this was the first time in a few years that a crop was seeded. Yields were mostly average; however, many producers reported lower yields than had been expected. Excess moisture, heat stress, wind, hail, disease and insects all took a toll on the 2012 crop.

The eastern side of the province dealt with excess moisture for the majority of the year while the south dealt with high temperatures and heat stress. By mid-July, hail insurance claims were twice the average and the numbers continued to rise throughout the growing season.

Diseases were present in the majority of crops this year although canola was affected the most. Aster yellows and sclerotinia were present in almost every canola field and yields were significantly lower than expected for many producers. Many cereal crops had higher-than-normal levels of leaf disease, root rot and fusarium. For the most part, insect damage was minimal in many areas, although there were pockets of the province that had more damage from wheat midge, diamondback moths and grasshoppers. Bertha armyworm numbers were high in many areas of the province, particularly on the western side.

For most producers in the province and especially in the southwest, high temperatures and dry soil stressed the crops during flowering. Producers reported flower blasting of canola, stunted plants and thin stands. Crop yields were lower than expected due to drought like conditions. The southwest was the driest region in the province throughout the growing season.

The warm temperatures and dry field conditions in August allowed producers to begin harvest earlier than normal. Very little rainfall was received in September and by the first week of October 99% of the 2012 crop was in the bin. Although the rain held off for the majority of harvest, the province received strong winds for many days in early September that blew swaths across fields and shelled standing crops. The damage was worse in northern areas where the majority of the canola crop had not yet been combined.

The first significant fall frost was received on September 17 for most of the province. Damage was minimal for the most part but some late seeded crops such as flax and wheat suffered some damage.

Crop yields were also less than anticipated for much of the province due to disease, insects and heat stress damage. Some winter wheat and later-seeded crops yielded better than expected. For some producers in the south, the winter wheat was the best crop they had ever grown. Earlier seeded crops such as pulses and some cereals did not yield as well due to excess moisture, heat stress at flowering and disease. Many producers were not able to seed winter wheat or fall rye due to a lack of moisture in the fall.

Some barley crops came off light and many pulse crops had more disease than normal. Canola crops that appeared promising prior to harvest had disappointing and lower than-expected yields. Fusarium, ergot and wheat midge damaged many wheat crops.

The total acres seeded to major grains, oil seeds and specialty crops amounted to approximately 34.8 million in 2012 compared to 29.8 million the previous year. Municipal Hail insured 11,929,958 acres prior to cancellations compared to 9,987,172 in 2011, being 34.3% of the total compared to 33.5% in 2011.

Under the Municipal Hail program, the basic indemnity was $25 per acre and the maximum was $200 per acre. 81% of the acres reported for coverage were insured under the full coverage option and the remaining acres were insured on a deductible coverage basis.

Applications for cancellation of insurance due to losses of crop from causes other than hail numbered 87 and were received from 45 rural municipalities. A total of 10,142 acres were cancelled which in turn reduced the 2012 hail taxes by $72,401.

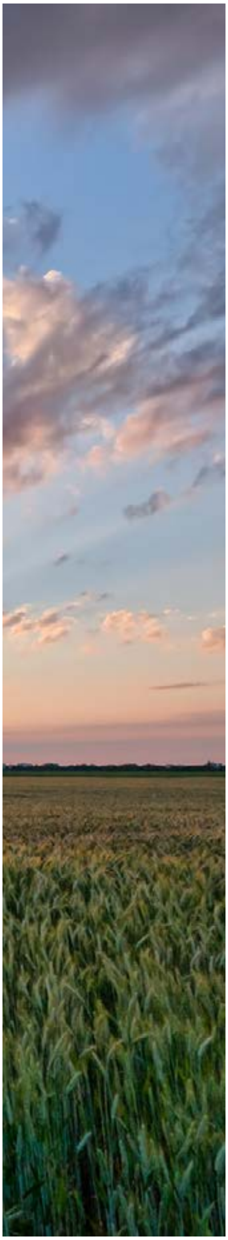
Hail tax collections under the Municipal Hail program equalled 95.7% of the 2012 hail taxes levied compared to 98.6% in 2011.

Additional Municipal Hail Limited policies written in 2012 numbered 4,325 compared to 4,526 in 2011. The maximum coverage available was $200 per acre and $1,250,000 per township.

During the 2012 crop hail season, claims were received on 96 days during the period May 15 through October 15 compared to 98 the previous year. Ten major storms occurred on the following dates: June 25, 26, July 3, 21, 23, August 10, 11, 24, September 1 and 10. The most expensive storm of the season occurred on August 24 producing losses in excess of $13 million. The total number of claims received during the season numbered 8,358 compared to 7,369 the previous year.

A total of 20 fire claims were received during the season compared to 12 the previous year. Indemnity paid as a result of the fire claims amounted to $85,900.

Municipal Hail indemnities paid were $72.8 million compared to $55.1 million the previous year and



represents 85.1% of hail taxes levied compared to 79.9% recorded in 2011. During the period 1917 through 2012, the Association has paid indemnities amounting to 83.2¢ of each hail tax dollar levied.

Under the Municipal Hail program, payment of the 2012 indemnity was carried out between August 30 and October 19 except where claimants requested payment be delayed until the following year.

Additional Municipal Hail Limited indemnities paid were $19.8 million compared to 2011 when indemnities paid totalled $14.6 million. The loss to premium ratio was 79.9% compared to 77% recorded in 2011.

During its 96 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided over $31 billion of coverage and paid losses amounting to $1.24 billion. In 2012, the Association provided $1.89 billion of coverage and paid losses of $92.6 million.

Directors Wayne Black of Tisdale and Arnold Petracek of Esterhazy were elected to a further three year term and Maurice Berry of Carievale was elected to the Board of Directors for a three year term at the 2012 Annual Meeting. Director Berry is a councillor in the Rural Municipality of Storthoaks no. 31.

Director Ivan Costley of Mossbank was not re-elected to a further three year term at the 2012 Annual Meeting. Mr. Costley was first elected to the Board in 2003.

Melody Koronkiewicz, Rodney Schoettler and Cleo Loster were acknowledged for 25 years of service with the Association in 2012.

We wish to take this opportunity to extend our appreciation to all Rural Municipalities and their Administrators for their support and willing assistance in providing sound crop hail protection for Saskatchewan farmers and landowners and to all of the staff for their efficient and dedicated service during the 2012 season.

saskatchewan municipal hail insurance association

statistics

The following is a comparison of the years 2012 and 2011:

	Municipal	Additional	**2012**	2011
Total Risk	$ 1,459,958,888	$ 432,353,077	**$ 1,892,311,965**	$ 1,521,366,896
Hail Taxes/Premiums	$ 85,527,093	$ 24,785,557	**$ 110,312,650**	$ 88,043,280
Indemnity Paid	$ 72,813,202	$ 19,802,559	**$ 92,615,761**	$ 69,748,084
Average Charged Rate	5.86%	5.73%	**5.83%**	5.79%
Number of Claims	6,829	1,529	**8,358**	7,369
Loss to Risk	4.99%	4.58%	**4.89%**	4.59%
Loss to Taxes/Premiums	85.13%	79.90%	**83.96%**	79.22%
Average Cost per Claim	$ 10,662	$ 12,951	**$ 11,081**	$ 9,465

Basic crop rates by township varied from a low of 2.5% to a high of 8.5% of risk.

Municipal Hail insured 11,919,816 acres in 2012, compared to 9,978,335 acres in 2011. The basic indemnity available in 2012 was $25 per acre and the maximum was $200 per acre.

The following information details the transactions regarding the continuing feature of Municipal Hail:

	2012	2011
Assessment Applications Received	**1,089**	1,001
Withdrawal Applications Received	**1,119**	1,065
Applications for Cancellation of Insurance due to loss of crop from causes other than hail	**87**	76
Applications for Exemption of Crops	**206**	142

The terms of the following Board members expire at this Annual Meeting:

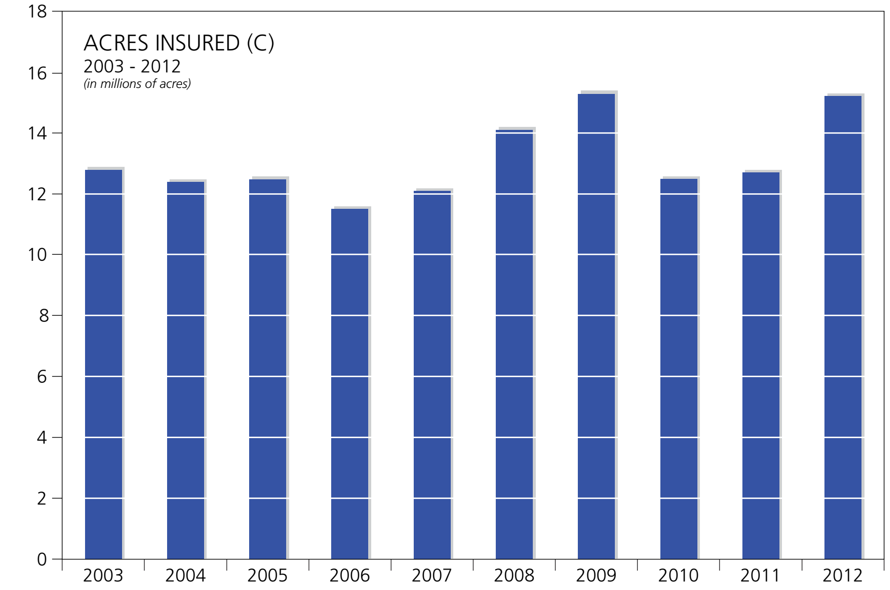
JIM MOEN FOSTER WARRINER PAULINE ZIEHL GRIMSRUD

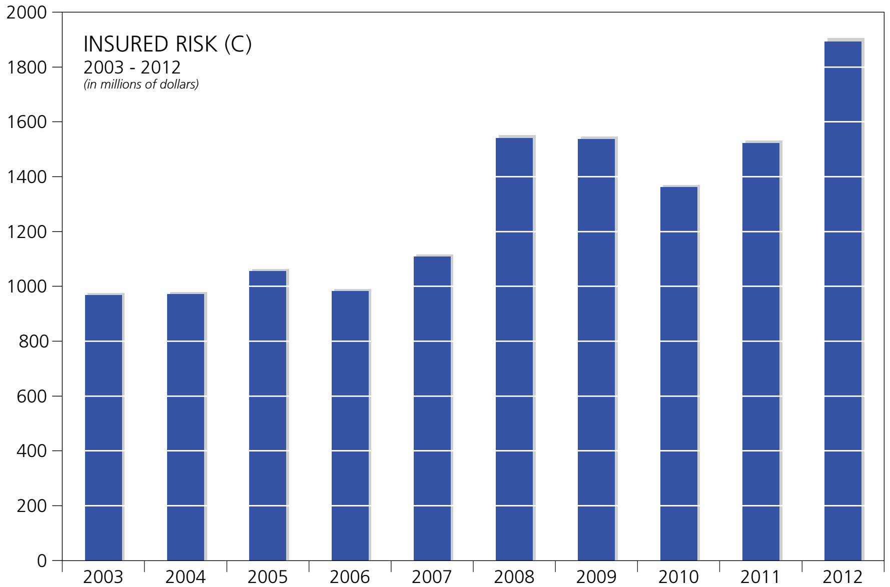
Respectfully submitted.

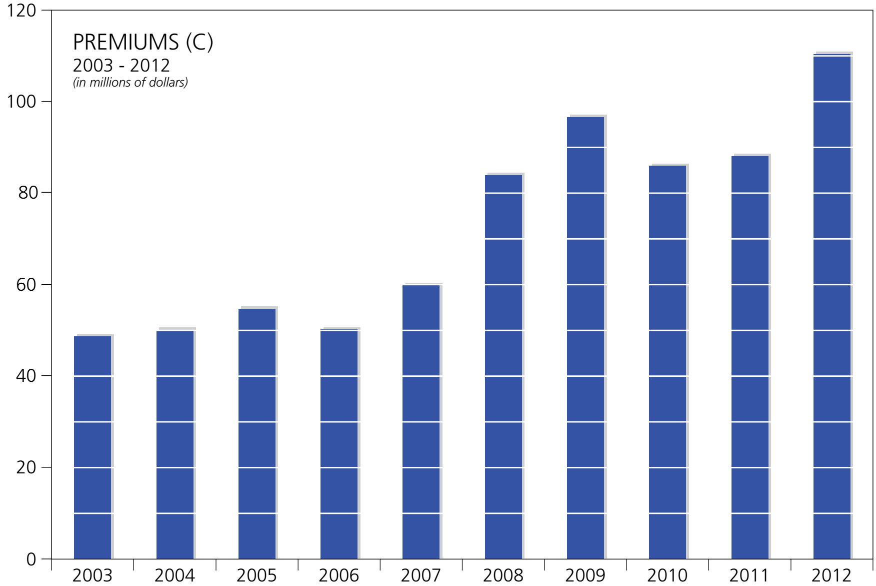
Signed on behalf of the Board.

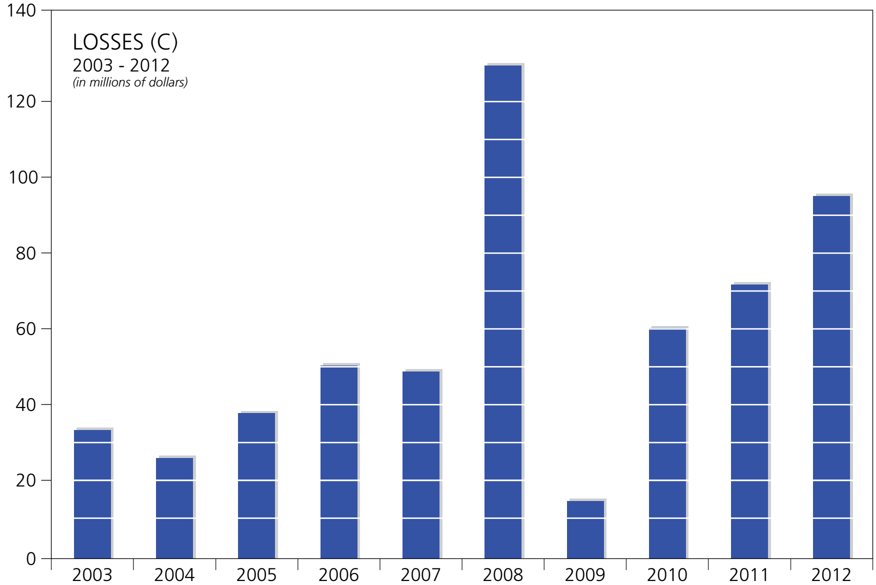
WAYNE BLACK, President
ARNOLD BOYKO, Vice-President

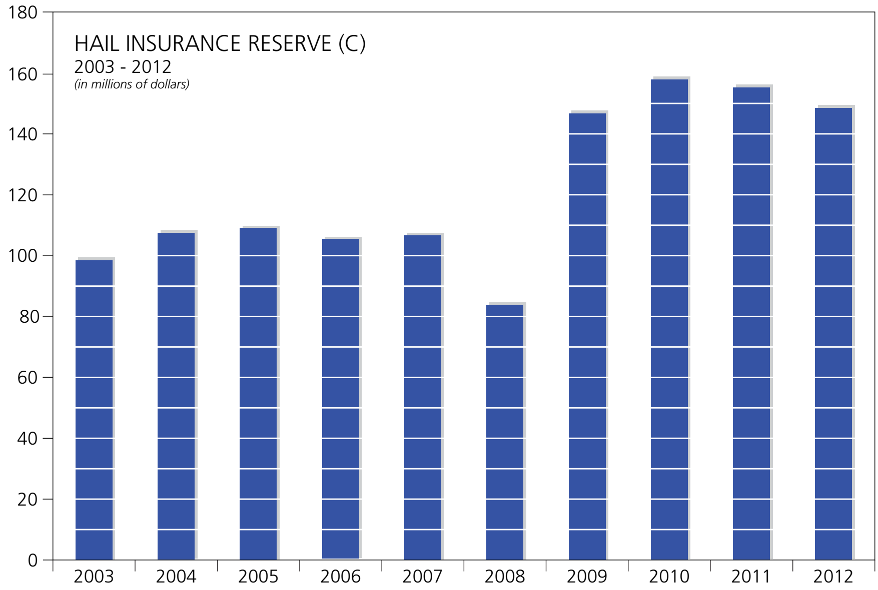
Regina, Saskatchewan
February 26th, 2013

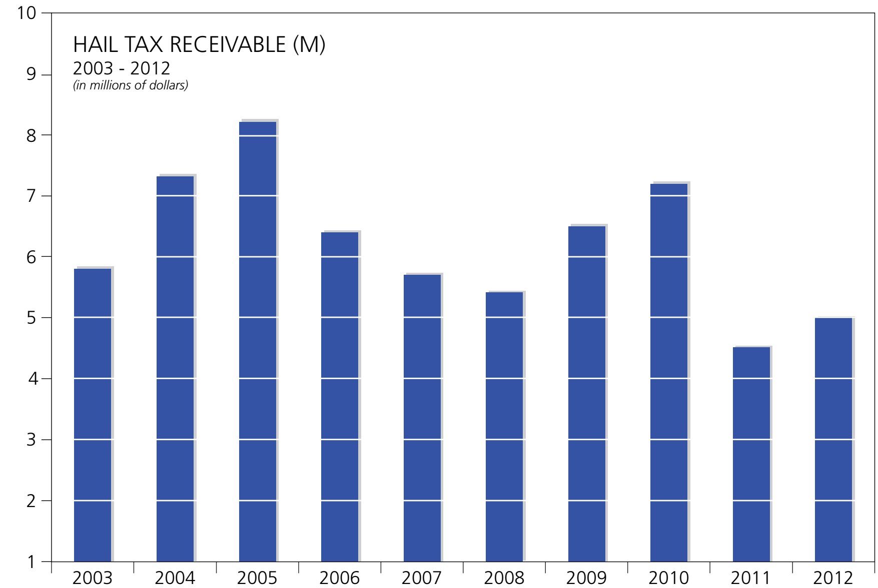

ACRES INSURED (C)
2003 - 2012
(in millions of acres)
18
16
14
12
10
8
6
4
2
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

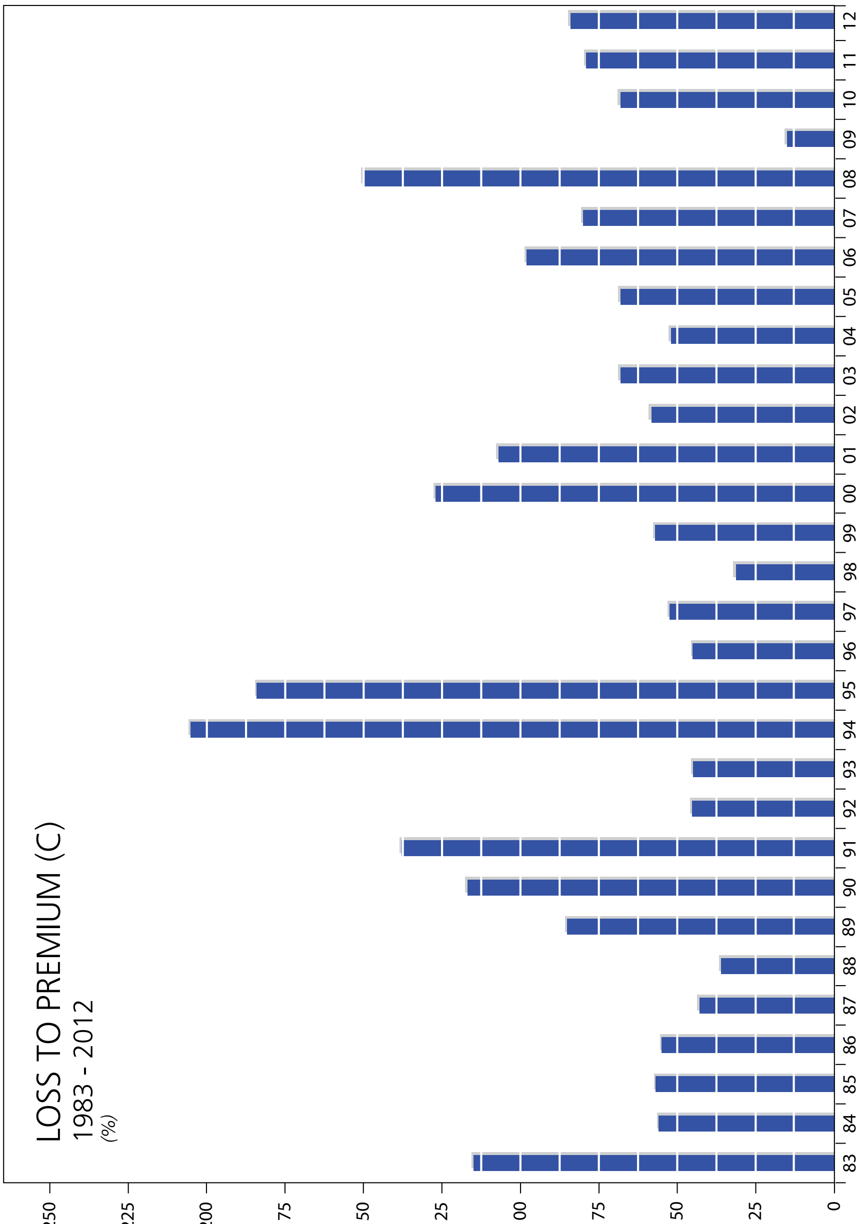

INSURED RISK (C)
2003 - 2012
(in millions of dollars)
2000
1800
1600
1400
1200
1000
800
600
400
200
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


PREMIUMS (C)
2003 - 2012
(in millions of dollars)
0
20
40
60
80
100
120
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


LOSSES (C)
2003 - 2012
(in millions of dollars)
0
20
40
60
80
100
120
140
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


HAIL INSURANCE RESERVE (C)
2003 - 2012
(in millions of dollars)
180
160
140
120
100
80
60
40
20
0
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


HAIL TAX RECEIVABLE (M)
2003 - 2012
(in millions of dollars)
10
9
8
7
6
5
4
3
2
1
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


LOSS TO PREMIUM (C)
1983 - 2012
(%)
250
225
200
175
150
125
100
75
50
25
0
83
84
85
86
87
88
89
90
91
92
93
94
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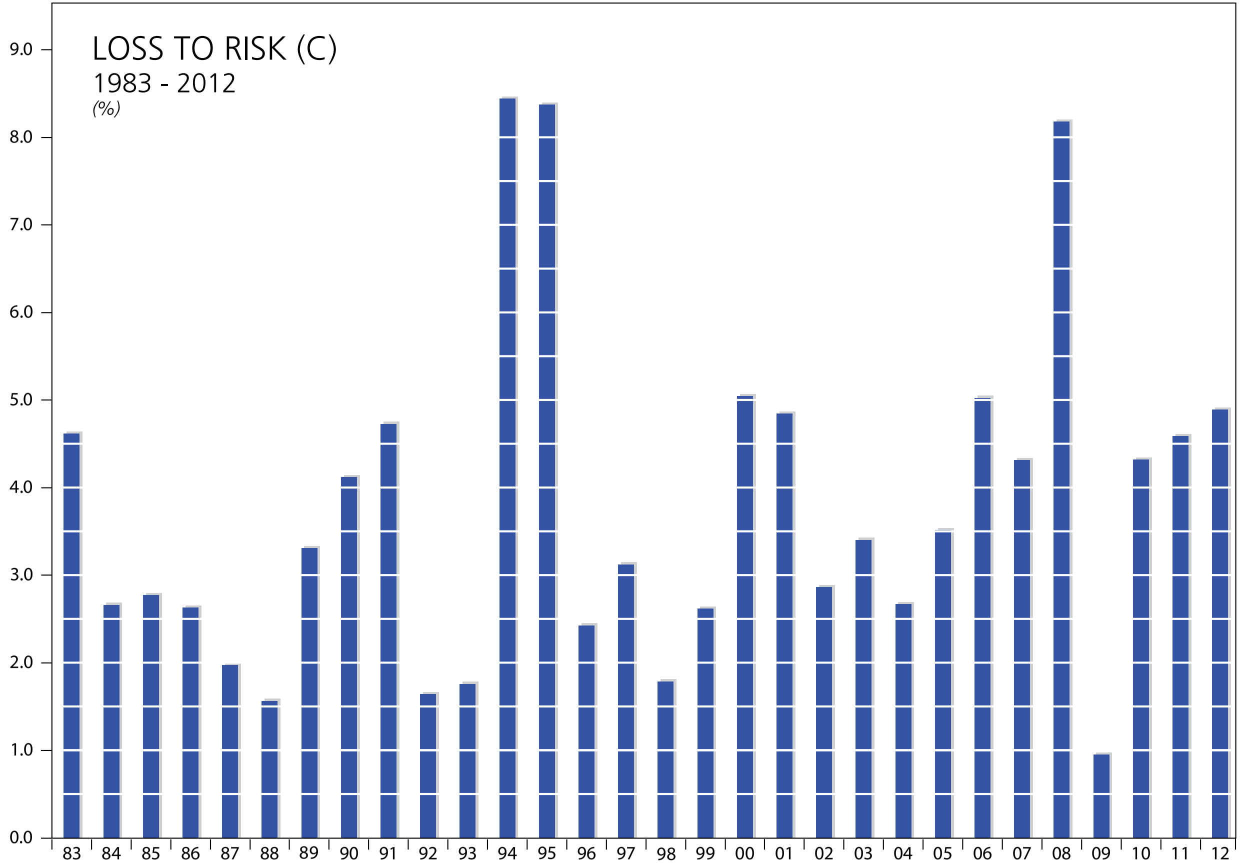
saskatchewan municipal hail insurance association



KPMG LLP

Chartered Accountants

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Regina, Saskatchewan, Canada S4P 4K9

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INDEPENDENT AUDITORS' REPORT

To the Directors,

We have audited the accompanying consolidated financial statements of Saskatchewan Municipal Hail Insurance Association, which comprise the consolidated statements of financial position as at January 31, 2013, January 31, 2012 and February 1, 2011, the consolidated statements of operations, changes in net assets, and cash flows for the years ended January 31, 2013 and January 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Saskatchewan Municipal Hail Insurance Association as at January 31, 2013, January 31, 2012 and February 1, 2011, and its consolidated financial performance and its consolidated cash flows for the years ended January 31, 2013 and January 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants

Regina, Canada
February 26, 2013

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Canada provides services to KPMG LLP.

consolidated
statement of financial position

as at:	January 31 2013	January 31 2012	February 1 2011
Assets			
Cash	**$ 30,209,166**	$ 28,575,671	$ 23,593,361
Investments (note 5)	**116,561,517**	123,904,699	128,124,932
Accrued interest on investments	**958,109**	962,776	1,056,247
Accounts receivable	**5,065,026**	4,511,073	7,187,453
Capital assets (note 6)	**1,473,967**	1,141,921	688,512
	$ 154,267,785	$ 159,096,140	$ 160,650,505
Liabilities and Net Assets			
Liabilities:			
Deferred indemnities	**$ 4,878,740**	$ 3,051,053	$ 2,175,379
Accounts payable	**787,309**	617,820	515,047
	5,666,049	3,668,873	2,690,426
Net Assets:			
Hail insurance reserve	**9,498,901**	9,498,901	11,301,205
Unrestricted	**139,102,835**	145,928,366	146,658,874
	148,601,736	155,427,267	157,960,079
Contingencies (note 11)			
	$ 154,267,785	$ 159,096,140	$ 160,650,505

See accompanying notes.

On behalf of the Board.

Wayne Black, Director

Arnold Boyko, Director

consolidated statement of operations

Year ended January 31, 2013, with comparative figures for 2012

	2013	2012
Revenue:		
Assessments and premiums	**$ 110,312,650**	$ 88,043,280
Statutory discounts	**(3,379,643)**	(2,720,130)
Penalties added	**241,744**	341,073
	107,174,751	85,664,223
Expenses:		
Indemnities	**92,615,761**	69,748,084
Reinsurance recovery	**(4,702,566)**	(2,124,979)
Reinsurance premiums	**18,430,951**	16,111,170
Payments to RM's and agents	**5,481,699**	3,818,586
Administration	**3,981,803**	3,619,801
Adjustment costs	**2,728,547**	2,718,695
	118,536,195	93,891,357
Net underwriting loss	**(11,361,444)**	(8,227,134)
Investment income (note 7)	**4,535,913**	5,694,322
Excess of expenses over revenue	**$ (6,825,531)**	$ (2,532,812)

See accompanying notes.

consolidated
statement of changes in net assets

Year ended January 31, 2013, with comparative figures for 2012

	Hail Insurance Reserve	Unrestricted Net Assets	Accumulated Other Comprehensive Income	Total Net Assets
Balance as at January 31, 2011 (Canadian GAAP)	$ 11,301,205	$ 136,492,352	$ 10,166,522	$ 157,960,079
First time adoption of Canadian not-for-profit accounting standards (note 3)	-	10,166,522	(10,166,522)	-
Balance as at February 1, 2011 (not-for-profit accounting standards)	11,301,205	146,658,874	-	157,960,079
Excess of expenses over revenue	-	(2,532,812)	-	(2,532,812)
Allocation to (from) hail insurance reserve	(1,802,304)	1,802,304	-	-
Balance as at January 31, 2012	9,498,901	145,928,366	-	155,427,267
Excess of expenses over revenue	-	(6,825,531)	-	(6,825,531)
Allocation to hail insurance reserve	-	-	-	-
Balance as at January 31, 2013	**$ 9,498,901**	**$ 139,102,835**	**$ -**	**$ 148,601,736**

See accompanying notes.

consolidated
statement of cash flows

Year ended January 31, 2013, with comparative figures for 2012

	2013	2012
Cash flows from (used in):		
Operations:		
Excess of expenses over revenue	**$ (6,825,531)**	$ (2,532,812)
Items not involving cash:		
Amortization of capital assets	**162,526**	349,540
Gain on sale of investments	**(350,032)**	(1,334,062)
Change in fair value of investments	**1,340,503**	1,029,076
Changes in non-cash operating items:		
Accounts receivable	**(553,953)**	2,676,380
Accrued interest on investments	**4,667**	93,471
Deferred indemnities	**1,827,687**	875,674
Accounts payable	**169,489**	102,773
	(4,224,644)	1,260,040
Investing:		
Proceeds on sale or maturity of investments	**16,510,434**	32,247,980
Purchase of investments	**(10,157,723)**	(27,722,761)
Purchase of capital assets	**(494,572)**	(802,949)
	5,858,139	3,722,270
Increase in cash	**1,633,495**	4,982,310
Cash, beginning of year	**28,575,671**	23,593,361
Cash, end of year	**$ 30,209,166**	$ 28,575,671

See accompanying notes.

notes to consolidated financial statements

January 31, 2013

1. Nature of operations:

Saskatchewan Municipal Hail Insurance Association (the Association) is incorporated under the authority of *The Municipal Hail Insurance Act* and its principal business is the provision of hail insurance in the Province of Saskatchewan. The Association has established a wholly-owned subsidiary Additional Municipal Hail Limited (AMHL) to provide spot loss hail insurance coverage.

2. Basis of preparation:

These consolidated financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations contained in Part III of the CICA Handbook. The Association's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP).

Canadian GAAP differs in some respect from Canadian accounting standards for not-for-profit organizations and the comparative figures for 2012 have been restated to reflect these adjustments. Any adjustments as a result of adopting Canadian accounting standards for not-for-profit organizations have been reflected in the Association's opening statement of financial position as at February 1, 2011, the transition date.

Certain information that is considered material to the understanding of the Association's consolidated financial statements along with reconciliations and descriptions of how the transition from Canadian GAAP to Canadian accounting standards for not-for-profit organizations has affected the reported financial position, financial performance and cash flows are provided in note 3.

3. First-time adoption of Canadian accounting policies for not-for-profit organizations:

The Association is required to determine its accounting policies under Canadian accounting policies for not-for-profit organizations and then apply them retrospectively to establish its opening statement of financial position.

notes to consolidated financial statements

January 31, 2013

3. First-time adoption of Canadian accounting policies for not-for-profit organizations (continued):

The only adjustment upon the adoption of Canadian accounting policies for not-for-profit organizations related to the classification of unrealized gains and losses on investments previously designated as available for sale financial instruments under Canadian GAAP. These unrealized gains and losses had previously been reported in comprehensive income and accumulated other comprehensive income. Under Canadian accounting policies for not-for-profit organizations these unrealized gains and losses are recorded in investment income and unrestricted net assets. The impact of this adjustment is to reclassify the $10,166,522 of accumulated other comprehensive income into unrestricted net assets as at February 1, 2011.

4. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary AMHL. All significant intercompany transactions have been eliminated.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Investments are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost.

Transaction costs incurred in the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

(c) Investments:

Investments are carried at fair value. The fair value of equities, mutual funds and income trusts is determined based on quoted market values, based on latest bid prices. The fair value of guaranteed investment certificates, bonds, notes and debentures is based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity.

notes to consolidated financial statements

January 31, 2013

4. Significant accounting policies (continued):

(d) Income taxes:

The Association is exempt from income taxes under paragraph 149 (1) (d) of *The Income Tax Act*.

(e) Capital assets:

Capital assets are stated at cost. Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Building	3%
Furniture and equipment	10% - 25%
Software	10% - 25%

(f) Assessments and premiums:

Assessments, which consist of amounts levied by rural municipalities, and premiums, which consist of policies written on a cash basis for additional insurance, are reported at the amount written less cancellations.

(g) Hail insurance reserve:

The Association's subsidiary has established a hail insurance reserve pursuant to Section 96 of *The Saskatchewan Insurance Act* which provides that AMHL annually set aside at least 50% of the profit realized from its hail insurance business in the year until the amount of the reserve is equal to at least 50% of the net hail insurance premiums written during the preceding calendar year, at which proportion the reserve shall be maintained.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 amount of revenue and expenses during the period. Actual results could differ from those estimates.

notes to consolidated financial statements

January 31, 2013

5. Investments:

The fair values of the Association's investments are as follows:

	2013	2012
Guaranteed investment certificates (GICs)	**$ 16,500,000**	$ 14,500,000
Federal government bonds	**4,654,950**	5,725,515
Provincial government bonds	**30,559,449**	34,363,314
Corporate bonds	**10,418,593**	11,766,470
Notes and debentures	**25,340,073**	27,707,524
	87,473,065	94,062,823
Mutual funds	**1,546,299**	2,089,126
Income trusts	**21,182,225**	24,074,103
Equities	**6,359,928**	3,678,647
	$ 116,561,517	$ 123,904,699

notes to consolidated financial statements

January 31, 2013

5. Investments (continued):

Details of significant terms and conditions, exposure to interest rates and credit risks of investments are as follows:

Term to maturity (years)	**2013** Fair value	**2013** Average effective rates	2012 Fair value	2012 Average effective rates
GICs:				
One or less	**$ 4,000,000**	**2.4%**	$ 2,000,000	2.3%
After one through five	**12,500,000**	**3.4%**	12,500,000	3.3%
Federal government bonds:				
One or less	**2,520,650**	**2.3%**	1,006,020	2.0%
After one through five	**1,029,860**	**2.5%**	3,598,505	2.4%
After five	**1,104,440**	**3.7%**	1,120,990	3.7%
Provincial government bonds:				
One or less	**909,076**	**9.1%**	2,439,128	5.6%
After one through five	**13,972,121**	**4.6%**	12,577,920	5.1%
After five	**15,678,252**	**4.9%**	19,346,266	4.7%
Corporate bonds:				
One or less	**517,809**	**2.8%**	1,001,000	3.6%
After one through five	**6,361,042**	**3.6%**	5,737,994	3.7%
After five	**3,539,742**	**5.2%**	5,027,476	5.0%
Notes and debentures:				
One or less	**1,995,136**	**2.7%**	1,684,530	-%
After one through five	**22,540,820**	**2.9%**	24,686,369	3.0%
After five	**804,117**	**-%**	1,336,625	-%
	$ 87,473,065		$ 94,062,823	

The fair value and effective interest rates are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or repay obligations with or without call or repayment penalties. Interest is generally receivable on a semi-annual basis.

The income trusts, equities and mutual funds have no fixed distribution rate. Returns are based on the success of the fund managers.

notes to consolidated
financial statements

January 31, 2013

5. Investments (continued):

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate.

The levels of the fair value hierarchy are:

Level 1 – where quoted prices are readily available from an active market.

Level 2 – valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – inputs for the asset or liability are not based on observable market data.

The following table illustrates the classification of the financial instruments within the fair value hierarchy as at January 31, 2013.

	2013		2012	
	Level 1	**Level 2**	Level 1	Level 2
GICs	**$ -**	**$ 16,500,000**	$ -	$ 14,500,000
Federal government bonds	**-**	**4,654,950**	-	5,725,515
Provincial government bonds	**-**	**30,559,449**	-	34,363,314
Corporate bonds	**-**	**10,418,593**	-	11,766,470
Notes	**3,994,780**	**13,338,688**	3,448,563	15,826,060
Other funds and securities	**37,095,057**	**-**	37,767,252	507,525
	$ 41,089,837	**$ 75,471,680**	$ 41,215,815	$ 82,688,884

During the year, no investments were transferred between levels.

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6. Capital assets:

			2013	2012
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Land	**$ 107,852**	**$ -**	**$ 107,852**	$ 107,852
Building	**1,088,737**	**756,602**	**332,135**	125,847
Furniture and equipment	**487,700**	**413,270**	**74,430**	78,517
Software	**1,536,313**	**576,763**	**959,550**	829,705
	$ 3,220,602	**$ 1,746,635**	**$ 1,473,967**	$ 1,141,921

Amortization expense of $162,526 (2012 - $349,540) was recorded in the current year and has been included in administration expense on the Statement of Operations.

7. Investment income:

	2013	2012
Investment income	**$ 5,526,384**	$ 5,389,336
Gain on sale of investments	**350,032**	1,334,062
Change in fair value of investments	**(1,340,503)**	(1,029,076)
	$ 4,535,913	$ 5,694,322

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8. Reinsurance:

The Association, together with its subsidiary, follows the policy of reinsuring their undertakings of indemnity and contracts of insurance of its subsidiary which limits the liability of the Association and its subsidiary from claims in any year. Undertakings of indemnity and contracts of insurance are in force from the date of the undertakings or contracts to October 31 in the same calendar year.

Ratio of loss from claims to risk insured	Risk remaining with the Association
Up to 4.70%	100.00%
From 4.70% to 4.80%	40.00%
From 4.80% to 5.00%	25.00%
From 5.00% to 15.00%	0.00%
Over 15.00%	100.00%

9. Financial risk management:

The nature of the Association's operations results in a balance sheet that consists primarily of financial assets and liabilities. The risks that arise are credit risk, market risk (consisting of equity price risk) and liquidity risk.

Significant financial risks are related to the Association's investments. These financial risks are managed by having a Statement of Investment Policy Guidelines which is approved annually by the Board of Directors. This policy provides guidelines to the investment manager for the asset mix of the portfolio using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes.

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9. Financial risk management (continued):

(a) Credit risk:

Credit risk represents the potential for loss resulting from a counterparty failing to meet its obligations.

The Association's credit risk arises primarily from certain investments. The maximum credit risk to which it is exposed at January 31, 2013 is limited to the fair value of the financial assets summarized as follows:

	2013	2012
	Fair value	Fair value
Cash	**$ 30,209,166**	$ 28,575,671
Investments[1]	**85,367,635**	92,816,068
	$ 115,576,801	$ 121,391,739

[1]Includes GICs, bonds, notes and debentures

Receivables are mostly due from rural municipalities for hail insurance premiums and under current legislation, the Association has the right to collect these premiums through taxes and tax enforcement; therefore, the Association does not have an allowance for doubtful accounts.

Credit risk within investments is primarily related to GICs, bonds, notes and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality along with limits to the maximum notional amount of exposure with respect to any one issuer.

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9. Financial risk management (continued):

Credit ratings for investments are as follows:

	2013	**2013**	2012	2012
Credit Rating	**Fair value**	**Makeup of portfolio (%)**	Fair value	Makeup of portfolio (%)
R1	**$ 16,500,000**	**19.3%**	$ 14,500,000	15.6%
AAA	**7,468,669**	**8.7%**	8,604,133	9.3%
AA+	**1,084,310**	**1.3%**	1,087,300	1.2%
AA	**10,921,731**	**12.8%**	12,204,170	13.2%
AA-	**17,973,782**	**21.0%**	20,946,426	22.6%
A+	**10,490,019**	**12.3%**	9,950,484	10.7%
A	**15,844,518**	**18.6%**	19,787,044	21.3%
A-	**5,084,606**	**6.0%**	5,412,286	5.8%
BBB	**-**	**-%**	126,225	0.1%
BB	**-**	**-%**	198,000	0.2%
Total	**$ 85,367,635**	**100.0%**	$ 92,816,068	100.0%

One issuer accounts for 16.4% (2012 – 16.7%) of the fair value of the portfolio.

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Association. Reinsurers' credit ratings range from AAA to BBB based on the recent ratings by Standard & Poor's and A.M. Best.

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9. Financial risk management (continued):

(b) Market risk:

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates and equity prices. Market risk primarily impacts the value of investments.

Income trusts and other equities comprise 23.6% (2012 – 22.4%) of the fair value of the Association's total investments. Individual holdings are diversified by geography, industry type and corporate entity.

(c) Liquidity risk:

Liquidity risk represents the potential for loss where a company is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, including deferred claims' liabilities and accounts payable, are short-term in nature, due within one year. The Association generally maintains positive overall cash flows through cash generated from operations, as well as cash generated from investing activities.

10. Capital management:

The Association's primary objectives when managing capital is to ensure adequate funding is available to pay claims, be flexible in its product offerings and support its growth strategies. The main source of capital is its hail insurance reserve and unrestricted assets. There were no changes to the Association's capital structure during the period.

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11. Contingencies:

In common with the insurance industry in general, the Association is subject to litigation arising in the normal course of conducting its insurance business. The Association is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Association.

12. Fair values:

The fair value of the Association's cash, accounts receivable, accrued interest on investments, deferred indemnity and accounts payable approximate their fair value due to their short term nature. The fair value of investments is disclosed in note 5.

13. Pension plan:

The Association's employees participate in the Municipal Employees Pension Plan, a multi-employer defined benefit pension plan. Pension costs of $119,178 (2012 - $184,047) are included in administration expense and comprise the employer contributions for current and past service of employees during the year. The Association's liability is limited to the required contributions.

14. Comparative figures:

Certain of the 2012 comparative figures have been reclassified to conform to current year presentation.

the farmer's dollar since 1917

Paid Out for Claims	83.2¢
Paid Out for Expenses	11.2¢
Reserve	(2.9)¢
Reinsurance	8.5¢