

2015

annual report



SASKATCHEWAN MUNICIPAL
HAIL INSURANCE ASSOCIATION

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 2016

Jim Moen, Cabri

Foster Warriner, Alameda

Pauline Ziehl Grimsrud, Estevan

ELECTED UNTIL 2017

Arnold Boyko, Watson

Ken McBride, Kindersley

Murray Purcell, Saskatoon

ELECTED UNTIL 2018

Maurice Berry, Carievale

Wayne Black, Tisdale

Blair Cummins, Blucher

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.

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directors' report

As presented to the Annual General Meeting of the Association in Regina, Saskatchewan, March 8, 2016)

Ladies and Gentlemen:

The Directors take pleasure in presenting the Ninety-ninth Annual Report with the Auditors' Report for the year ended December 31, 2015. Also included are the details of the Ninety-second Annual Report covering the operations of Additional Municipal Hail Limited (AMHL) for the year ended December 31, 2015.

By June 1, seeding was nearing completion in the province with 97% of the crop in the ground. Seeding progress was well ahead of the 5-year average of 73% seeded for this time of year.

Heavy frost the last week of May caused damage to crops and producers in some areas had to reseed as a result. Crop conditions varied across the province but most crops were generally in fair to good condition. Concerns about crop germination and emergence were prevalent in many areas that had not received much rainfall since April.

Crops were generally stressed until mid-July when the rain finally did come. The province was also engulfed in smoke from forest fires for nearly two weeks which may have prevented many crops from burning up in the summer heat until the rain came.

Rainfall throughout harvest caused sprouting, bleaching and staining in many cereal and pulse crops. Yields varied throughout the province and were reported as average in most cases. Yields for hard red spring wheat were reported at 37 bushels per acre, durum 38 bushels per acre, oats 85 bushels per acre, barley 59 bushels per acre, canola 34 bushels per acre, peas 31 bushels per acre and lentils 1,293 lb. per acre.

The 2015 harvest proved challenging for producers due to frequent rainfall, delayed maturity and secondary growth of weeds. By the end of October, 99% of the crop was in the bin.

The total area seeded to major grains, oil seeds and specialty crops was again approximately 35.4 million acres. Municipal Hail insured 13.5 million acres or 38.1% of the total seeded acres.

The minimum or basic indemnity limit offered by SMHI for landowners was again \$25 per acre and the maximum was \$200 per acre. 80% of the acres reported for coverage were insured under the full coverage option and the remaining acres were insured on a deductible coverage basis.

SMHI applications for cancellation of insurance due to losses of crop from causes other than hail numbered 55 and were received from 28 rural municipalities. A total of 20,046 acres were cancelled which in turn reduced the 2015 hail taxes by \$144,551.

SMHI tax collections totalled 101.5% of the 2015 hail taxes levied compared to 98.3% for 2014.

The 2015 hail season produced 98 storms versus 90 the previous year. Three major storms occurred on the following dates: June 12, July 22 and August 6 versus the 5 major storms of 2014. The largest storm of the season occurred on June 12. This storm ran from the western border to the eastern border of Saskatchewan affecting 53 municipalities in a line from Maple Creek to Maryfield. The most expensive storm date of the season was July 22 producing losses of \$7.4 million. The Rural Municipality of Grandview no. 349 experienced the most severe damage that day. The municipalities with the highest paid losses were the Rural Municipality of Lone Tree no. 18 and Frontier no. 19. Both had 4 storm dates producing indemnity payments of nearly \$3.3 million in each RM.

The severity of the 2015 claims was on average much lower than the previous season coming in at \$8,912 vs. \$14,258 in 2014. The total number of claims received was also down from the previous year.

A total of 4 fire claims were received during the season compared to 12 the previous year. Indemnity paid as a result of the fire claims amounted to \$13,853.

Indemnity paid by SMHI was \$31.9 million compared to \$60.2 million the previous year and represents 48% of the hail taxes levied compared to 80% recorded in 2014.

During the period 1917 through 2015, Municipal Hail has paid indemnities amounting to 78.3¢ of each hail tax dollar levied.

2015 was the first year that AMHL provided crop hail insurance coverage outside of Saskatchewan. One policy insuring 100 acres of crop was issued in Manitoba and 8 policies insuring 7,991 acres of crop were issued in Alberta generating a total of \$112,000 of premium.

AMHL indemnities paid were \$9.6 million compared to 2014 where indemnities paid totalled \$14.7 million. The loss to premium ratio was 52% compared to 73% recorded in 2014.

In the Association's 99 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided \$36.8 billion of coverage and paid losses totalling \$1.4 billion. In 2015, the Association provided \$1.8 billion of coverage and paid losses of \$41.5 million.

Director Arnold Petracek of Esterhazy announced his retirement after serving 40 years on the Board. Mr. Petracek was first elected to the Board in 1975. Arnold also held the position of Vice-President and Member of the Executive Committee during his tenure. Thank you for your contributions Arnold and we wish you and Joan all the best in your future endeavours.

Directors Maurice Berry of Carievale and Wayne Black of Tisdale were elected for an additional three year term. Blair Cummins of Blucher was elected to his first three year term at the 2015 Annual Meeting. Director Cummins is a councillor in the Rural Municipality of Blucher no. 343.

Gloria Muzzin was acknowledged for 25 years of service with the Association in 2015

We would like to take this opportunity to extend our sincere appreciation to the Rural Municipalities and their Administrators for their continued support and willing assistance in providing sound crop hail protection for farmers and landowners. We also want to thank our office and field staff for their efficient and dedicated service in 2015.

statistics

The following is a comparison of the years 2015 and 2014:

| | SMHI | Agent | AMHL Direct | 2015 | 2014 |
|------------------------|-----------------|---------------|----------------|------------------------|-----------------|
| Total Risk | \$1,411,787,582 | \$386,446,802 | \$20,392,487 | \$1,818,626,871 | \$1,852,150,444 |
| Hail Taxes/Premiums | \$66,215,985 | \$17,402,802 | \$951,501 | \$84,570,288 | \$95,381,280 |
| Indemnity Paid | \$31,879,791 | \$9,260,575 | \$308,435 | \$41,448,801 | \$74,928,100 |
| Average Charged Rate | 4.69% | 4.50% | 4.67% | 4.65% | 5.15% |
| Number of Claims | 3,818 | 801 | 32 | 4,651 | 5,255 |
| Loss to Risk | 2.26% | 2.40% | 1.51% | 2.28% | 4.05% |
| Loss to Taxes/Premiums | 48.15% | 53.21% | 32.42% | 49.01% | 78.56% |
| Average Cost per Claim | \$8,350 | \$11,561 | \$9,639 | \$8,912 | \$14,258 |

Basic crop rates by township varied from a low of 2.0% to a high of 9.0% of risk. SMHI insured 11,456,108 acres in 2015, compared to 11,576,741 acres in 2014. The basic indemnity available in 2015 was \$25 per acre and the maximum was \$200 per acre.

The following information details the transactions regarding the continuing feature of SMHI:

| | 2015 | 2014 |
|---|--------------|------|
| Assessment Applications Received | 674 | 663 |
| Withdrawal Applications Received | 1,009 | 990 |
| Applications for Cancellation of Insurance due to loss of crop from causes other than hail | 55 | 136 |
| Applications for Exemption of Crops | 203 | 204 |

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

JIM MOEN

FOSTER WARRINER

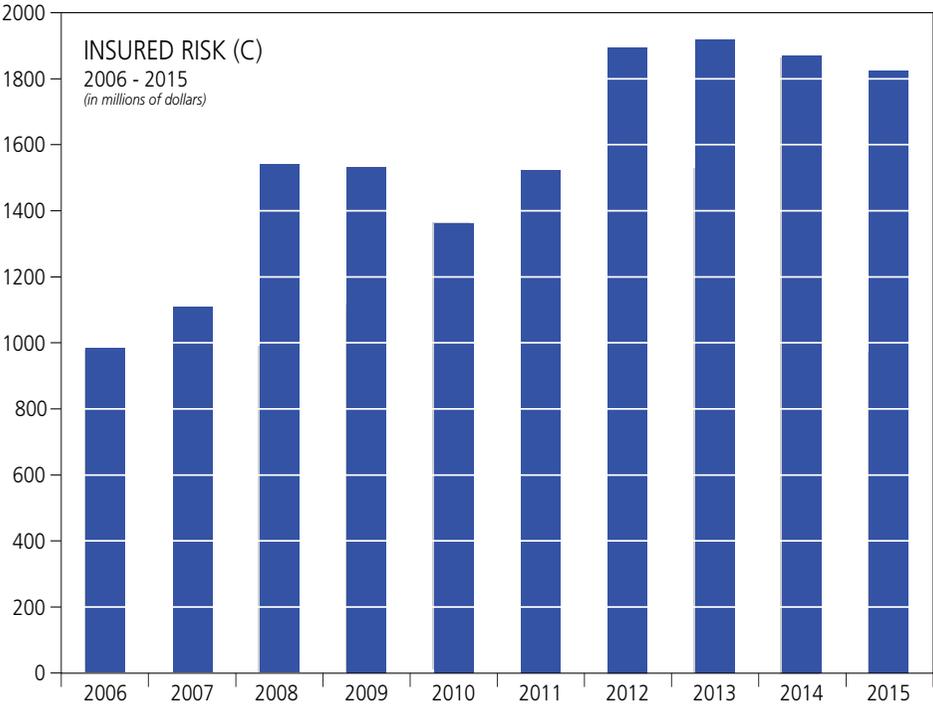
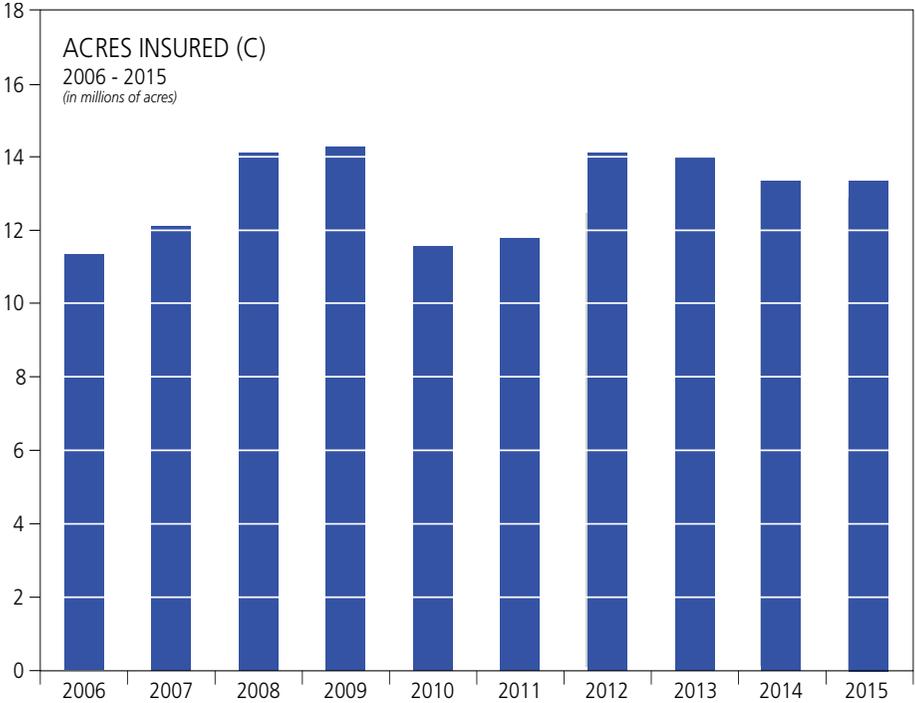
PAULINE ZIEHL GRIMSRUD

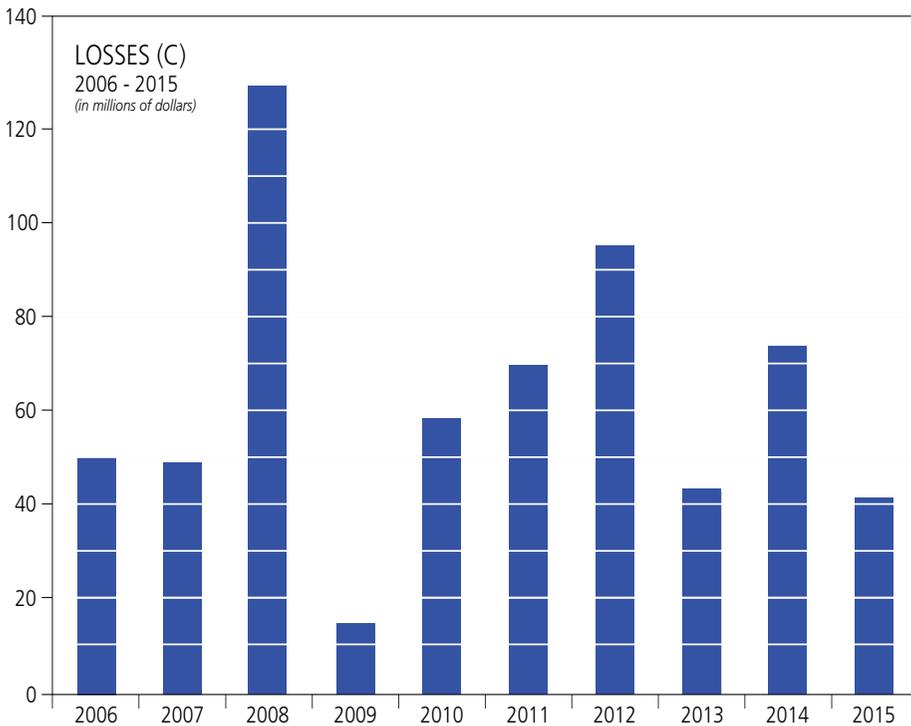
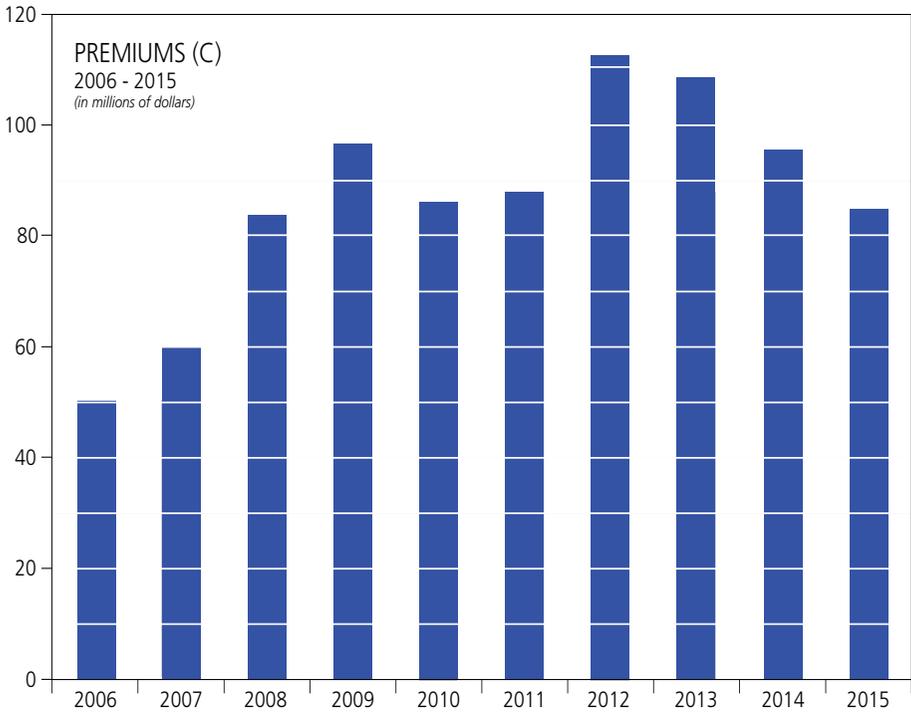
Respectfully submitted.

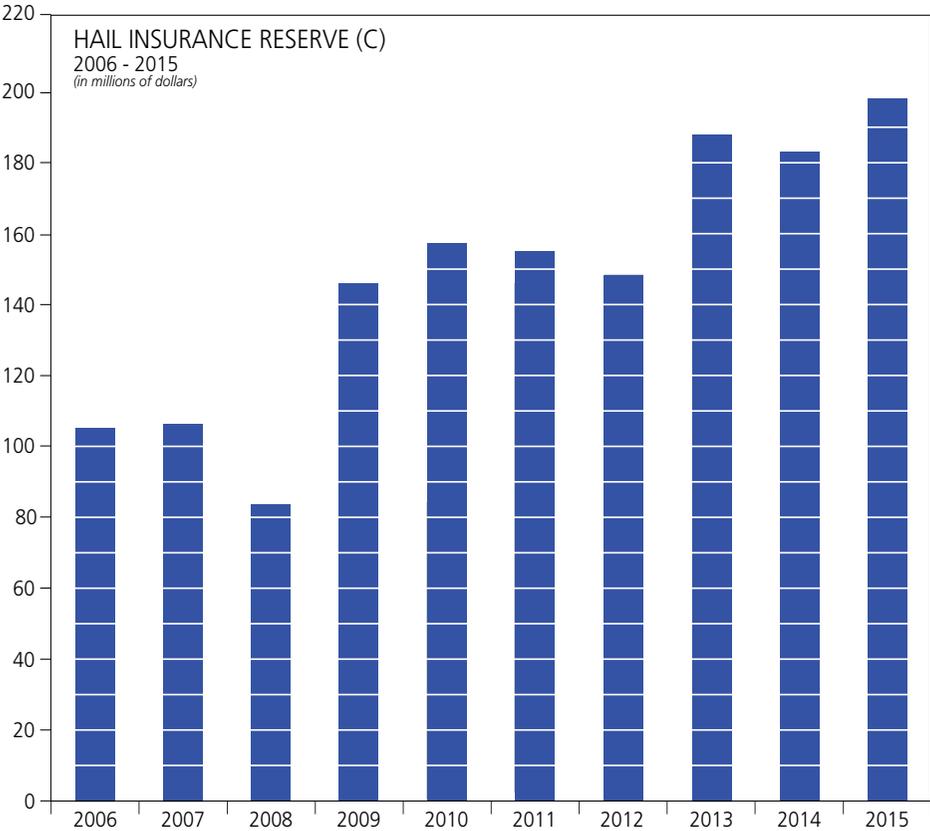
Signed on behalf of the Board.

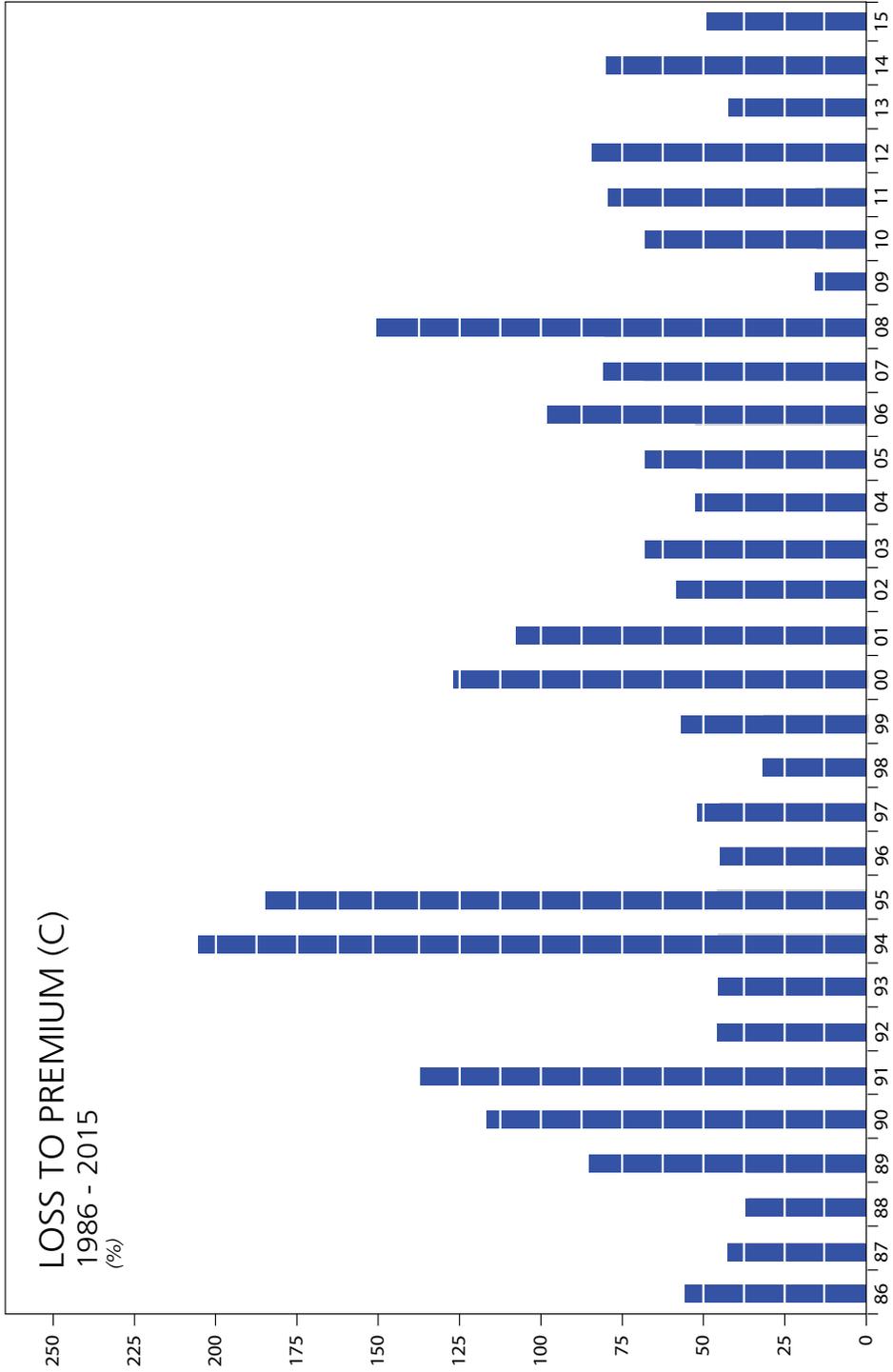
WAYNE BLACK, President
ARNOLD BOYKO, Vice-President

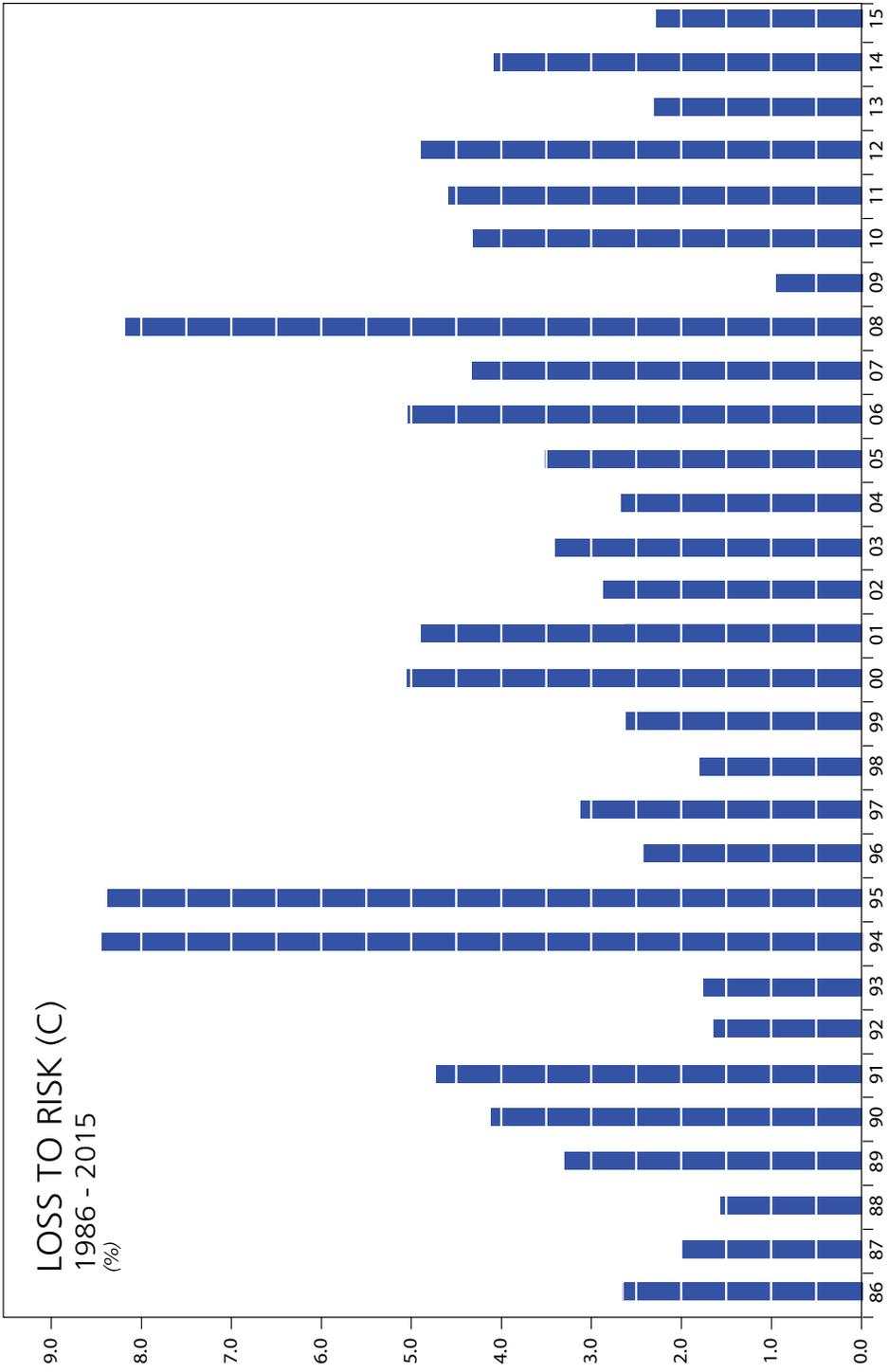
Regina, Saskatchewan
February 25th, 2016













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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 statement of financial position as at December 31, 2015, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, 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 audit 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 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 December 31, 2015, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Chartered Professional Accountants

February 25, 2016
Regina, Canada

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.

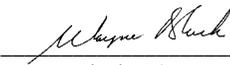
consolidated statement of financial position

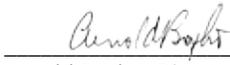
as at December 31:

| | <u>2015</u> | <u>2014</u> |
|-----------------------------------|-----------------------|-----------------------|
| Assets | | |
| Cash | \$ 37,586,886 | \$ 32,673,000 |
| Investments (note 4) | 149,854,399 | 143,985,739 |
| Accrued interest on investments | 1,245,446 | 1,188,667 |
| Accounts receivable | 15,289,045 | 18,042,083 |
| Capital assets (note 5) | 1,313,256 | 1,619,433 |
| | <u>\$ 205,289,032</u> | <u>\$ 197,508,922</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Deferred indemnities | \$ 5,492,682 | \$ 12,905,757 |
| Accounts payable | 623,031 | 771,454 |
| | <u>6,115,713</u> | <u>13,677,211</u> |
| Net Assets: | | |
| Hail insurance reserve | 10,078,360 | 12,392,779 |
| Unrestricted | 189,094,959 | 171,438,932 |
| | <u>199,173,319</u> | <u>183,831,711</u> |
| Contingencies (note 10) | <u>\$ 205,289,032</u> | <u>\$ 197,508,922</u> |

See accompanying notes.

On behalf of the Board.


Wayne Black, Director


Arnold Boyko, Director

consolidated statement of operations

For the year ended December 31, 2015, with comparative figures for 2014

| | <u>2015</u> | <u>2014</u> |
|--|-----------------------------|-----------------------|
| Revenue: | | |
| Assessments and premiums | \$ 84,570,288 | \$ 95,381,280 |
| Statutory discounts | (2,625,028) | (2,842,582) |
| Penalties added | 278,936 | 197,878 |
| | <u>82,224,196</u> | <u>92,736,576</u> |
| Expenses: | | |
| Indemnities | 41,448,801 | 74,928,100 |
| Reinsurance premiums | 11,804,035 | 13,493,515 |
| Payments to RM's and agents | 4,700,072 | 4,971,302 |
| Administration | 4,201,359 | 3,961,091 |
| Adjustment costs | 2,025,493 | 2,674,772 |
| | <u>64,179,760</u> | <u>100,028,780</u> |
| Net underwriting income (loss) | <u>18,044,436</u> | <u>(7,292,204)</u> |
| Investment income (loss) (note 6) | (2,702,828) | 3,944,335 |
| Excess (deficiency) of revenue over expenses | <u>\$ 15,341,608</u> | <u>\$ (3,347,869)</u> |

See accompanying notes.

consolidated statement of changes in net assets

For the year ended December 31, 2015, with comparative figures for 2014

| | <u>2015</u> | <u>2014</u> |
|--|------------------------------|------------------------------|
| Hail insurance reserve: | | |
| Balance, beginning of year | \$ 12,392,779 | \$ 12,392,779 |
| Allocation to unrestricted net assets | (2,314,419) | - |
| | <u>10,078,360</u> | <u>12,392,779</u> |
| Balance, end of year | | |
| Unrestricted net assets: | | |
| Balance, beginning of year | 171,438,932 | 174,786,801 |
| Excess (deficiency) of revenue over expenses | 15,341,608 | (3,347,869) |
| Allocation from hail insurance reserve | 2,314,419 | - |
| | <u>189,094,959</u> | <u>171,438,932</u> |
| Balance, end of year | | |
| Total net assets | <u>\$ 199,173,319</u> | <u>\$ 183,831,711</u> |

See accompanying notes.

consolidated statement of cash flows

For the year ended December 31, 2015, with comparative figures for 2014

| | <u>2015</u> | <u>2014</u> |
|--|-----------------------------|----------------------|
| Cash flows from (used in): | | |
| Operations: | | |
| Excess (deficiency) of revenue over expenses | \$ 15,341,608 | \$ (3,347,869) |
| Items not involving cash: | | |
| Amortization of capital assets | 333,045 | 337,361 |
| Gain on sale of investments | (663,450) | (240,264) |
| Change in fair value of investments | 9,669,162 | 2,424,725 |
| Changes in non-cash operating items: | | |
| Accounts receivable | 2,753,038 | 424,336 |
| Accrued interest on investments | (56,779) | (238,314) |
| Deferred indemnities | (7,413,075) | 5,393,538 |
| Accounts payable | (148,423) | 5,256 |
| | <u>19,815,126</u> | <u>4,758,769</u> |
| Investing: | | |
| Proceeds on sale or maturity of investments | 26,250,247 | 32,993,046 |
| Purchase of investments | (41,124,619) | (48,568,765) |
| Purchase of capital assets | (26,868) | (504,305) |
| | <u>(14,901,240)</u> | <u>(16,080,024)</u> |
| Increase (decrease) in cash | 4,913,886 | (11,321,255) |
| Cash, beginning of year | 32,673,000 | 43,994,255 |
| Cash, end of year | <u>\$ 37,586,886</u> | <u>\$ 32,673,000</u> |

See accompanying notes.

notes to consolidated financial statements

December 31, 2015

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 two wholly-owned subsidiaries, Additional Municipal Hail Limited (AMHL) to provide spot loss hail insurance coverage and Prairie Municipal Hail Limited (PMHL) to act as an agency for AMHL.

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 CPA Handbook.

3. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiaries, AMHL and PMHL. 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.

(d) Income taxes:

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

notes to consolidated financial statements

December 31, 2015

3. Significant accounting policies (continued):

(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, AMHL, has established a hail insurance reserve pursuant to Section 96 of *The Saskatchewan Insurance Act* which provides that it 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

December 31, 2015

4. Investments:

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

| | 2015 | 2014 |
|---|-----------------------|----------------|
| Guaranteed investment certificates (GICs) | \$ 34,500,000 | \$ 33,000,000 |
| Bonds, debentures and notes: | | |
| Federal government | 1,157,817 | 2,107,020 |
| Provincial government | 23,721,616 | 25,465,902 |
| Corporate | 40,109,545 | 37,359,644 |
| | 99,488,978 | 97,932,566 |
| Other funds and securities ¹ | 50,365,421 | 46,053,173 |
| | \$ 149,854,399 | \$ 143,985,739 |

¹Includes mutual funds, income trusts and equities

notes to consolidated financial statements

December 31, 2015

4. 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 December 31, 2015.

| | 2015 | 2015 | 2014 | 2014 |
|------------------------------|----------------------|----------------------|---------------|---------------|
| | Level 1 | Level 2 | Level 1 | Level 2 |
| GICs | \$ - | \$ 34,500,000 | \$ - | \$ 33,000,000 |
| Bonds, debentures and notes: | | | | |
| Federal government | - | 1,157,817 | - | 2,107,020 |
| Provincial government | - | 23,721,616 | - | 25,465,902 |
| Corporate | 15,834,726 | 24,274,819 | 8,349,733 | 29,009,911 |
| Other funds and securities | 39,821,273 | 10,544,148 | 41,184,351 | 4,868,822 |
| | \$ 55,655,999 | \$ 94,198,400 | \$ 49,534,084 | \$ 94,451,655 |

During the period, no investments were transferred between levels.

notes to consolidated financial statements

December 31, 2015

4. Investments (continued):

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

| | 2015 | 2015 | 2014 | 2014 |
|------------------------------|----------------------|------------------------|----------------------|------------------------|
| | | Average effective rate | | Average effective rate |
| Term to maturity (years) | Fair value | rate | Fair value | rate |
| GICs: | | | | |
| One or less | \$ 9,500,000 | 2.7% | \$ 8,500,000 | 2.9% |
| After one through five | 25,000,000 | 3.0% | 24,500,000 | 2.2% |
| Bonds, debentures and notes: | | | | |
| Federal government: | | | | |
| One or less | - | -% | 1,006,190 | 2.5% |
| After one through five | 1,157,817 | 3.9% | - | -% |
| After five | - | -% | 1,100,830 | 3.7% |
| Provincial government: | | | | |
| One or less | 4,059,730 | 3.5% | 1,527,420 | 3.7% |
| After one through five | 15,702,951 | 3.7% | 16,415,632 | 3.6% |
| After five | 3,958,935 | 7.4% | 7,522,850 | 5.9% |
| Corporate: | | | | |
| One or less | 16,800,659 | 3.5% | 5,963,153 | 3.6% |
| After one through five | 17,700,094 | 3.2% | 26,714,809 | 3.1% |
| After five | 5,608,792 | 2.6% | 4,681,682 | 2.9% |
| | \$ 99,488,978 | | \$ 97,932,566 | |

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

December 31, 2015

5. Capital assets:

| | | | 2015 | 2014 |
|-------------------------|---------------------|--------------------------|---------------------|---------------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | \$ 107,852 | \$ - | \$ 107,852 | \$ 107,852 |
| Building | 1,088,737 | 796,436 | 292,301 | 305,579 |
| Furniture and equipment | 948,582 | 634,916 | 313,666 | 438,878 |
| Software | 1,690,295 | 1,090,858 | 599,437 | 767,124 |
| | \$ 3,835,466 | \$ 2,522,210 | \$ 1,313,256 | \$ 1,619,433 |

Amortization expense of \$333,045 (2014 - \$337,361) was recorded in the current year and has been included in administration expense on the Statement of Operations.

6. Investment income (loss):

| | 2015 | 2014 |
|-------------------------------------|-----------------------|---------------------|
| Investment income | \$ 6,302,884 | \$ 6,128,796 |
| Gain on sale of investments | 663,450 | 240,264 |
| Change in fair value of investments | (9,669,162) | (2,424,725) |
| | \$ (2,702,828) | \$ 3,944,335 |

notes to consolidated financial statements

December 31, 2015

7. Reinsurance:

The Association, together with its subsidiary, AMHL, 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 5.00% | 100.00% |
| From 5.00% to 5.10% | 40.00% |
| From 5.10% to 15.00% | 0.00% |
| Over 15.00% | 100.00% |

8. Financial risk management:

The nature of the Association's operations results in a Statement of Financial Position 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.

notes to consolidated financial statements

December 31, 2015

8. 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 December 31, 2015 is limited to the fair value of the financial assets summarized as follows:

| | 2015 | 2014 |
|---------------------------------|-----------------------|----------------|
| | Fair value | Fair value |
| Cash | \$ 37,586,886 | \$ 32,673,000 |
| Investments ¹ | 99,569,910 | 97,515,711 |
| Accrued interest on investments | 1,245,446 | 1,188,667 |
| Accounts receivable | 15,289,045 | 18,042,083 |
| | \$ 153,691,287 | \$ 149,419,461 |

¹Includes 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.

notes to consolidated financial statements

December 31, 2015

8. Financial risk management (continued):

Credit ratings for investments are as follows:

| Credit Rating | 2015 | 2015 | 2014 | 2014 |
|---------------|---------------------|-------------------------|--------------|-------------------------|
| | Fair value | Makeup of portfolio (%) | Fair value | Makeup of portfolio (%) |
| R1 | \$34,500,000 | 34.6% | \$33,000,000 | 33.8% |
| AAA | 4,025,602 | 4.0% | 7,572,832 | 7.8% |
| AA+ | 4,451,341 | 4.5% | 2,361,832 | 2.4% |
| AA | 4,876,659 | 4.9% | 2,963,974 | 3.0% |
| AA- | 6,458,177 | 6.5% | 18,209,181 | 18.7% |
| A+ | 25,102,881 | 25.2% | 21,845,164 | 22.4% |
| A | 3,608,250 | 3.6% | 4,537,411 | 4.7% |
| A- | 7,427,903 | 7.5% | 4,228,467 | 4.3% |
| BBB+ | 5,334,937 | 5.4% | 2,796,850 | 2.9% |
| BBB | 3,784,160 | 3.8% | - | -% |
| Total | \$99,569,910 | 100.0% | \$97,515,711 | 100.0% |

One issuer accounts for 12.6% (2014 – 10.6%) 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.

(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 33.6% (2014 – 26.4%) 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 an entity 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 indemnities 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.

notes to consolidated financial statements

December 31, 2015

9. 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.

10. 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.

11. Fair values:

The fair value of the Association's cash, accounts receivable, accrued interest on investments, deferred indemnities and accounts payable approximate their fair value due to their short term nature. The fair value of investments is disclosed in note 4.

12. Pension plan:

The Association's employees participate in the Municipal Employees Pension Plan, a multi-employer defined benefit pension plan. Pension costs of \$126,935 (2014 - \$129,743) are included in administration expense and comprise the employer contributions for current and past service of employees during this period. The Association's liability is limited to the required contributions.

13. Comparative figures:

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

the farmer's dollar since 1917



| | |
|-----------------------|-------|
| Paid Out for Claims | 78.3¢ |
| Paid Out for Expenses | 13.1¢ |
| Reserve | 0.1¢ |
| Reinsurance | 8.5¢ |