

# 19

## Saskatchewan Municipal Hail Insurance

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2019 Annual Report



**SMHI**

SASKATCHEWAN  
MUNICIPAL HAIL  
INSURANCE

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"The 1917 Municipal Hail Insurance Act made provision for the hail insurance business heretofore conducted by the Hail Insurance Commission to be operated by an Association to be known as 'The Saskatchewan Municipal Hail Insurance Association' with an elected board of nine directors. The original name has officially continued through the years without any change, but has been 'unofficially' shortened to the more popular name 'Municipal Hail'."

Excerpt from "A History of The Saskatchewan  
Municipal Hail Insurance Association"

## OFFICERS & MANAGEMENT STAFF

President	Wayne Black
Vice-President	Ken McBride
Member of Executive Committee	Foster Warriner
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Field Operations Manager	Darryl Tiefenbach
Office Manager	Lise Nargang

## DIRECTORS

### ELECTED UNTIL 2020

Arnold Boyko, Watson  
Ken McBride, Kindersley  
Murray Purcell, Saskatoon

### ELECTED UNTIL 2021

Maurice Berry, Carievale  
Wayne Black, Tisdale  
Blair Cummins, Blucher

### ELECTED UNTIL 2022

John Wagner, Maple Creek  
Foster Warriner, Alameda  
Pauline Ziehl Grimsrud, Torquay

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.

# 2020 Annual General Meeting

## AGENDA

**7:45 - 8:30**

Delegates' Registration & Breakfast

**8:30 Call to Order**

Chairman's remarks & introduction of Directors

Adoption of Agenda

Adoption of minutes of last Annual Meeting

President's Report

Nomination for Election of Directors (closes at 9:00 am)

Speeches by Nominators & Candidates & election (where required)

CEO's Report & introduction of Staff

Reading & discussion of the Combined Auditors' Report

Resolutions & Other Business

Adjournment



**Wayne Black**  
President



**Ken McBride**  
Vice-President



**Foster Warriner**  
Exec. Comm. Member



**Arnold  
Boyko**



**Murray  
Purcell**



**Pauline  
Ziehl Grimsrud**



**Maurice  
Berry**



**Blair  
Cummins**



**John  
Wagner**



**Rodney Schoettler**  
Chief Executive Officer

## directors' report

(As presented to the Annual General Meeting of the Association in Regina, Saskatchewan, March 10, 2020)

Ladies and Gentlemen:

The Directors take pleasure in presenting the one hundred and third Annual Report with the Consolidated Auditors' Report for the year ended December 31, 2019. Also included are the details of the ninety-sixth Annual Report covering the operations of Additional Municipal Hail Limited (AMHL) for the year ended December 31, 2019.

The 2019 season will go down in history as a grind.

The season started out quite normal, with seeding across the province beginning the last week of April and wrapping up in mid-June. Approximately 37.1 million acres were seeded to major grains, oil seeds and specialty crops, of which Municipal Hail insured 13.9 million or 37.5% of the total seeded acres.

Throughout the month of May producers experienced cool and dry weather, which allowed for no disruption to seeding operations, but delayed germination and led to patchy emergence and crops in varying stages of growth. Precipitation would come in no form for most producers and Municipal Hail would see one of the lightest Mays on record with only a single hail claim being filed.

Soil conditions remained dry in most areas until mid to late June when the rains finally came. At the time of the SMHI Crop Report filing deadline of June 15th many producers were still uncertain whether or not their crop would be viable. When producers filed their crop reports they were again offered the basic indemnity of \$25 per acre and an increased maximum of \$275 per acre (up from the previous maximum of \$250 per acre).

Even with the increase to the maximum indemnity, SMHI would see producers (on average) insure their crops at a lesser value than normal, which resulted in a reduction of its business written which totalled \$1.54 billion in comparison to the prior year total of \$1.63 billion. SMHI also saw a large increase in applications for cancellation of insurance due to loss of crop from causes other than hail. The total number of cancellations received totalled 80 compared to the previous years' total of 28. These cancellations were received from 47 rural municipalities (RMs) for a total of 25,830 acres cancelled, which in turn reduced the 2019 hail taxes by \$76,994.

Eighty-six percent of the acres reported for coverage were insured under the full coverage option with the remaining acres being insured on a deductible coverage basis.

Hot weather in July followed the June rain and helped to advance the maturity of crops, still at the end of July some crops were estimated to be one to two weeks behind normal development. The hot weather was accompanied by several hail storms throughout the month. The season's first major hail storm on July 1st saw claims come from 76 RMs for a combined loss of \$6.2 million. The next major storms hit 85 RMs and caused \$15.1 million of damage on July 13th and 14th and 75 RMs totalling losses of \$5.2 million July 18th. After all was said and done, the month of July produced storms on 29 days out of 31, damaging 1.9 million acres for a total loss of \$50.8 million.

Harvest began in the south at the beginning of August, but untimely rain and cool weather caused further delays, allowing for only 11% of the crop in the province to be harvested by the end of the month. Hail activity was down in August producing storms on 23 days, damaging 495,000 acres for a total loss of \$9.0 million.

September began much the same as August ended for most of the province with cool, wet weather, but by mid-month warm weather accompanied by wind allowed harvest to resume. This warm weather brought with it the most devastating September storms of recent memory. September produced 23 storms and damaged 672,021 acres for a total loss of \$18.8 million. This far exceeded the prior five years'

(2014-2018) September average of \$2.3 million and was even greater than the sum of the September losses in those years, which was \$11.4 million. At the end of the month snow would fall in the southern part of the province further delaying harvest operations. The snow would also make it more difficult to adjust the hail claims that were still outstanding. Not only was it difficult for adjusters to get around after the snow saturated the ground, but conducting loss adjustments became very trying as the snow caused further damage to the already hailed crop.

At the beginning of October there was still over 50% of the crop in the province left to be harvested, but relatively warm, dry weather allowed producers to make good progress and by the end of the month over 90% of the crop was in the bin. Although there were not many storms in the month of October (a total of six storms on just over 4,000 acres) the Municipal Hail adjusting staff were still busy at work for most of the month completing loss adjustments on the last of the September claims.

By mid-November approximately 93% of the crop had been harvested, but cool and wet conditions halted most harvest operations. Much of the crop harvested this fall had to be taken tough or damp and put into aeration or a grain dryer, as Mother Nature would not provide for ideal harvest conditions. It was estimated that over 1.5 million acres remained un-harvested and would be dealt with in the spring.

The 2019 season was the most active and severe Municipal Hail had seen in recent years with storms occurring on 103 days. The number of claims received totalled 7,321 versus the five-year average of 5,429 and acres claimed of 3,316,752 exceeded the five-year average of 2,396,087. The storms themselves were also slightly more severe with the cost per claim coming in at \$11,388 versus the five-year average of \$10,996.

The heaviest volume of hail fell in the Rural Municipality of Snipe Lake No. 259 which received 110 claims on 56,241 acres totalling losses of \$4.0 million. The next on the list were the RM of Ituna Bon Accord No. 246 producing losses of \$2.5 million, RM of Oakdale No. 320 with losses of \$1.6 million and the RM's of Redburn No. 130 and Grandview No. 349 each recording losses of \$1.5 million on the season.

Fire claims for the season totalled 8, which was down from the 14 fire claims recorded in the previous season. Indemnity paid as a result of the fire claims amounted to just over \$113,000.

SMHI hail tax collections totalled 99% of the 2019 taxes levied compared to 97% for 2018.

During the period 1917 through 2019, Municipal Hail has paid indemnities amounting to 77.7¢ of each hail tax dollar levied.

This was the fourth year that the Association provided crop hail coverage through AMHL and PMHL for producers in Alberta and Manitoba. In Manitoba 435,124 acres insured, which produced \$2.5 million of premium income. In Alberta 379,025 acres were insured, also producing \$2.5 million of premium.

In the Association's 103 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided \$45.6 billion of coverage and paid losses totalling \$1.64 billion. This year, the Association provided \$2.2 billion of coverage and paid losses of \$76.5 million in Saskatchewan.

Directors Foster Warriner of Alameda and Pauline Ziehl Grimsrud of Torquay were elected for an additional three year term and John Wagner of Maple Creek was elected to his first three year term at the 2019 Annual Meeting. Director Wagner is the reeve of the Rural Municipality of Piapot No. 110.

In 2019, the Association recognized director Arnold Boyko of Watson for 25 years of service on the SMHI Board of Directors.

We would like to take this opportunity to once again extend our sincere appreciation to the Rural Municipalities and their Administrators for their continued support and willing assistance in delivering the Municipal Hail Insurance programs to producers and to our field and office staff for their efficient and dedicated service in 2019.

## statistics

The following is a comparison of the years 2019 and 2018:

	SMHI	Agent	AMHL Direct	2019	2018
Total Risk	\$1,537,213,255	\$751,504,700	\$60,180,052	<b>\$2,348,898,007</b>	\$2,441,292,355
Hail Taxes/Premiums	\$53,820,187	\$24,318,560	\$2,029,302	<b>\$80,168,049</b>	\$90,517,111
Indemnity Paid	\$54,128,284	\$27,188,942	\$2,056,746	<b>\$83,373,972</b>	\$70,725,794
Average Charged Rate	3.50%	3.24%	3.37%	<b>3.41%</b>	3.71%
Number of Claims	5,327	1,853	141	<b>7,321</b>	5,098
Loss to Risk	3.52%	3.62%	3.42%	<b>3.55%</b>	2.90%
Loss to Taxes/Premiums	100.57%	111.80%	101.35%	<b>104.00%</b>	78.14%
Average Cost per Claim	\$10,161	\$14,673	\$14,587	<b>\$11,388</b>	\$13,873

Municipal Hail insured 11,019,046 acres in 2019, compared to 11,373,407 acres in 2018. The basic indemnity available in 2019 was \$25 per acre and the maximum was \$275 per acre.

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

	2019	2018
Assessment Applications Received	<b>489</b>	656
Withdrawal Applications Received	<b>813</b>	738
Applications for Cancellation of Insurance due to loss of crop from causes other than hail	<b>80</b>	28
Applications for Exemption of Crops	<b>121</b>	160

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

ARNOLD BOYKO

KEN McBRIDE

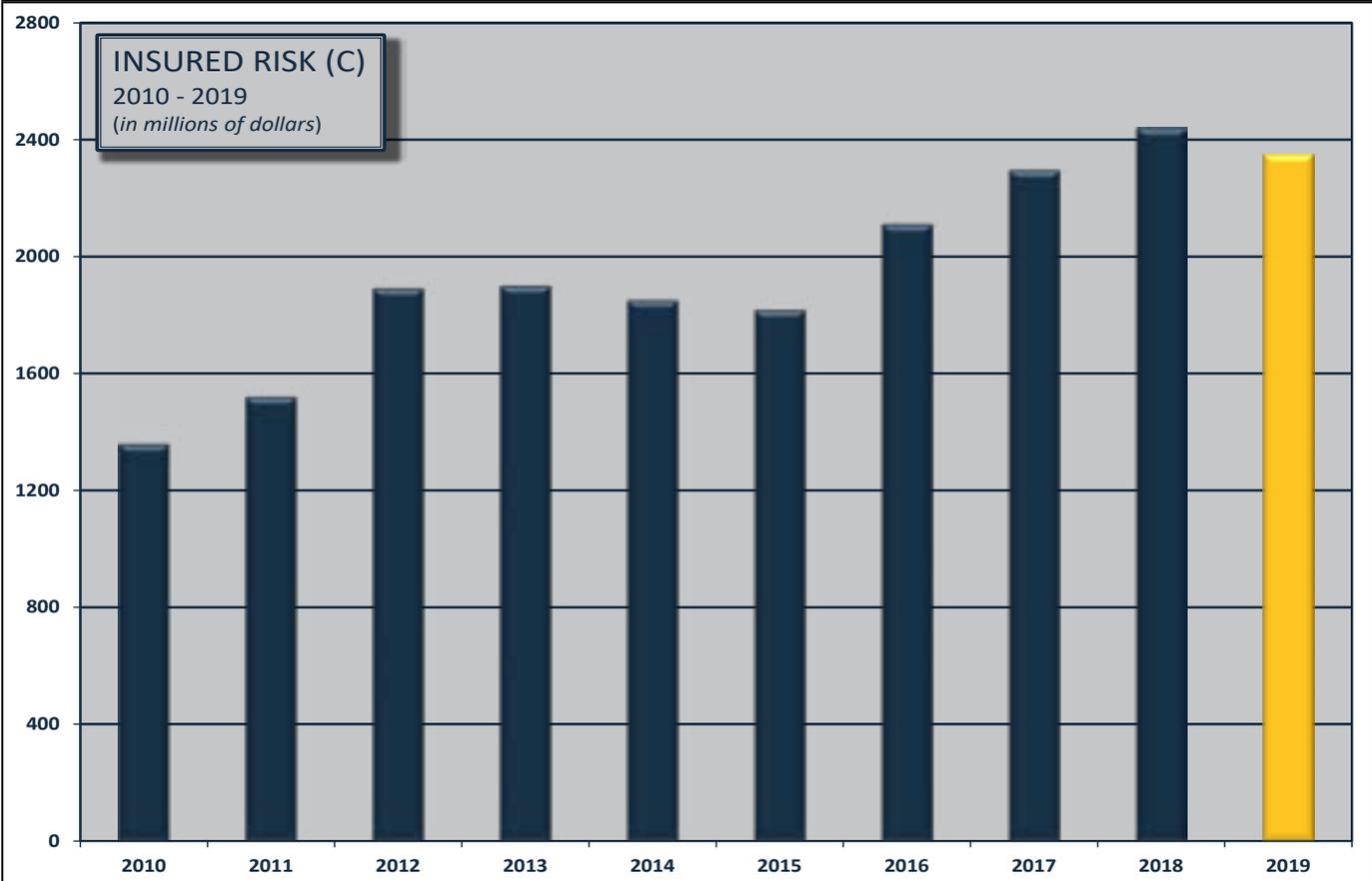
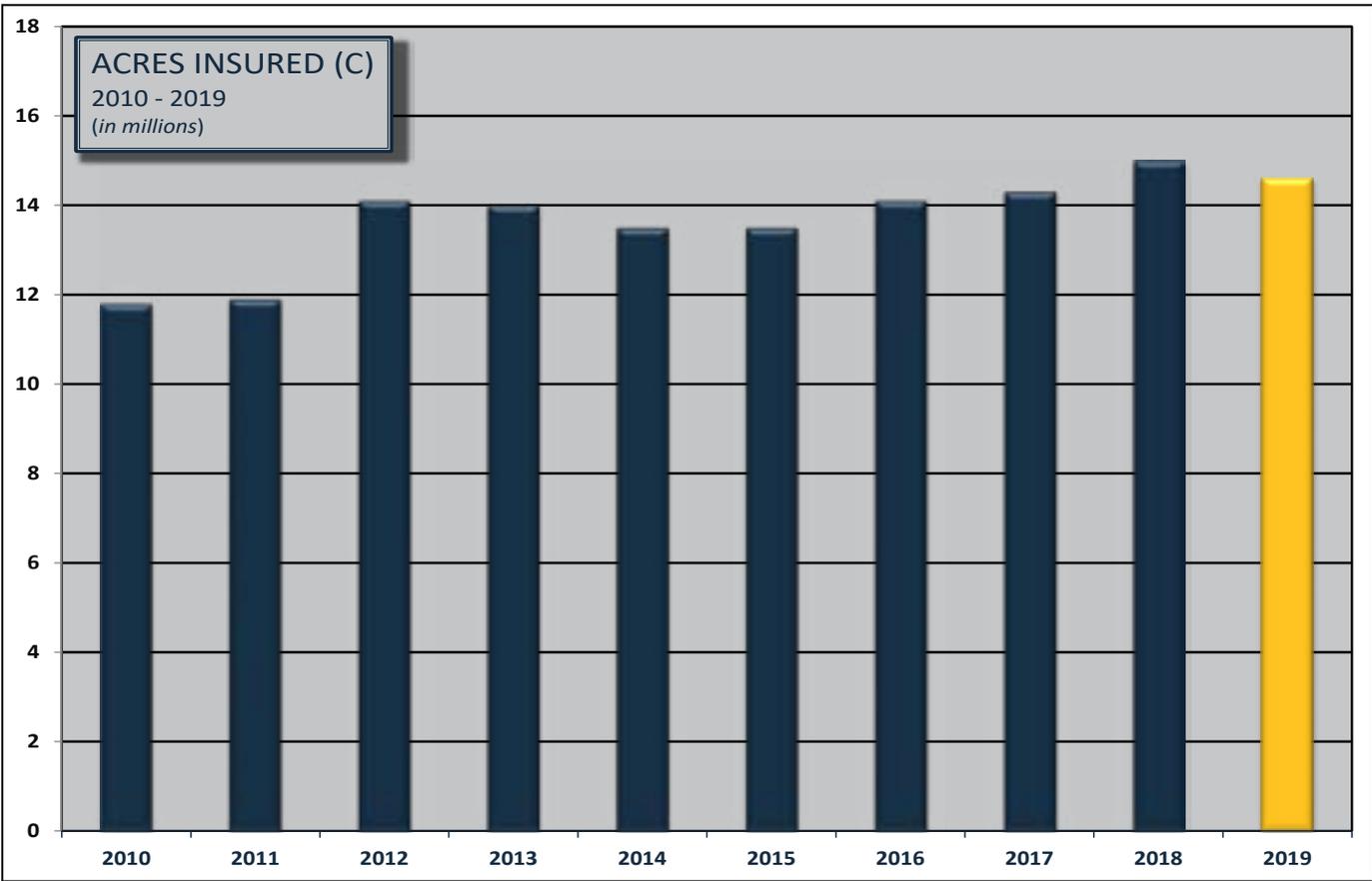
MURRAY PURCELL

Respectfully submitted.

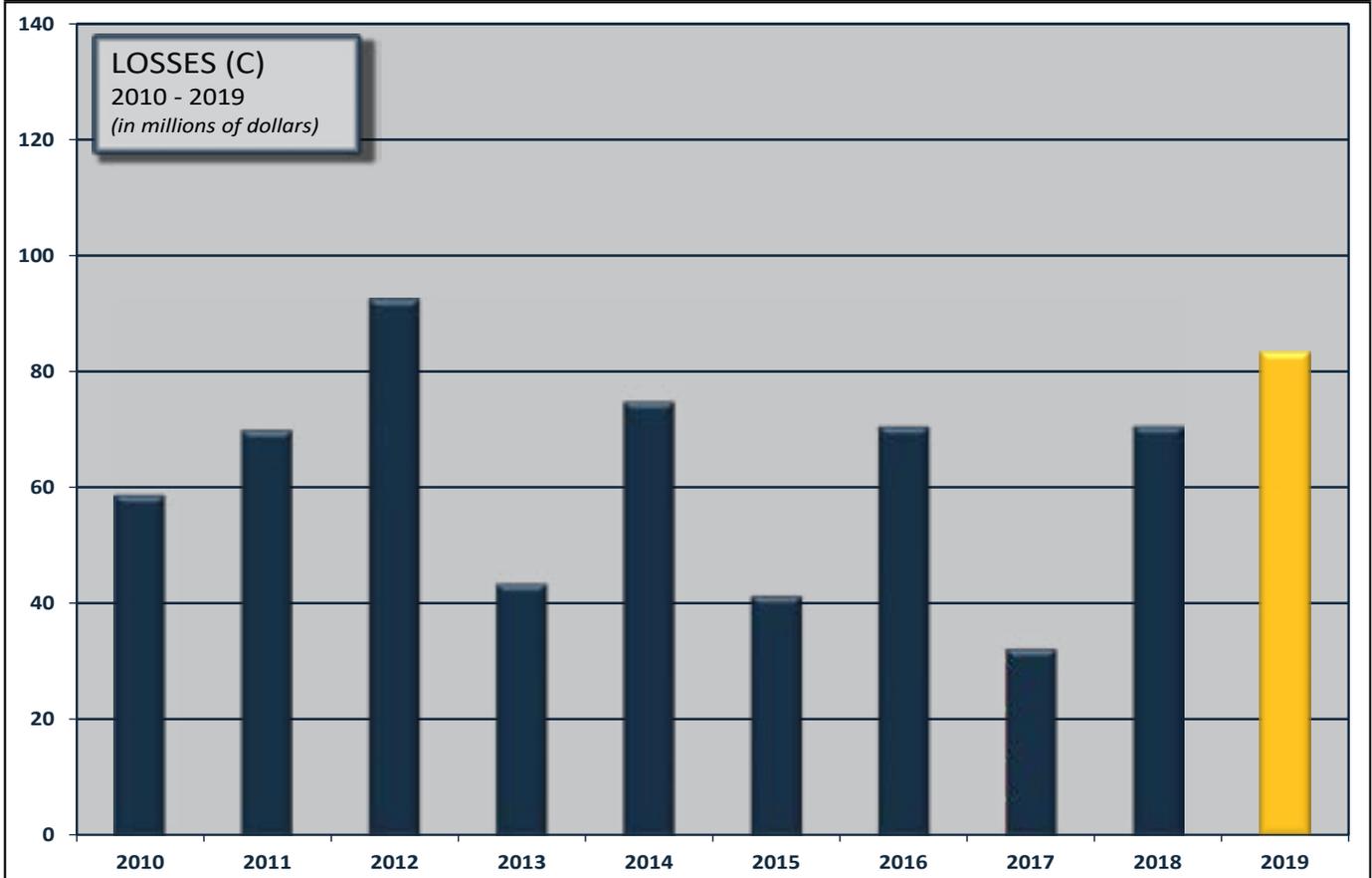
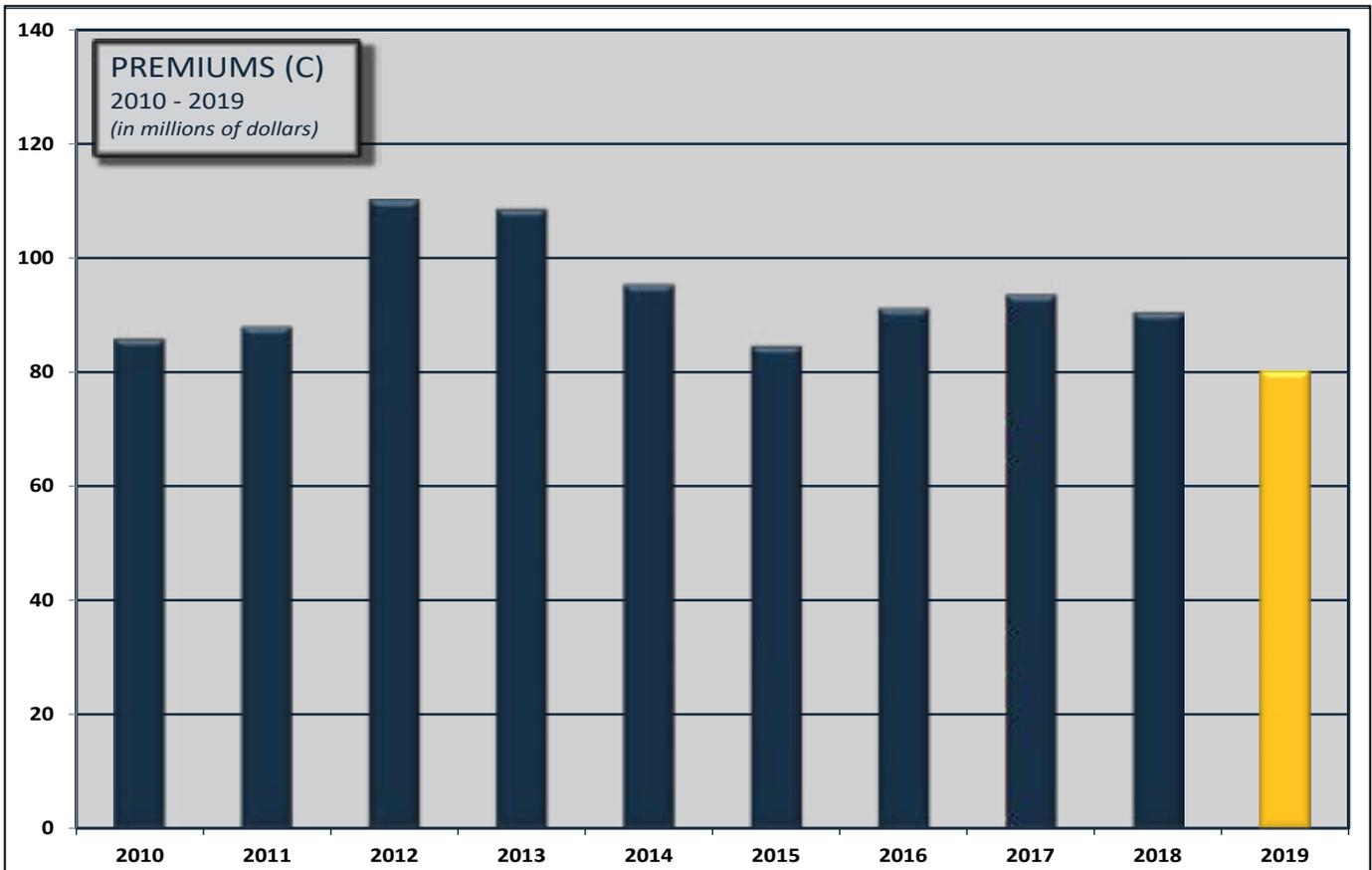
Signed on behalf of the Board.

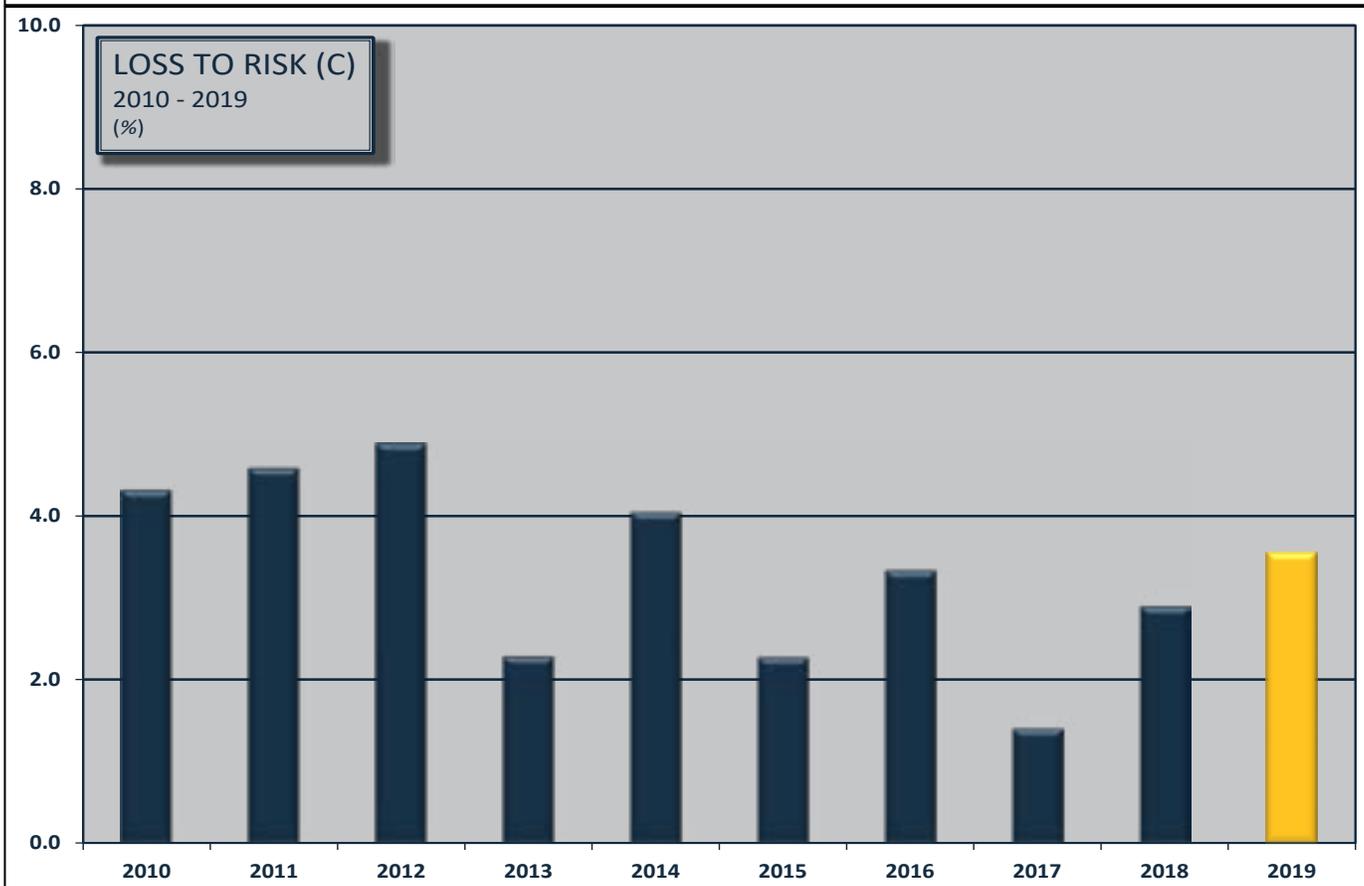
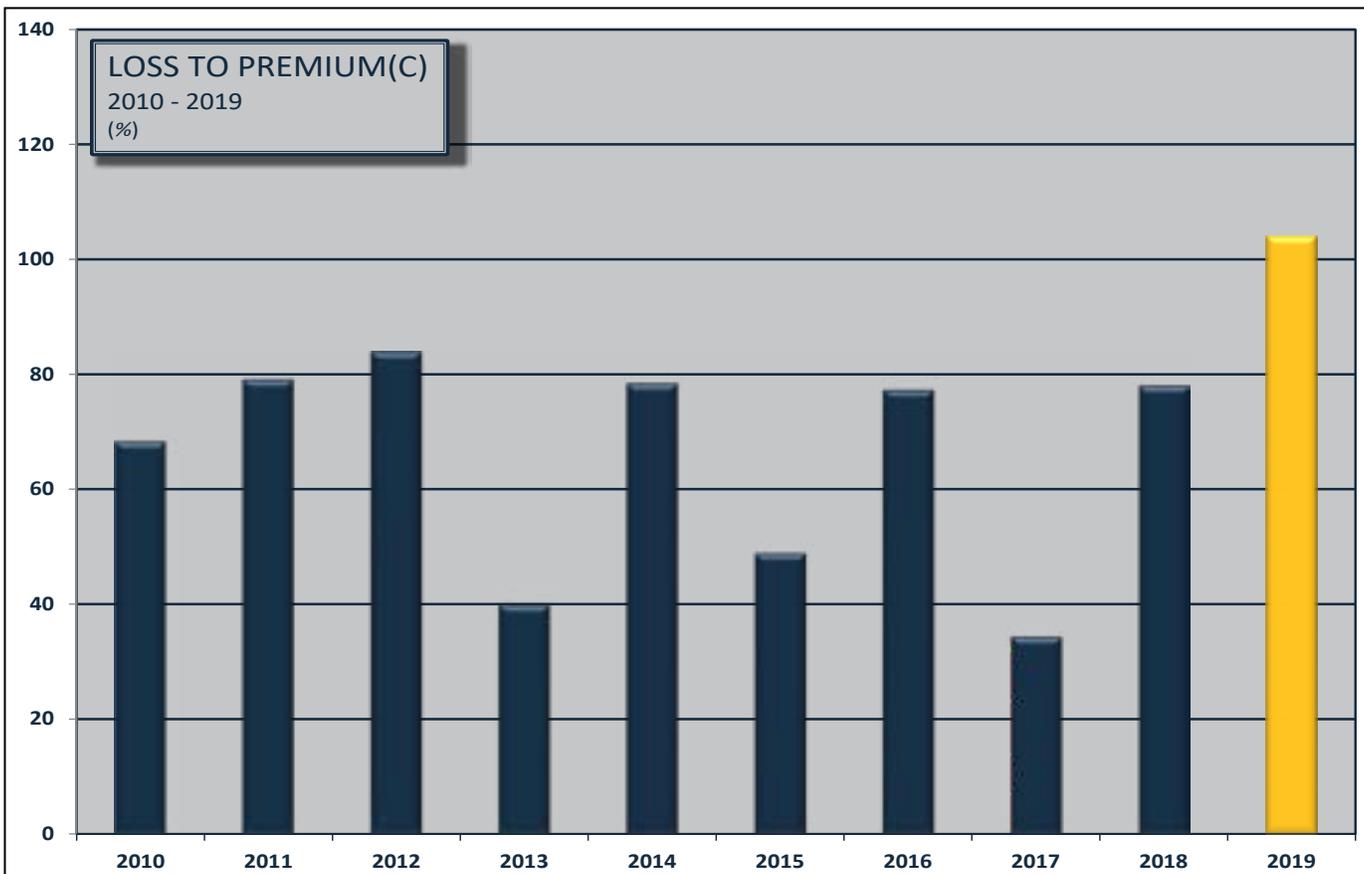
WAYNE BLACK, President  
KEN McBRIDE, Vice-President

Regina, Saskatchewan  
February 27, 2020

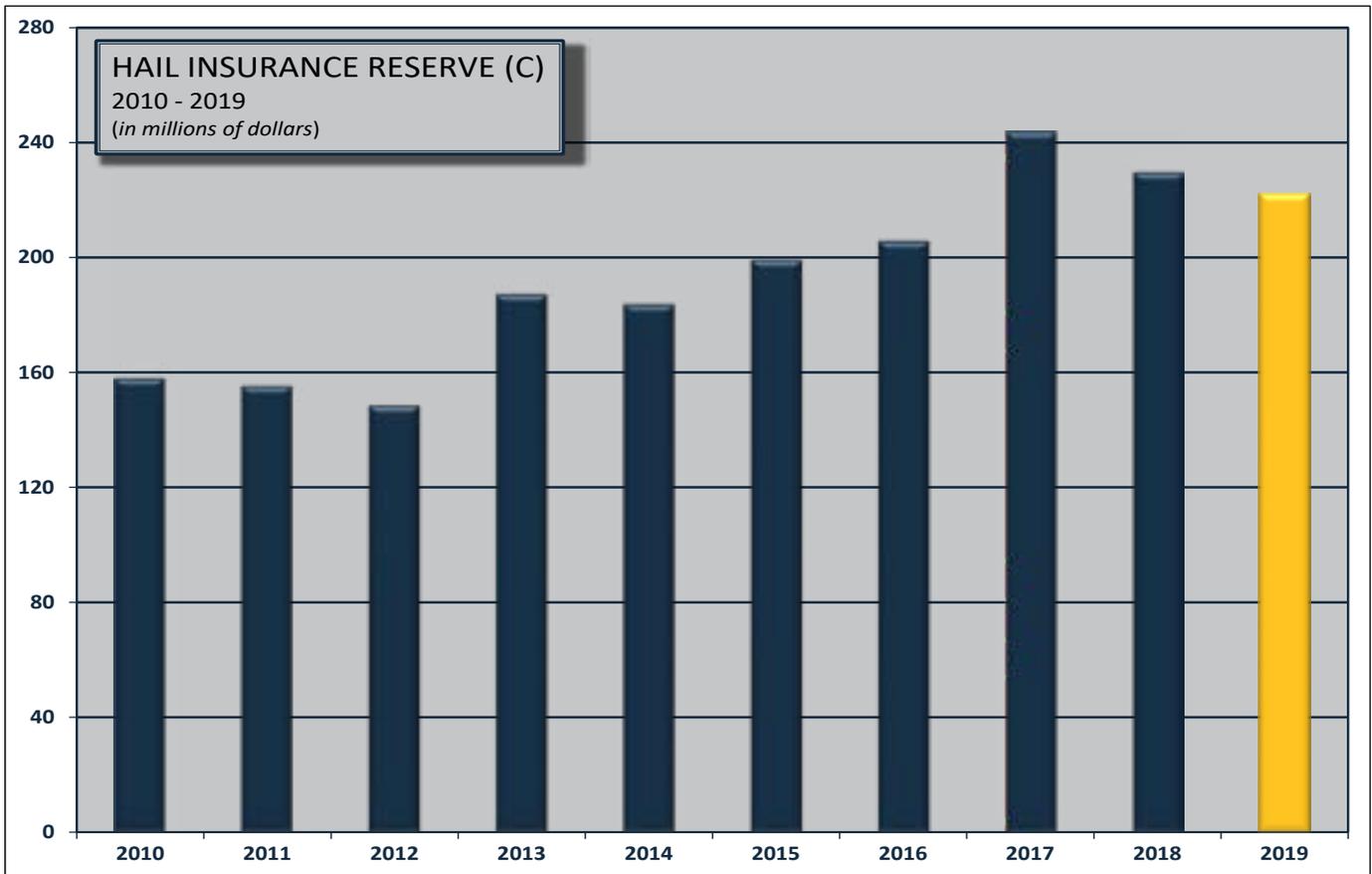


Municipal Hail  
2019 Annual Report





Municipal Hail  
2019 Annual Report





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## INDEPENDENT AUDITORS' REPORT

To the Directors

### *Opinion*

We have audited the accompanying consolidated financial statements of Saskatchewan Municipal Hail Insurance Association (the "Association"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies (hereafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Association as at December 31, 2019 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.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Association in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

### *Other Information*

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

## Municipal Hail 2019 Annual Report

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### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Association's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Association's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Association to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group, to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

# KPMG LLP

Chartered Professional Accountants

February 27, 2020  
Regina, Canada

# consolidated statement of financial position

as at December 31:

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash	\$ 23,120,784	\$ 26,382,928
Investments (note 4)	191,403,637	194,686,675
Accrued interest on investments	1,391,586	1,438,869
Accounts receivable	12,617,012	13,781,747
Capital assets (note 5)	2,032,483	2,072,193
	<u>\$ 230,565,502</u>	<u>\$ 238,362,412</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Deferred indemnities	\$ 7,570,087	\$ 7,820,630
Accounts payable	890,689	973,848
	<u>8,460,776</u>	<u>8,794,478</u>
Net Assets:		
Hail insurance reserve	12,524,482	12,524,482
Unrestricted	209,580,244	217,043,452
	<u>222,104,726</u>	<u>229,567,934</u>
Contingencies (note 9)		
	<u>\$ 230,565,502</u>	<u>\$ 238,362,412</u>

See accompanying notes.

On behalf of the Board.



Wayne Black, Director



Ken McBride, Director

# consolidated statement of operations

Year ended December 31, 2019 with comparative figures for 2018

	<u>2019</u>	<u>2018</u>
Revenue:		
Assessments and premiums	<b>\$ 80,168,049</b>	\$ 90,517,111
Discounts	<b>(2,161,836)</b>	(2,483,877)
Penalties added	<b>227,927</b>	213,305
	<b><u>78,234,140</u></b>	<u>88,246,539</u>
Expenses:		
Indemnities	<b>83,373,972</b>	70,725,794
Reinsurance	<b>10,109,068</b>	15,485,063
Payments to RMs and agents	<b>5,149,695</b>	5,544,292
Administration	<b>4,651,003</b>	4,306,504
Adjustment costs	<b>2,727,261</b>	2,230,486
	<b><u>106,010,999</u></b>	<u>98,292,139</u>
Net underwriting loss	<b><u>(27,776,859)</u></b>	<u>(10,045,600)</u>
Investment income (loss) (note 6)	<b>20,313,651</b>	(4,078,761)
Deficiency of revenue over expenses	<b><u>\$ (7,463,208)</u></b>	<u>\$ (14,124,361)</u>

See accompanying notes.

# consolidated statement of changes in net assets

Year ended December 31, 2019 with comparative figures for 2018

	<u>2019</u>	<u>2018</u>
Hail insurance reserve:		
Balance, beginning of year	\$ 12,524,482	\$ 12,524,482
Allocation from unrestricted net assets	-	-
Balance, end of year	<u>12,524,482</u>	<u>12,524,482</u>
Unrestricted net assets:		
Balance, beginning of year	217,043,452	231,167,813
Deficiency of revenue over expenses	(7,463,208)	(14,124,361)
Allocation to hail insurance reserve	-	-
Balance, end of year	<u>209,580,244</u>	<u>217,043,452</u>
Total net assets	<u>\$ 222,104,726</u>	<u>\$ 229,567,934</u>

See accompanying notes.

# consolidated statement of cash flows

Year ended December 31, 2019 with comparative figures for 2018

	<u>2019</u>	<u>2018</u>
Cash flows from (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (7,463,208)	\$ (14,124,361)
Items not involving cash:		
Amortization of capital assets	117,860	232,352
Loss (gain) on sale of investments	(2,416,571)	74,732
Change in fair value of investments	(9,521,959)	12,046,359
Changes in non-cash operating items:		
Accrued interest on investments	47,283	(178,010)
Accounts receivable	1,164,735	206,804
Deferred indemnities	(250,543)	3,556,480
Accounts payable	(83,159)	132,076
	<u>(18,405,562)</u>	<u>1,946,432</u>
Investing:		
Proceeds on sale or maturity of investments	51,578,570	48,544,138
Purchase of investments	(36,357,002)	(54,864,268)
Purchase of capital assets	(78,150)	(867,975)
	<u>15,143,418</u>	<u>(7,188,105)</u>
Decrease in cash	<u>(3,262,144)</u>	<u>(5,241,673)</u>
Cash, beginning of year	26,382,928	31,624,601
Cash, end of year	<u>\$ 23,120,784</u>	<u>\$ 26,382,928</u>

See accompanying notes.

# notes to consolidated financial statements

December 31, 2019

## 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 & PMHL. All significant intercompany transactions have been eliminated.

### (b) Financial assets and liabilities:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment and the Association determines that there is a significant adverse change in the expected timing or amount of future cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset and the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

# notes to consolidated financial statements

December 31, 2019

### 3. Significant accounting policies (continued):

(c) Income taxes:

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

(d) 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	3% - 25%
Software	10% - 25%

(e) 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.

(f) 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.

(g) 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, 2019

## 4. Investments:

The Association's investments are as follows:

	2019	2018
Guaranteed investment certificates (GICs)	\$ 38,500,000	\$ 40,000,000
Bonds, debentures and notes:		
Federal government	3,012,585	3,006,879
Provincial government	12,069,865	16,000,216
Corporate	53,744,959	56,012,260
	<b>107,327,409</b>	115,019,355
Other investments <sup>1</sup>	84,076,228	79,667,320
	<b>\$ 191,403,637</b>	<b>\$ 194,686,675</b>

<sup>1</sup>Includes mutual funds, income trusts, equities and real estate

# notes to consolidated financial statements

December 31, 2019

## 4. Investments (continued):

Details of significant terms and conditions and exposure to interest rate risk of investments are as follows:

	2019	2019	2018	2018
Term to maturity (years)	Fair value	Average effective rates	Fair value	Average effective rates
GICs:				
One or less	\$ 15,500,000	2.7%	\$ 13,500,000	2.6%
After one through five	23,000,000	3.5%	26,500,000	3.1%
Bonds, debentures and notes:				
Federal government:				
One or less	1,003,900	3.7%	-	0.0%
After one through five	2,008,685	2.2%	3,006,879	2.7%
Provincial government:				
One or less	3,239,316	4.2%	3,961,294	4.0%
After one through five	5,697,973	5.2%	7,919,127	4.5%
After five	3,132,576	3.0%	4,119,795	4.2%
Corporate:				
One or less	29,476,467	3.5%	26,823,680	3.3%
After one through five	11,871,549	2.7%	15,302,277	2.6%
After five	12,396,943	2.7%	13,886,303	2.5%
	<b>\$ 107,327,409</b>		<b>\$ 115,019,355</b>	

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, 2019

## 5. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 891,465	\$ -	\$ 891,465	\$ 891,465
Building	1,835,046	936,808	898,238	892,755
Furniture and equipment	1,026,265	853,771	172,494	189,466
Software	1,689,193	1,618,907	70,286	98,507
	<b>\$ 5,441,969</b>	<b>\$ 3,409,486</b>	<b>\$ 2,032,483</b>	<b>\$ 2,072,193</b>

Amortization expense of \$117,860 (2018 - \$232,352) was recorded in the current year and has been included in administration expense on the Statement of Operations.

## 6. Investment income (loss):

	2019	2018
Investment income	\$ 8,375,121	\$ 8,042,330
Gain (loss) on sale of investments	2,416,571	(74,732)
Change in fair value of investments	9,521,959	(12,046,359)
	<b>\$ 20,313,651</b>	<b>\$ (4,078,761)</b>

## 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.

## 8. Financial risk management:

The nature of the Association's operations result 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 an Investment Policy Statement 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, 2019

## 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, 2019 is limited to the fair value of the financial assets summarized as follows:

	2019	2018
	Fair value	Fair value
Cash	\$ 23,120,784	\$ 26,382,928
Investments <sup>1</sup>	98,798,484	110,157,244
Accrued interest on investments	1,391,586	1,438,869
Accounts receivable	12,617,012	13,781,747
	<b>\$ 135,927,866</b>	<b>\$ 151,760,788</b>

<sup>1</sup>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.

# notes to consolidated financial statements

December 31, 2019

## 8. Financial risk management (continued):

Credit ratings for investments are as follows:

Credit Rating	2019	2019	2018	2018
	Fair value	Makeup of portfolio (%)	Fair value	Makeup of portfolio (%)
R1	\$ 38,500,000	39.0%	\$ 40,000,000	36.3%
AAA	4,557,395	4.6%	5,606,826	5.1%
AA+	-	0.0%	1,018,360	0.9%
AA	3,938,333	4.0%	4,025,959	3.7%
AA-	5,006,826	5.1%	5,557,317	5.0%
A+	7,342,326	7.4%	11,471,735	10.4%
A	15,775,115	16.0%	13,126,179	11.9%
A-	16,052,111	16.2%	18,821,212	17.1%
BBB+	2,255,703	2.3%	7,159,305	6.5%
BBB	5,370,675	5.4%	3,370,351	3.1%
Total	\$ 98,798,484	100.0%	\$ 110,157,244	100.0%

One issuer accounts for 11.1% (2018 - 14.1%) 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 39.2% (2018 - 36.0%) of the fair value of the Association's total cash and investments. Individual holdings are diversified by geography, industry type and corporate entity. There has been no change to the risk exposures from the previous year.

### (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. There has been no change to the risk exposures from the previous year.

# notes to consolidated financial statements

December 31, 2019

**9. 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.

**10. Pension plan:**

The Association's employees participate in the Municipal Employees Pension Plan, a multi-employer defined benefit pension plan. Pension costs of \$150,765 (2018 - \$129,778) 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.

**11. Comparative figures:**

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

# THE Farmers Dollar

Since 1917



Paid Out for Claims	77.7 cents
Paid Out for Expenses	13.3 cents
Reserve	(0.7) cents
Reinsurance	9.7 cents