

*Municipal
Hail*

SINCE 1917

2017

annual report



SASKATCHEWAN MUNICIPAL
HAIL INSURANCE ASSOCIATION

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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	Arnold Boyko
Member of Executive Committee	Foster Warriner
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Field Operations Manager	Darryl Tiefenbach
Office Manager	Lynette Miller

DIRECTORS

<u>ELECTED UNTIL 2018</u>	<u>ELECTED UNTIL 2019</u>	<u>ELECTED UNTIL 2020</u>
Maurice Berry, Carievale	Foster Warriner, Alameda	Arnold Boyko, Watson
Wayne Black, Tisdale	Pauline Ziehl Grimsrud, Estevan	Ken McBride, Kindersley
Blair Cummins, Saskatoon	Russ Jones, Meadow Lake	Murray Purcell, Saskatoon

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.

2018 Annual General Meeting

AGENDA

7:45 - 8:30

Delegates' Registration & Breakfast

8:30 Call to Order

Chairman's remarks & introduction of Directors & Staff

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

Reading & discussion of the Combined Auditors' Report

Resolutions & Other Business

Adjournment



WAYNE BLACK
PRESIDENT



ARNOLD BOYKO
VICE-PRESIDENT



FOSTER WARRINER
EXEC. COMM. MEMBER



**MURRAY
PURCELL**



**PAULINE
ZIEHL GRIMSRUD**



**KEN
MCBRIDE**



**MAURICE
BERRY**



**BLAIR
CUMMINS**



**RUSS
JONES**



RODNEY SCHOETTLER
CHIEF EXECUTIVE OFFICER

directors' report

(As presented to the Annual General Meeting of the Association in Regina, Saskatchewan, March 14, 2018)

Ladies and Gentlemen:

The Directors take pleasure in presenting the one hundred and first Annual Report with the Consolidated Auditors' Report for the year ended December 31, 2017. Also included are the details of the ninety-fourth Annual Report covering the operations of Additional Municipal Hail Limited (AMHL) for the year ended December 31, 2017.

Seeding neared completion in the first week of June, as 94% of the crop was in the ground, which was slightly ahead of the five-year (2012-2016) average of 93% seeded. Topsoil moisture conditions were deteriorating rapidly throughout the province. Strong winds and lack of rainfall caused fields to dry up, with most of the concern coming from the southern part of the province.

By mid-June most of the province had received some rain ranging from trace amounts to 112mm. Persistent strong winds continued to hamper topsoil moisture conditions, damage crops and delay in-crop weed control in many areas. The lowest topsoil moisture being recorded in the Assiniboia area, where 90% of the cropland, hay land and pasture were still short to very short of moisture. The vast majority of fall seeded cereals were ahead or at normal stages of development, whereas the spring cereals, oilseeds and pulse crops were reported as near 40% behind normal stages of development.

In the last two weeks of June rainfall was still sparse, with the northeast part of the province being an exception, as farmers were dealing with conditions of excess moisture. Fifty-four percent of the cropland in the province was reported as still having adequate to surplus soil moisture, while the remainder was reported as short to very short. Overall, crops were at their normal stages of development by the end of June. Twenty-six percent of the fall cereals were in the dough stage while nine percent of the spring cereals were in the heading stage. Two percent of flax, 30% of canola and mustard and 37% of the pulse crops were flowering.

Crops developed quickly in much of the province through the first two weeks of July due to high temperatures. Lack of rainfall continued with many areas in the southern part of the province reporting having received less than 100mm of moisture from April 1st – July 10th. Crops in these areas were short, thin and headed out and/or flowered earlier than normal due to heat stress. Across the province topsoil moisture was now at 65% short to very short.

By the end of July, topsoil moisture had worsened with further widespread high temperatures and lack of rain. Seventy percent of the province was still reporting topsoil moisture as short to very short. Crops were ripening quickly in many areas ranging from poor to good condition and less than one percent of the crop had been combined. There were many reports of insects such as aphids, diamondback moths and grasshoppers. Producers were getting ready for harvest, scouting for pests and finishing haying operations.

The majority of the province received rainfall in the first two weeks of August that replenished topsoil moisture and helped later-seeded crops fill. The rainfall came a little too late to be of benefit in more southern areas where crops were rapidly drying down. The second half of August provided relatively warm and dry weather which allowed many producers to continue with harvest operations. By the end of August, 26% of the crop was in the bin, well ahead of the five-year (2012-2016) average of 16% combined.

The warm dry weather experienced throughout the growing season continued across most of the province until mid-September, allowing overall harvest progress to reach 75% and stay well ahead of the five-year (2012-2016) average of 58% for this time of year.

Rain delays slowed harvest in mid-late September, but was followed by more warm dry weather allowing producers to return to the field. Harvest weather was favorable for much of the fall, allowing producers to achieve well above-average crop quality in many areas. Although field conditions remained dry, producers had fewer rain delays than in previous years and were able to take the crop off in good condition. Reports of disease were limited and the majority of crops were reported as falling within the top two quality grades. Harvest was essentially complete for producers in the province by mid-October with 98% of the crop in the bin.

Crop yields varied greatly throughout the province this year depending on seeding date and the amount of moisture received throughout the season. Overall production yields were on par with the 10 year average,

although some areas in the north reported higher than normal yields thanks to timely moisture. Yields in the southern and central areas of the province were significantly impacted by the extended period of hot and dry conditions this summer. Average yields as reported in the fall are 43 bushels per acre for hard red spring wheat, 34 bushels per acre for canola, 18 bushels per acre for soybeans, 63 bushels per acre for barley, 746 lbs per acre for mustard and 1369 lbs per acre for lentils.

The total area seeded to major grains, oil seeds and specialty crops was approximately 36.7 million acres. Municipal Hail insured 13.8 million acres or close to 38% 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 increased to \$250 per acre from the \$200 per acre offered the previous year. Eighty-three percent 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 51 and were received from 27 rural municipalities. A total of 10,409 acres were cancelled which in turn reduced the 2017 hail taxes by \$42,635.

SMHI tax collections totalled 101% of the 2017 hail taxes levied compared to 95% for 2016.

The 2017 hail season produced 74 storms versus 110 the previous year. There were two major storms occurring on July 20th and 21st versus the five major storms of 2016. The July 20th and 21st storms damaged 357,701 acres and affected 86 rural municipalities. The losses incurred on those dates were \$4.1 and \$5.2 million dollars respectively. There were several storms on these dates with the largest amount of hail falling in a line from Kindersley to Davidson, from Leroy heading southeast passing Yorkton, and then heading south to Rocanville and on into Manitoba. The heaviest volume of hail on July 20th fell in the Rural Municipality of Loreburn No. 254 which received 58 claims on 40,000 acres and losses paid of \$1.2 million. The RM of Mildren No. 286 had the most expensive storm that day producing losses of \$1.4 million. On July 21st the Rural Municipality of Rocanville No. 151 experienced the most severe damage of the year at \$1.1 million dollars on 24 claims.

The hail damage sustained in 2017 was less severe than in recent years with the cost per claim coming in at \$10,265 versus the five-year average of \$10,750.

With a dry year came an increased number of fire claims, which totalled 20 for the 2017 season compared to five the previous year. Indemnity paid as a result of the fire claims amounted to just over \$71,000.

During the period 1917 through 2017, Municipal Hail has paid indemnities amounting to 76.4¢ of each hail tax dollar levied.

This was the third year that the Association provided crop hail coverage to producers in Alberta and Manitoba. Coverage was sold through AMHL and PMHL. In Manitoba, 377,000 acres were insured and produced \$2.1 million of premium income. In Alberta, AMHL and PMHL insured 128,000 acres and produced \$1.1 million of premium.

In the Association's 101 years of providing crop hail protection for Saskatchewan farmers and landowners, the Association has provided \$41.2 billion of coverage and paid losses totalling \$1.5 billion. In 2017, the Association provided \$2.3 billion of coverage and paid losses of \$32.3 million.

Directors Arnold Boyko of Watson, Ken McBride of Kindersley and Murray Purcell of Saskatoon were elected for an additional three-year term at the 2017 Annual Meeting.

Russ Jones of Meadow Lake was elected to a two-year term filling the vacancy on the Board left by the resignation of Director Jim Moen of Cabri in October, 2016. Director Jones is a Councillor in the Rural Municipality of Meadow Lake No. 588.

To commemorate the Association's 100th year a book titled "A Hail of a Century – 100 Years of Battling The Great White Combine" chronicling the Association's history and farming in Saskatchewan was written and distributed to each Rural Municipality. The Association also made a donation of one million dollars to the Shock Trauma Air Rescue Service (STARS) in honour of all past and current clients of SMHI.

Staff member Susan Plesniewicz was acknowledged for 25 years of service with the Association in 2017.

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 2017.

statistics

The following is a comparison of the years 2017 and 2016:

	AMHL			2017	2016
	SMHI	Agent	Direct		
Total Risk	\$1,627,492,293	\$634,839,751	\$34,209,952	\$2,296,541,996	\$2,111,908,046
Hail Taxes/Premiums	\$68,036,212	\$24,128,292	\$1,417,018	\$93,581,522	\$91,242,862
Indemnity Paid	\$21,962,631	\$10,098,609	\$232,924	\$32,294,164	\$70,634,245
Average Charged Rate	4.18%	3.80%	4.14%	4.07%	4.32%
Number of Claims	2,338	774	34	3,146	6,929
Loss to Risk	1.35%	1.59%	0.68%	1.41%	3.34%
Loss to Taxes/Premiums	32.28%	41.85%	16.44%	34.51%	77.41%
Average Cost per Claim	\$9,394	\$13,047	\$6,851	\$10,265	\$10,194

Municipal Hail insured 11,347,256 acres in 2017, compared to 11,479,974 acres in 2016. The basic indemnity available in 2017 was \$25 per acre and the maximum was \$250 per acre.

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

	2017	2016
Assessment Applications Received	705	771
Withdrawal Applications Received	770	1,002
Applications for Cancellation of Insurance due to loss of crop from causes other than hail	51	18
Applications for Exemption of Crops	174	225

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

MAURICE BERRY

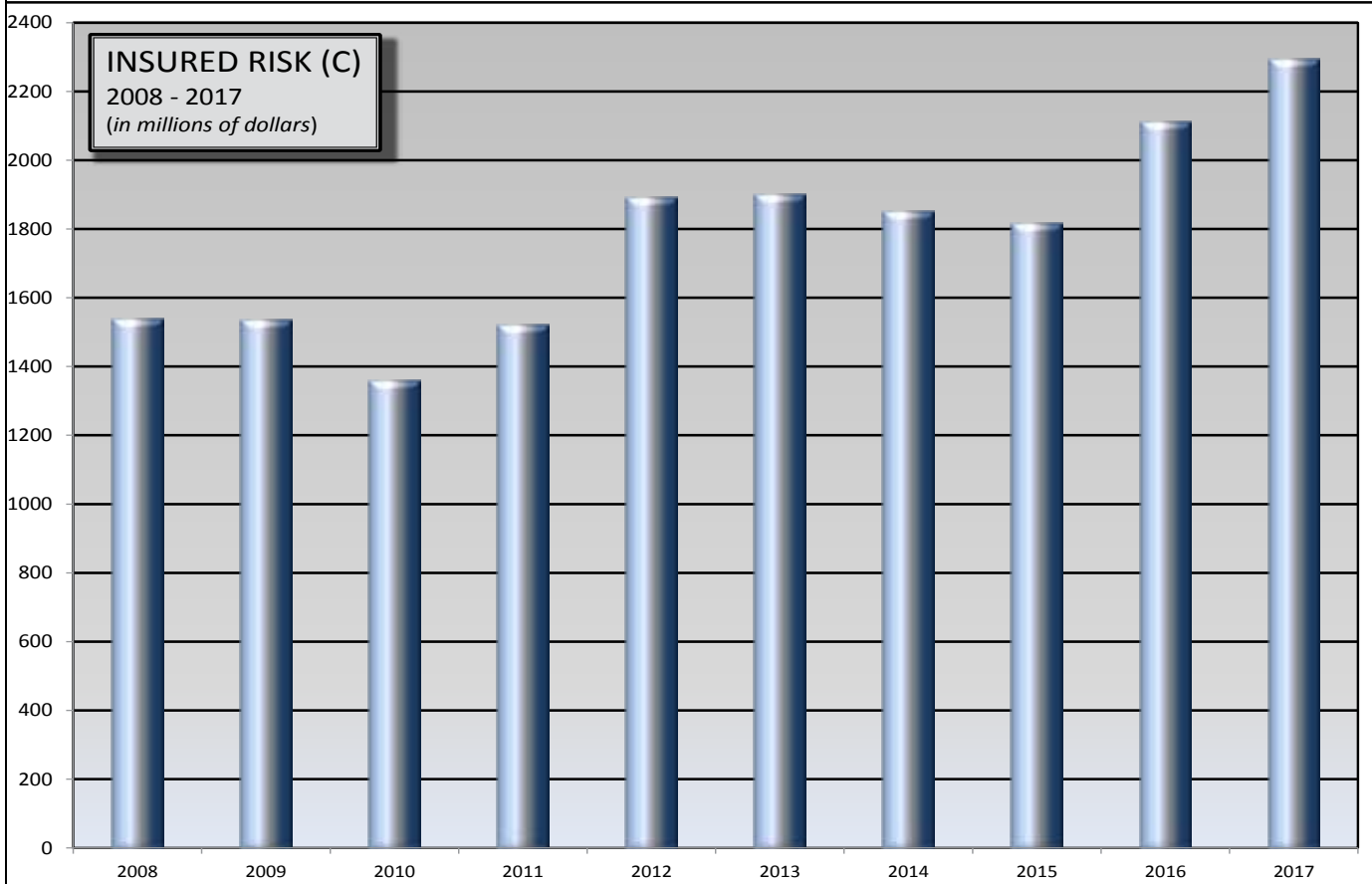
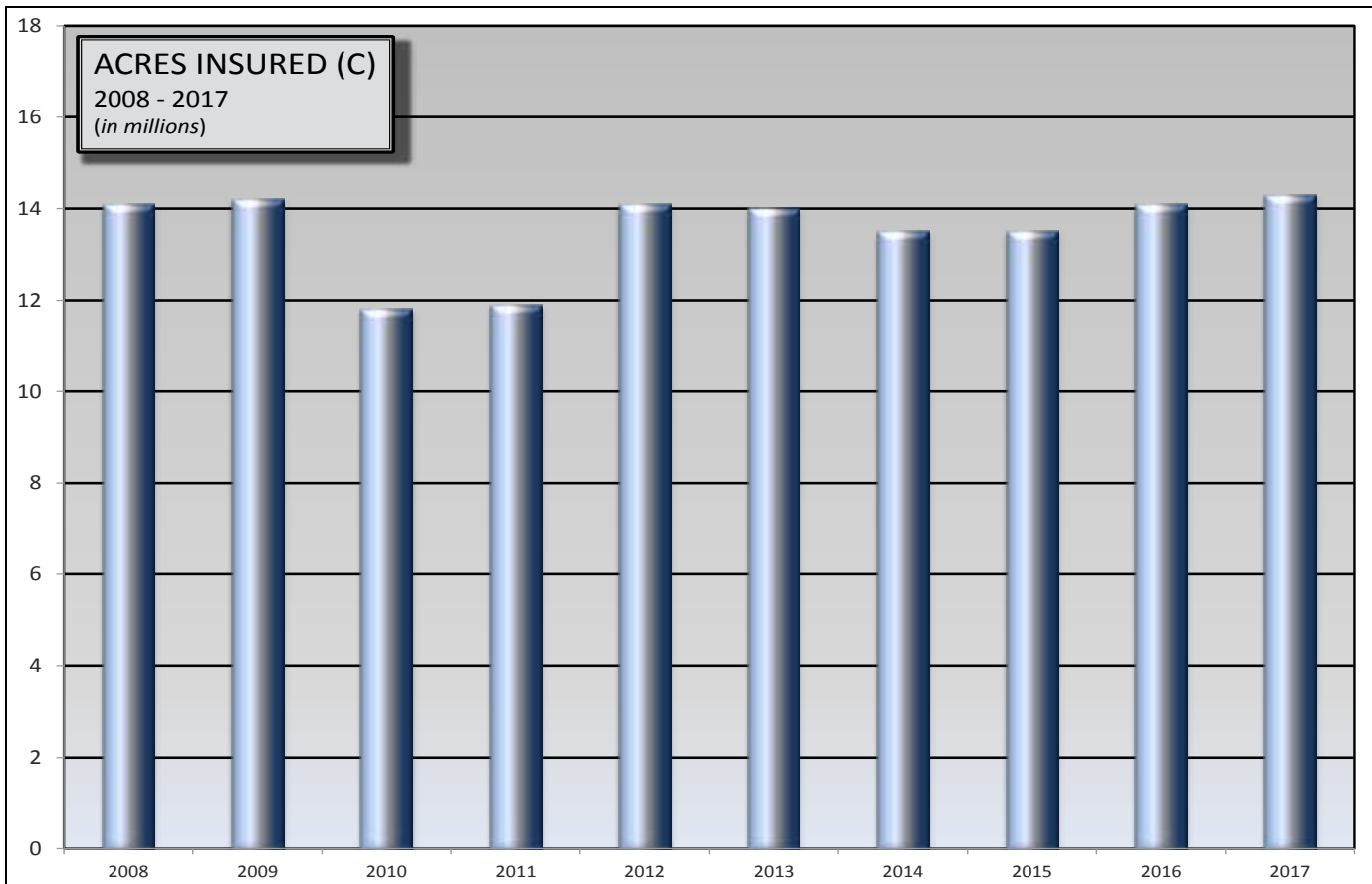
WAYNE BLACK

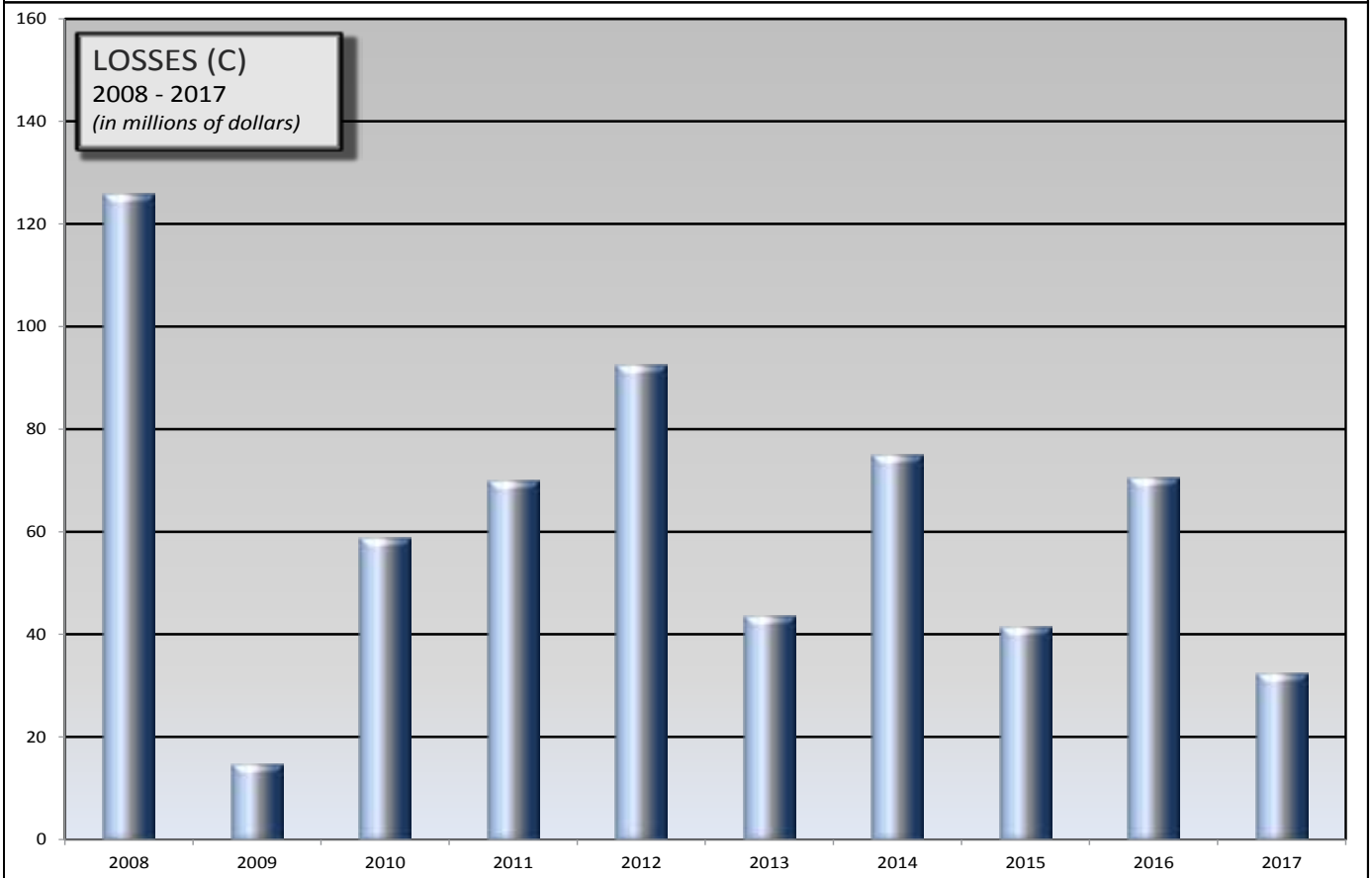
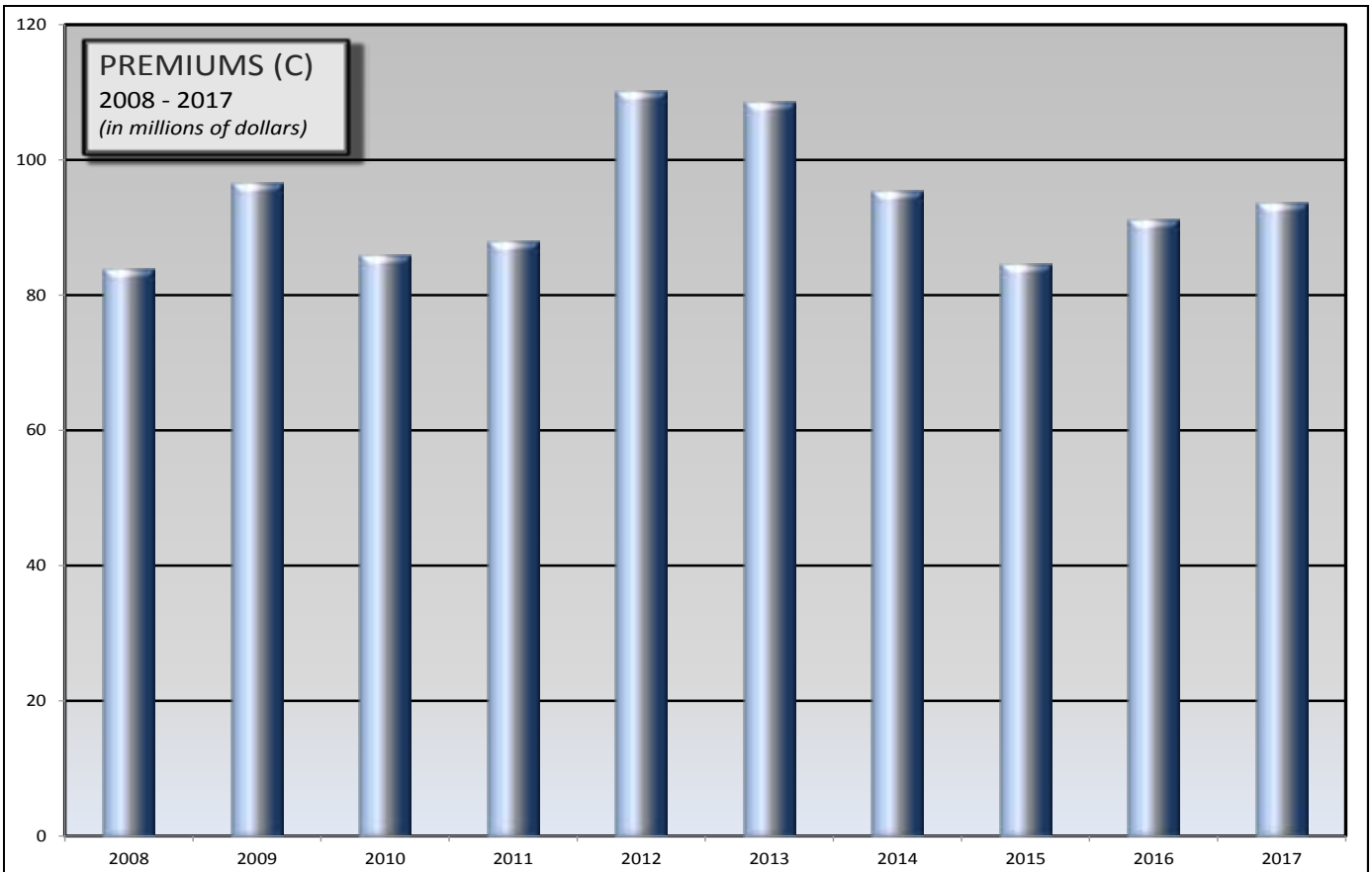
BLAIR CUMMINS

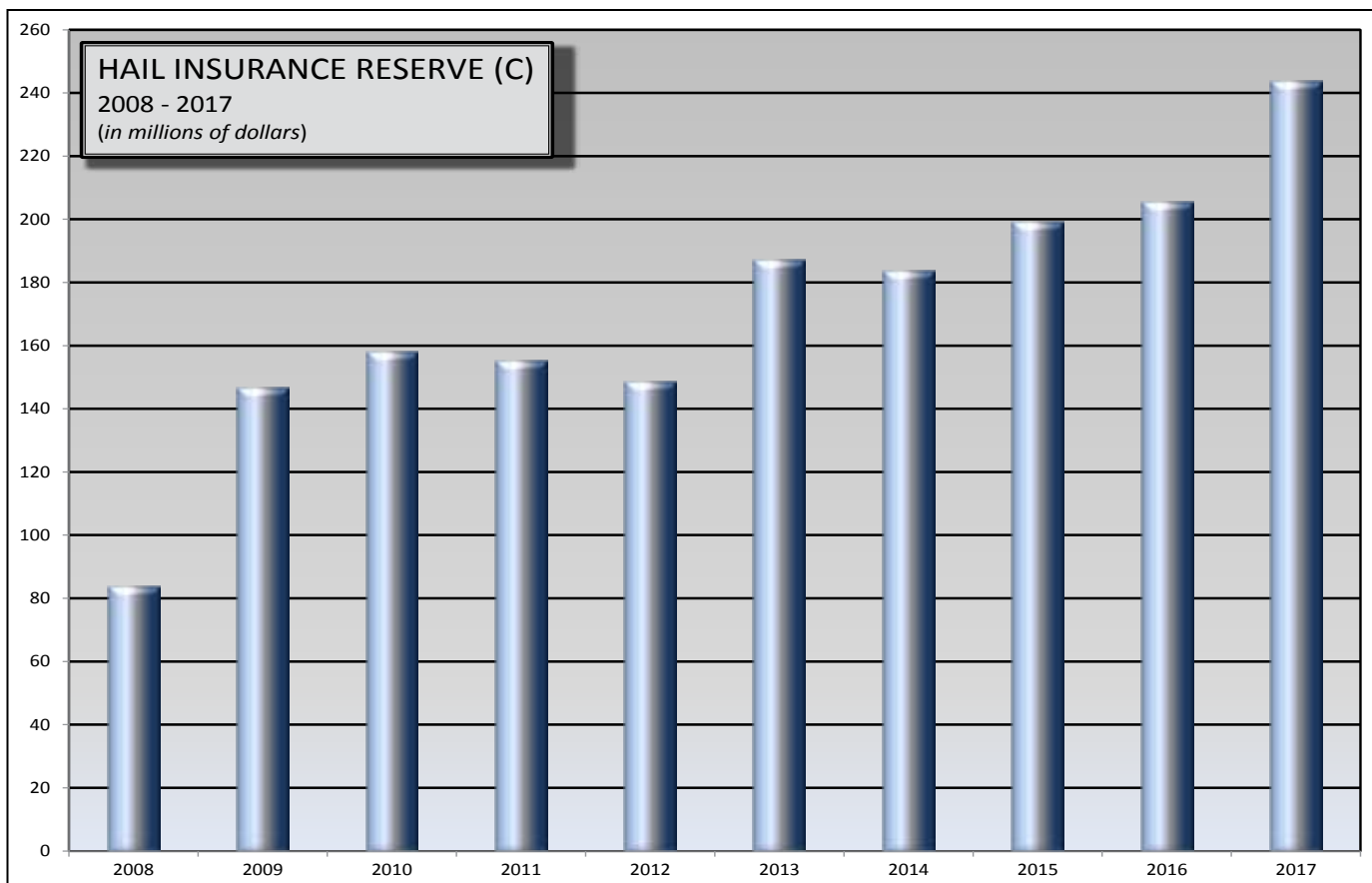
Respectfully submitted.
Signed on behalf of the Board.

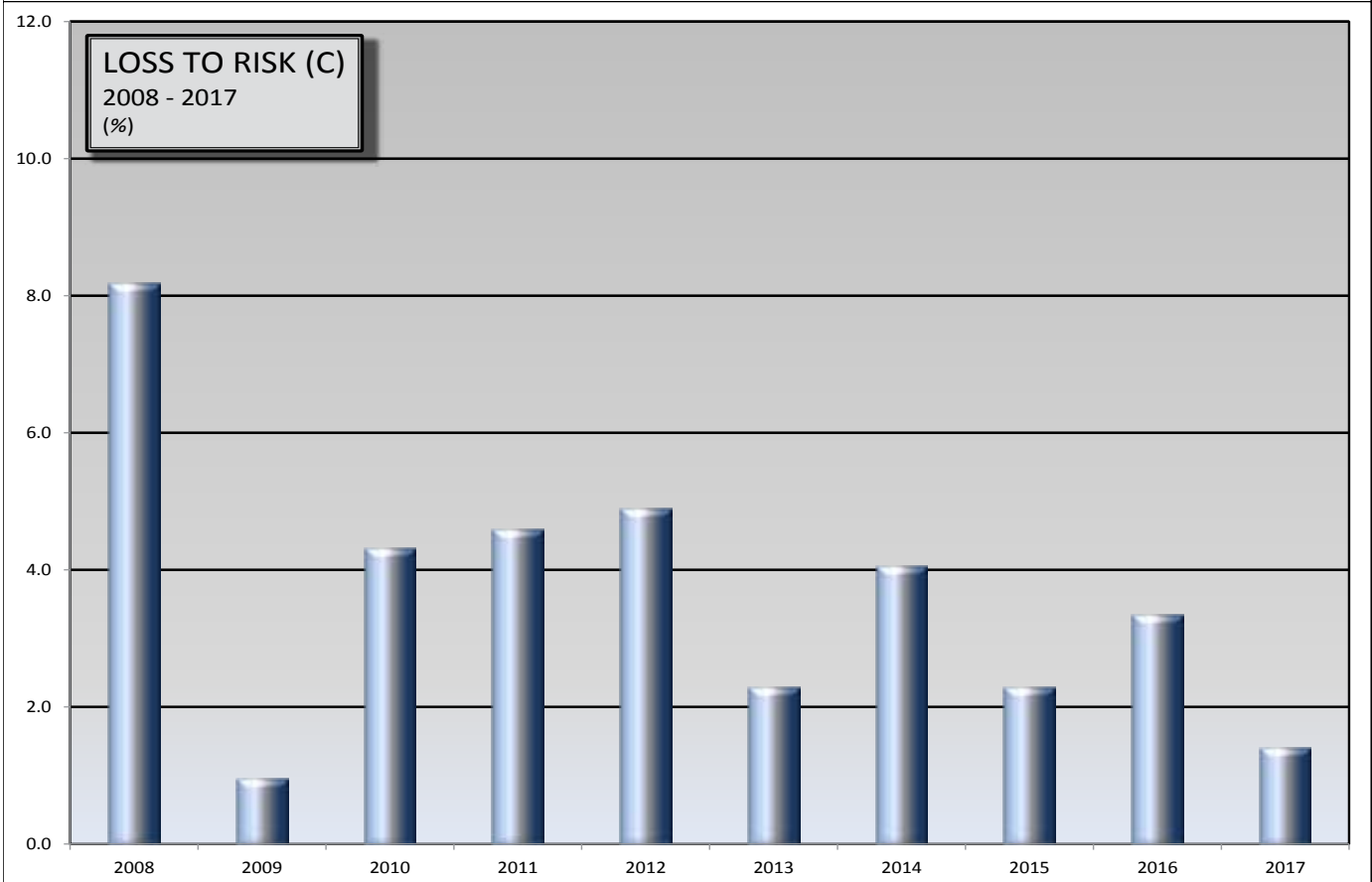
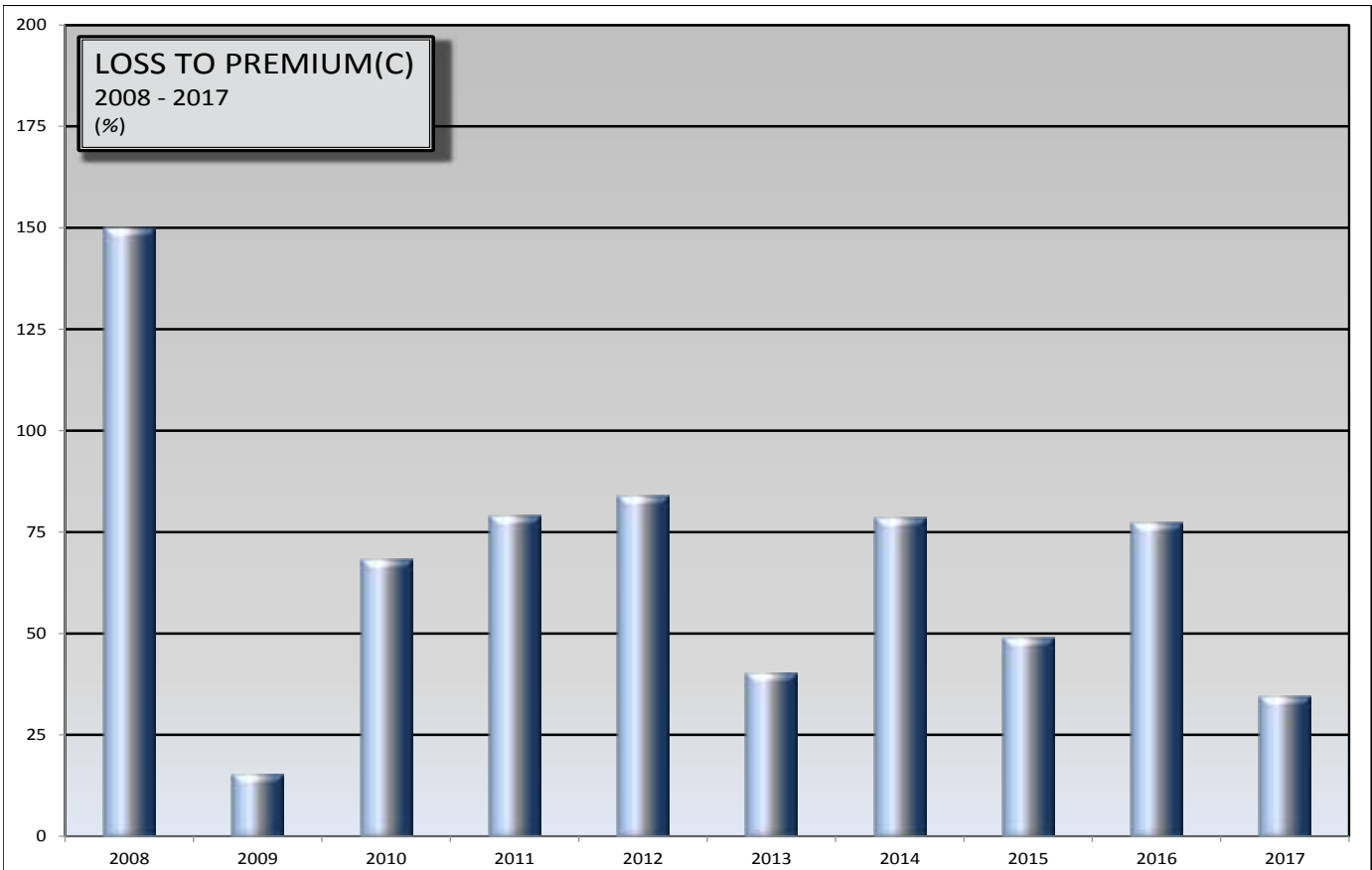
WAYNE BLACK, President
ARNOLD BOYKO, Vice-President

Regina, Saskatchewan
February 28th, 2018











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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, 2017, the consolidated statement 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, 2017, 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 28, 2018
Regina, Canada

consolidated statement of financial position


as at December 31:

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$ 31,624,601	\$ 23,754,088
Investments (note 4)	200,487,636	172,169,441
Accrued interest on investments	1,260,859	1,246,250
Accounts receivable	13,988,551	14,702,251
Capital assets (note 5)	1,436,570	1,219,473
	<u>\$ 248,798,217</u>	<u>\$ 213,091,503</u>
Liabilities and Net Assets		
Liabilities:		
Deferred indemnities	\$ 4,264,150	\$ 6,528,022
Accounts payable	841,772	826,753
	<u>5,105,922</u>	<u>7,354,775</u>
Net Assets:		
Hail insurance reserve	12,524,482	9,200,000
Unrestricted	231,167,813	196,536,728
	<u>243,692,295</u>	<u>205,736,728</u>
Contingencies (note 10)	<u>\$ 248,798,217</u>	<u>\$ 213,091,503</u>

See accompanying notes.

On behalf of the Board.


Wayne Black, Director


Arnold Boyko, Director

consolidated statement of operations

Year ended December 31, 2017, with comparative figures for 2016

	<u>2017</u>	<u>2016</u>
Revenue:		
Assessments and premiums	\$ 93,581,522	\$ 91,242,862
Discounts	(2,771,647)	(2,519,402)
Penalties added	212,317	232,471
	<u>91,022,192</u>	<u>88,955,931</u>
Expenses:		
Indemnities	32,294,164	70,634,245
Reinsurance	16,063,070	14,986,448
Payments to RM's and agents	5,364,606	5,477,759
Administration	5,416,608	4,574,181
Adjustment costs	1,721,927	2,529,664
	<u>60,860,375</u>	<u>98,202,297</u>
Net underwriting income (loss)	<u>30,161,817</u>	<u>(9,246,366)</u>
Investment income (note 6)	7,793,750	15,809,775
Excess of revenue over expenses	<u>\$ 37,955,567</u>	<u>\$ 6,563,409</u>

See accompanying notes.

consolidated statement of changes in net assets

Year ended December 31, 2017 with comparative figures for 2016

	<u>2017</u>	<u>2016</u>
Hail insurance reserve:		
Balance, beginning of year	\$ 9,200,000	\$ 10,078,360
Allocation (to) from unrestricted net assets	3,324,482	(878,360)
	<u>12,524,482</u>	<u>9,200,000</u>
Unrestricted net assets:		
Balance, beginning of year	196,536,728	189,094,959
Excess of revenue over expenses	37,955,567	6,563,409
Allocation (to) from hail insurance reserve	(3,324,482)	878,360
	<u>231,167,813</u>	<u>196,536,728</u>
Total net assets	<u>\$ 243,692,295</u>	<u>\$ 205,736,728</u>

See accompanying notes.

consolidated statement of cash flows

Year ended December 31, 2017 with comparative figures for 2015

	2017	2016
Cash flows from (used in):		
Operations:		
Excess of revenue over expenses	\$ 37,955,567	\$ 6,563,409
Items not involving cash:		
Amortization of capital assets	349,422	341,194
Gain on sale of investments	(228,406)	(1,923,342)
Change in fair value of investments	(660,021)	(7,290,259)
Changes in non-cash operating items:		
Accounts receivable	713,700	586,794
) Accrued interest on investments	(14,609)	(804)
Deferred indemnities	(2,263,872)	1,035,340
Accounts payable	15,019	203,722
	35,866,800	(483,946)
Investing:		
Proceeds on sale or maturity of investments	33,326,456	43,001,158
Purchase of investments	(60,756,224)	(56,102,599)
Purchase of capital assets	(566,519)	(247,411)
	(27,996,287)	(13,348,852)
Increase (decrease) in cash	7,870,513	(13,832,798)
Cash, beginning of year	23,754,088	37,586,886
Cash, end of year	\$ 31,624,601	\$ 23,754,088

See accompanying notes.

notes to consolidated financial statements

December 31, 2017

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, 2017

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	10% - 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, 2017

4. Investments:

The Association's investments are as follows:

	2017	2016
Guaranteed investment certificates (GICs)	\$ 34,000,000	\$ 31,500,000
Bonds, debentures and notes:		
Federal government	1,161,791	1,102,805
Provincial government	21,661,061	22,293,340
Corporate	66,634,588	52,352,851
	123,457,440	107,248,996
Other investments ¹	77,030,196	64,920,445
	\$ 200,487,636	\$ 172,169,441

¹Includes mutual funds, income trusts, equities and real estate

notes to consolidated financial statements

December 31, 2017

4. Investments (continued):

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

	2017	2017	2016	2016
Term to maturity (years)	Fair value	Average effective rates	Fair value	Average effective rates
GICs:				
One or less	\$ 6,000,000	2.7%	\$ 12,000,000	2.8%
After one through five	28,000,000	3.3%	19,500,000	3.0%
Bonds, debentures and notes:				
Federal government:				
One or less	-	-%	23,355	8.3%
After one through five	1,161,791	3.5%	1,079,450	3.7%
Provincial government:				
One or less	4,046,510	3.7%	4,391,280	2.8%
After one through five	15,460,331	3.9%	15,182,041	3.7%
After five	2,154,220	5.4%	2,720,019	8.6%
Corporate:				
One or less	17,394,767	3.6%	18,362,645	3.7%
After one through five	37,549,111	2.2%	25,864,450	2.5%
After five	11,690,710	2.5%	8,125,756	2.6%
	\$ 123,457,440		\$ 107,248,996	

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, 2017

5. Capital assets:

			2017	2016
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 107,852	\$ -	\$ 107,852	\$ 107,852
Building	1,717,447	848,197	869,250	484,136
Furniture and equipment	1,008,982	810,484	198,498	198,969
Software	1,690,295	1,429,325	260,970	428,516
	\$ 4,524,576	\$ 3,088,006	\$ 1,436,570	\$ 1,219,473

Amortization expense of \$349,422 (2016 - \$341,194) was recorded in the current year and has been included in administration expense on the Statement of Operations.

6. Investment income:

	2017	2016
Investment income	\$ 6,905,323	\$ 6,596,174
Gain on sale of investments	228,406	1,923,342
Change in fair value of investments	660,021	7,290,259
	\$ 7,793,750	\$ 15,809,775

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 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 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, 2017

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, 2017 is limited to the fair value of the financial assets summarized as follows:

	2017	2016
	Fair value	Fair value
Cash	\$ 31,624,601	\$ 23,754,088
Investments ¹	129,969,648	109,013,538
Accrued interest on investments	1,260,859	1,246,250
Accounts receivable	13,988,551	14,702,251
	\$ 176,843,659	\$ 148,716,127

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, 2017

8. Financial risk management (continued):

Credit ratings for investments are as follows:

Credit Rating	2017	2017	2016	2016
	Fair value	Makeup of portfolio (%)	Fair value	Makeup of portfolio (%)
R1	\$ 34,000,000	26.2%	\$ 31,500,000	28.9%
AAA	4,428,095	3.4%	5,306,424	4.9%
AA+	1,040,310	0.8%	2,335,047	2.1%
AA	6,094,999	4.7%	5,595,436	5.1%
AA-	8,317,416	6.4%	7,184,774	6.6%
A+	31,972,505	24.6%	29,751,861	27.3%
A	2,488,519	1.9%	1,549,200	1.4%
A-	22,778,092	17.5%	7,505,340	6.9%
BBB+	11,601,982	8.9%	8,536,629	7.8%
BBB	6,474,053	5.0%	8,696,532	8.0%
BBB-	773,677	0.6%	1,052,295	1.0%
Total	\$ 129,969,648	100.0%	\$ 109,013,538	100.0%

One issuer accounts for 12.6% (2016 – 10.4%) 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 38.4% (2016 – 37.7%) of the fair value of the Association's total 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, 2017

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 \$102,328 (2016 - \$136,886) 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.

notes

the farmer's dollar since 1917



Paid Out for Claims	76.4¢
Paid Out for Expenses	13.2¢
Reserve	1.1¢
Reinsurance	9.3¢