

23

Municipal Hail Insurance

2023 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	Foster Warriner
Member of Executive Committee	Pauline Ziehl Grimsrud
Chief Executive Officer	Rodney Schoettler
Chief Operating Officer	Mark Holfeld
Claims Manager	Devin Cherneski
Office Manager	Lise Nargang

DIRECTORS

ELECTED UNTIL 2024

Maurice Berry, Carievale

Wayne Black, Tisdale

Blair Cummins, Blucher

ELECTED UNTIL 2025

John Wagner, Maple Creek

Foster Warriner, Alameda

Pauline Ziehl Grimsrud, Torquay

ELECTED UNTIL 2026

Jason Friesen, Watson

Murray Purcell, Saskatoon

Jozell Robberstad, Chaplin

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.

2024 Annual General Meeting

AGENDA

8:30 AM

Call to Order

Chairman's remarks and introduction of Directors

Adoption of Agenda

Adoption of minutes of last Annual Meeting (2023)

President's Report

Nomination for Election of Directors (closes at 9:00 a.m)

Speeches by Nominators and Candidates and election(s) where required

CEO's Report and introduction of Staff

Discussion and approval of the 2023 Consolidated Auditor's Report

Resolutions and Other Business

Adjournment



Wayne Black
President



Foster Warriner
Vice-President



Pauline Ziehl Grimsrud
Exec. Comm. Member



Murray
Purcell



Maurice
Berry



Blair
Cummins



John
Wagner



Jason
Friesen



Jozell
Robberstad



Rodney Schoettler
Chief Executive Officer

directors' report

Ladies and Gentlemen:

The Directors take pleasure in presenting the one hundred and seventh Annual Report with the Consolidated Auditors' Report for the year ended December 31, 2023. Also included are the details of the one hundredth Annual Report covering the operations of Additional Municipal Hail Insurance (AMHI) for the year ended December 31, 2023.

Early spring snowstorms and cool temperatures once again delayed seeding operations in most areas to start the 2023 season. Farmers in the northwest were the first in the field and by mid-May had 55 percent of the crop in the ground, while the province as a whole was only 38 percent complete and behind the five-year average of 53 percent.

By the end of May, 89 percent of the 2023 crop had been planted, compared to the five-year average of 92 percent. The west side of the province lead the way due to dryer conditions, while the east was delayed due to excess moisture. The most notable delay was in the southeast, which had completed only 80 percent of seeding operations by the end of the month.

The first week of June saw producers in most areas make good progress in seeding operations. Producers on the west side of the province had virtually completed seeding, while producers in the east had some work left, coming in at 94 percent complete. By mid-June 99 percent of the crop was in the ground. Overall, seeding went very well for the province, despite the delay from late spring storms, heavy rains and cool weather.

Approximately 37 million acres were seeded to major grains, oil seeds and specialty crops in Saskatchewan, of which Municipal Hail insured 15.3 million or 41.4 percent of the total seeded acres.

When producers filed their SMHI crop reports, they were offered the basic indemnity of \$25 per acre and a maximum of \$425 per acre. Again in 2023, the amount of coverage purchased per acre increased and as a result SMHI's business written grew from \$2.16 billion in 2022 to \$2.29 billion in 2023. Eighty-five 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.

The province experienced above average temperatures and very little precipitation during the remainder of June which caused crops to advance quickly. Although precipitation was limited, hail activity in June was above normal as Municipal Hail saw claims filed for storms occurring on 26 of 30 days totalling losses of \$5.7 million on 283,524 acres. The heaviest damage occurred as a result of a June 25th storm which produced \$3.2 million in losses on 93,100 acres. The majority of these losses came from the RM of North Battleford No. 437, where claim payments of nearly \$2.0 million were issued on 33,106 acres.

Cancellations received increased in 2023 due to drought conditions, totalling 67 - compared to the previous year's total of 31. These cancellations were received from 29 Rural Municipalities (RMs) for a total of 34,322 acres cancelled, reducing the 2023 hail taxes by \$213,553.

The warm temperatures and limited precipitation continued into July as crops continued to progress quickly across the province. The first major hailstorm of the season would occur on July 1st. This storm produced \$6.6 million in losses on 208,642 acres across 61 RMs, with the greatest damage being received in the RM of Maryfield No. 91. After the July 1st storm, hail activity would be lighter than normal through the first half of July. Crop yield potential declined on the west side of the province due to drought stress, heat, grasshoppers and gophers taking their toll. Those in the driest areas began to harvest in mid-July as crops continued to advance faster than normal. On July 22nd, a storm that began northwest of Swift Current would damage crops in the south-western part of the province as it made its way through the Rockglen area before moving into the United States. In total, this storm produced \$8.3 million in losses on 118,361 acres. The majority of the damage was recorded in the RMs of Wood River No. 74 and Glen Bain No. 105, with losses of \$4.2 million and \$2.0 million, respectively. Only a few days later, on July 25th, heavy hail would hit the west-central part of the province. In total, \$11.4 million in losses on 203,635 acres were recorded, making July 25th the most devastating storm date of 2023 season. The majority of the losses were seen in the RM of Oakdale No. 320, totalling \$4.2 million and the RM of Kindersley No. 290 totalling \$3.6 million. It would hail on only 21 of 31 days in the month of July, a month that traditionally sees storm activity every day. In the end a total of \$36 million in losses were incurred on 867,589 acres throughout the month of July.

Harvest efforts ramped up in early August on the west side of the province where dry conditions were prevalent throughout the growing season. Harvest would progress throughout the month with scattered showers in the early weeks causing only

a brief pause, and by the end of the month harvest was 51 percent complete, which was ahead of the five-year average of 34 percent. It hailed on 22 of 31 days in August with no major storms occurring in the month. In the end, August produced losses of \$13.6 million on 510,309 acres.

By the end of the first week of September 68 percent of the crop was harvested, which was well ahead of the five-year average of 52 percent. It would hail on only 8 out of 30 days in the month producing \$1.3 million in losses on 46,176 acres. Most of September would once again provide good harvest weather (with the exception of damp conditions in the latter part of the month) and by the end of September 95 percent of the crop was off province wide with the majority of remaining acres located in the east.

By mid-October harvest was all but complete with 98 percent of the crop in the bin. Warm, dry conditions led to an early harvest for many, and moisture conditions remained a concern for some producers heading into the winter, as many struggled through the season with infrequent and minimal rainfall.

Capacity issues in the hail insurance industry remained a concern in 2023, as producers purchased record levels of coverage, which led to some hail insurance providers reaching their limits early in the season. The Association again used its strong balance sheet and reinsurance capacity to remain open for business providing hail insurance coverage to those in need. On a combined basis the Association provided \$3.85 billion of coverage in 2023, compared to the prior year's total of \$3.77 billion.

The season produced 85 storms over 259 RMs, below the five-year average (2018-2022) of 90 storms. The total number of claims received totalled 3,671 with total acres claimed amounting to 1,739,383 falling well below the five-year average of 5,931 and 2,752,743, respectively.

Fire claims for the season totalled 12, which was down from the 19 fire claims recorded the previous year. Indemnity paid as a result of the fire claims amounted to just over \$103,000.

SMHI hail tax collections totalled 96 percent of the 2023 taxes levied compared to 94 percent for 2022.

During the period 1917 through 2023, Municipal Hail has paid indemnities amounting to 77.7¢ of each hail tax dollar levied.

This was the ninth year the Association provided crop hail coverage through AMHI for producers in Alberta and Manitoba. In Manitoba, 820,729 acres were insured, which produced \$6.6 million of premium income. In Alberta, 512,654 acres were insured, producing \$5.0 million of premium. The losses paid in these two provinces totalled \$5.8 million, with the loss to premium coming in at just over 50 percent combined.

In Municipal Hail's 107 years of providing crop hail protection for farmers and landowners, the Association has provided \$59.3 billion of coverage and paid losses totalling \$2.01 billion. This year, the Association provided \$3.85 billion of coverage and paid losses of \$57.8 million.

Directors Jason Friesen of Watson and Murray Purcell of Saskatoon were elected for an additional three year term and Jozell Robberstad of Chaplin was elected to her first three year term at the 2023 Annual Meeting. Director Robberstad is a Councillor at the Rural Municipality of Chaplin No. 164.

Director Wayne Black of Tisdale announced his retirement after serving 27 years on the Board. Mr. Black was first elected to the Board in 1997. Wayne served one year as the third member of the executive committee and was elected President in 2004, a position he held for 20 consecutive years. Director Black's leadership and guidance were an integral part of the Associations success over the past two decades. Wayne, we sincerely thank you for your contributions and dedication to Municipal Hail and we wish you and Betty all the best in your future endeavours.

It is with great sadness we must acknowledge the passing of our former Secretary Treasurer/CEO, Murray Otterson. Mr. Otterson joined Municipal Hail in August 1972 as the Assistant Office Manager. He was promoted to Assistant Secretary Treasurer in 1977 and then to Secretary Treasurer/CEO in 1987, a position he held with the Association until his retirement in 2009. Prior to his time with the Association, Mr. Otterson worked as the Municipal Secretary (Administrator) for the RM of Big Arm No. 251. Murray will be sadly missed by all those who had the privilege of knowing him.

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 2023.

statistics

The following is a comparison of the years 2023 and 2022:

	SMHI	AMHI	PMHI	2023	2022
Total Risk	\$2,294,962,018	\$1,319,601,494	\$237,934,955	\$3,852,498,467	\$3,772,289,313
Hail Taxes/Premiums	\$84,302,300	\$44,756,994	\$8,916,975	\$137,976,269	\$129,431,171
Indemnity Paid	\$32,762,647	\$21,079,935	\$3,987,049	\$57,829,631	\$99,099,157
Average Charged Rate	3.67%	3.39%	3.75%	3.58%	3.43%
Number of Claims	2,413	1,084	174	3,671	5,970
Loss to Risk	1.43%	1.60%	1.68%	1.50%	2.63%
Loss to Taxes/Premiums	38.86%	47.10%	44.71%	41.91%	76.57%
Average Cost per Claim	\$13,578	\$19,446	\$22,914	\$15,753	\$16,600

SMHI insured 11,225,522 acres in 2023, compared to 11,305,702 acres in 2022. The basic indemnity available in 2023 was \$25 per acre and the maximum was \$425 per acre.

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

	2023	2022
Assessment Applications (new)	644	882
Withdrawal Applications	622	524

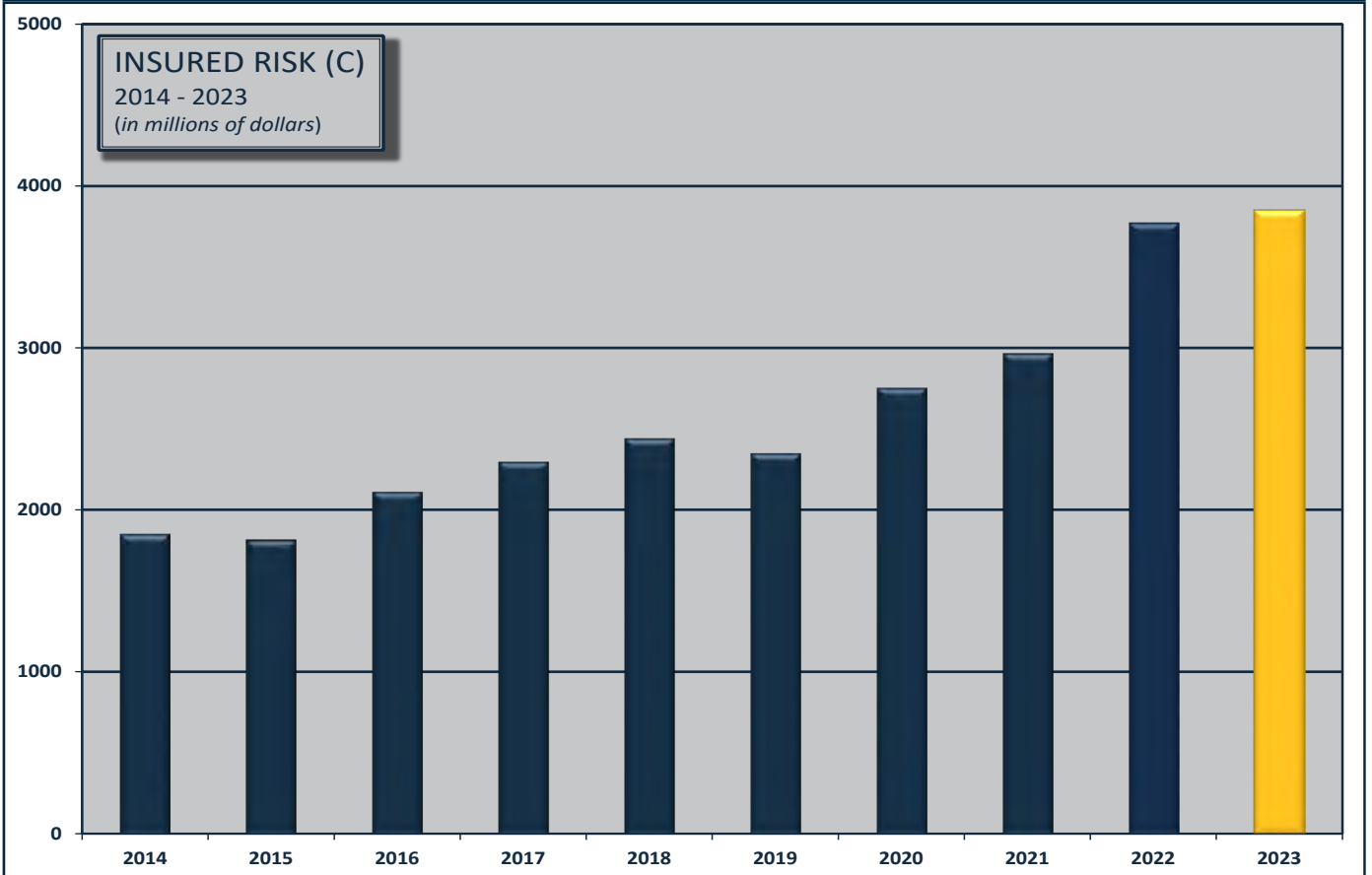
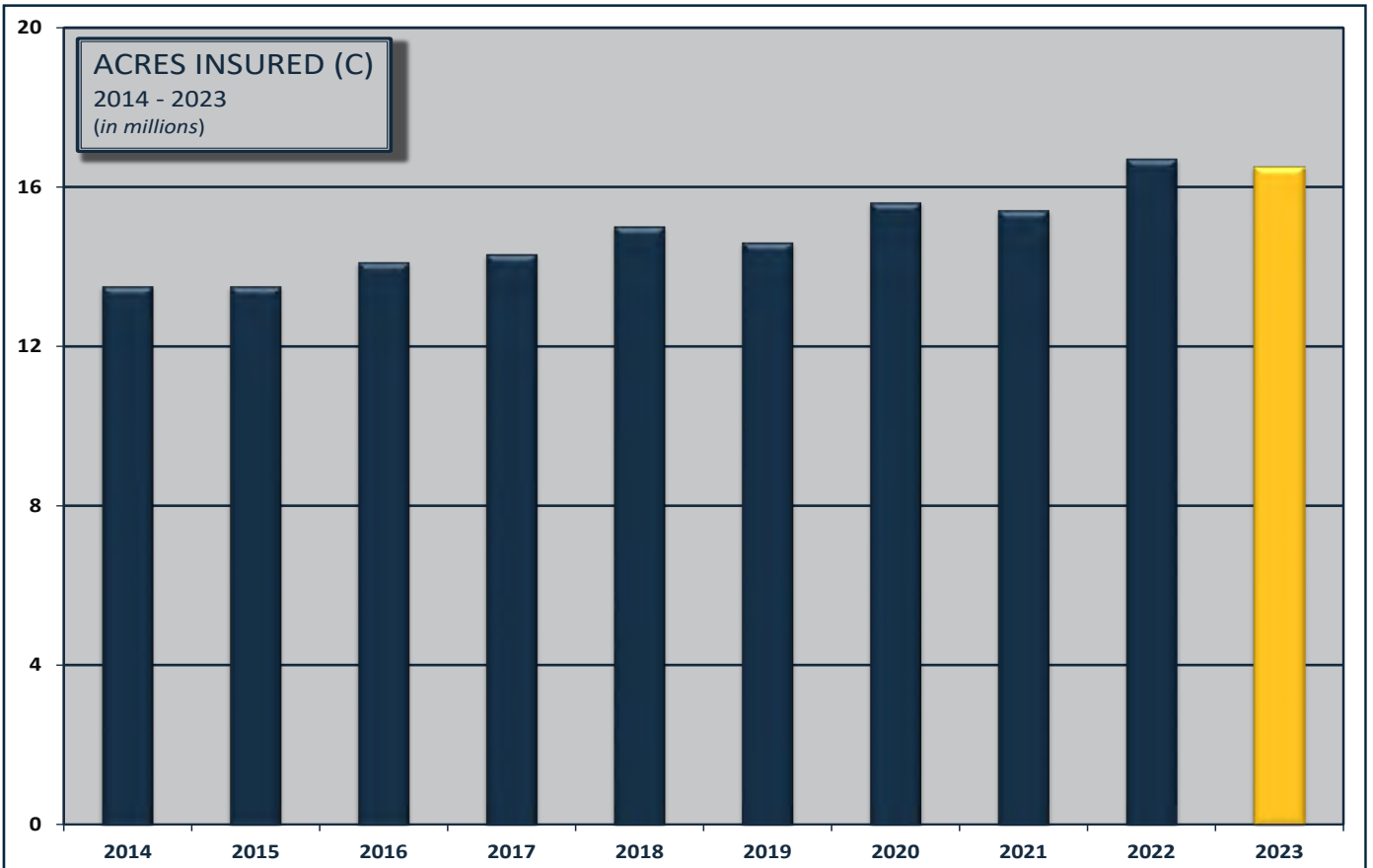
The terms of the following Board members expire at this Annual Meeting:

MAURICE BERRY

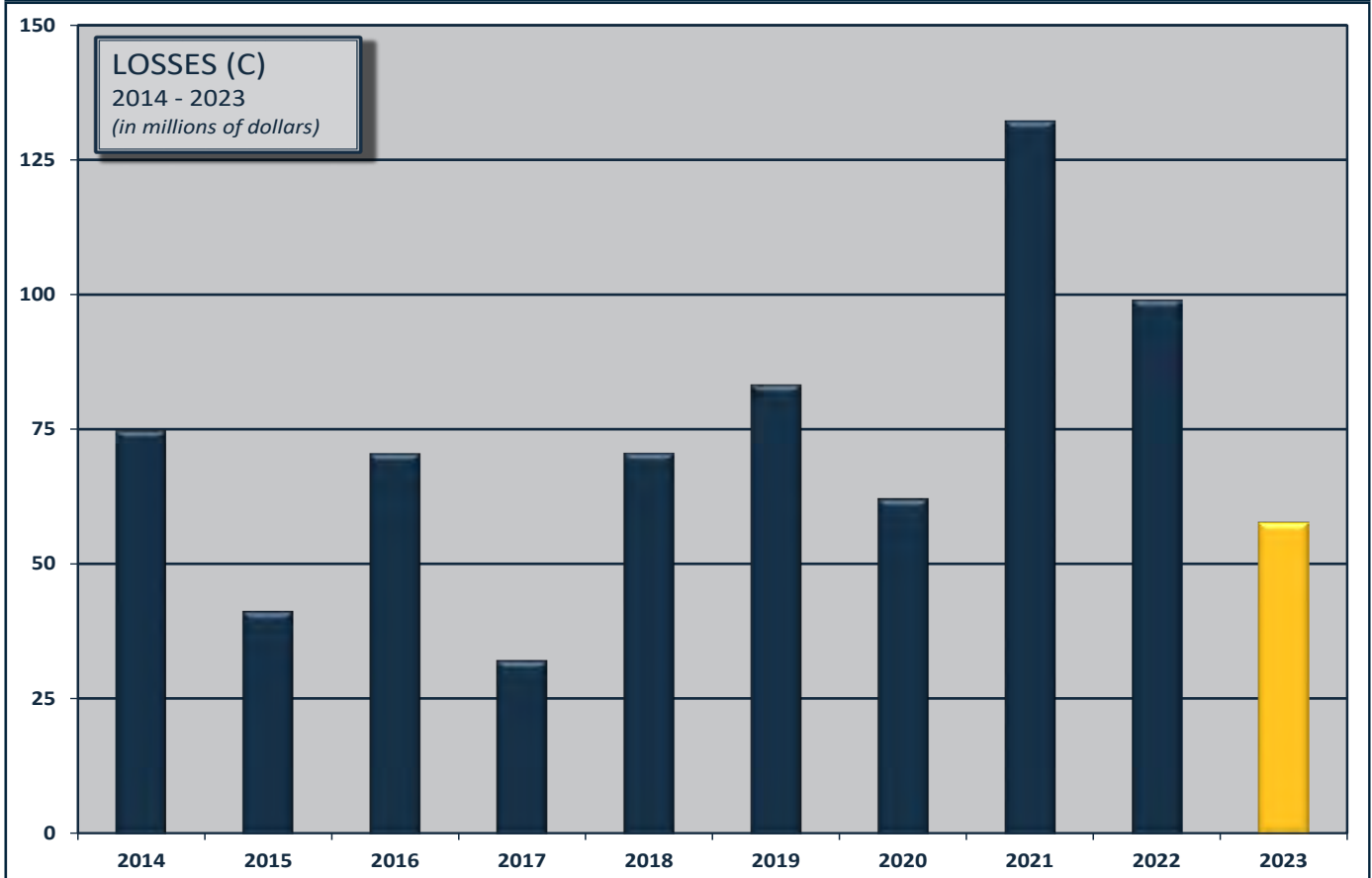
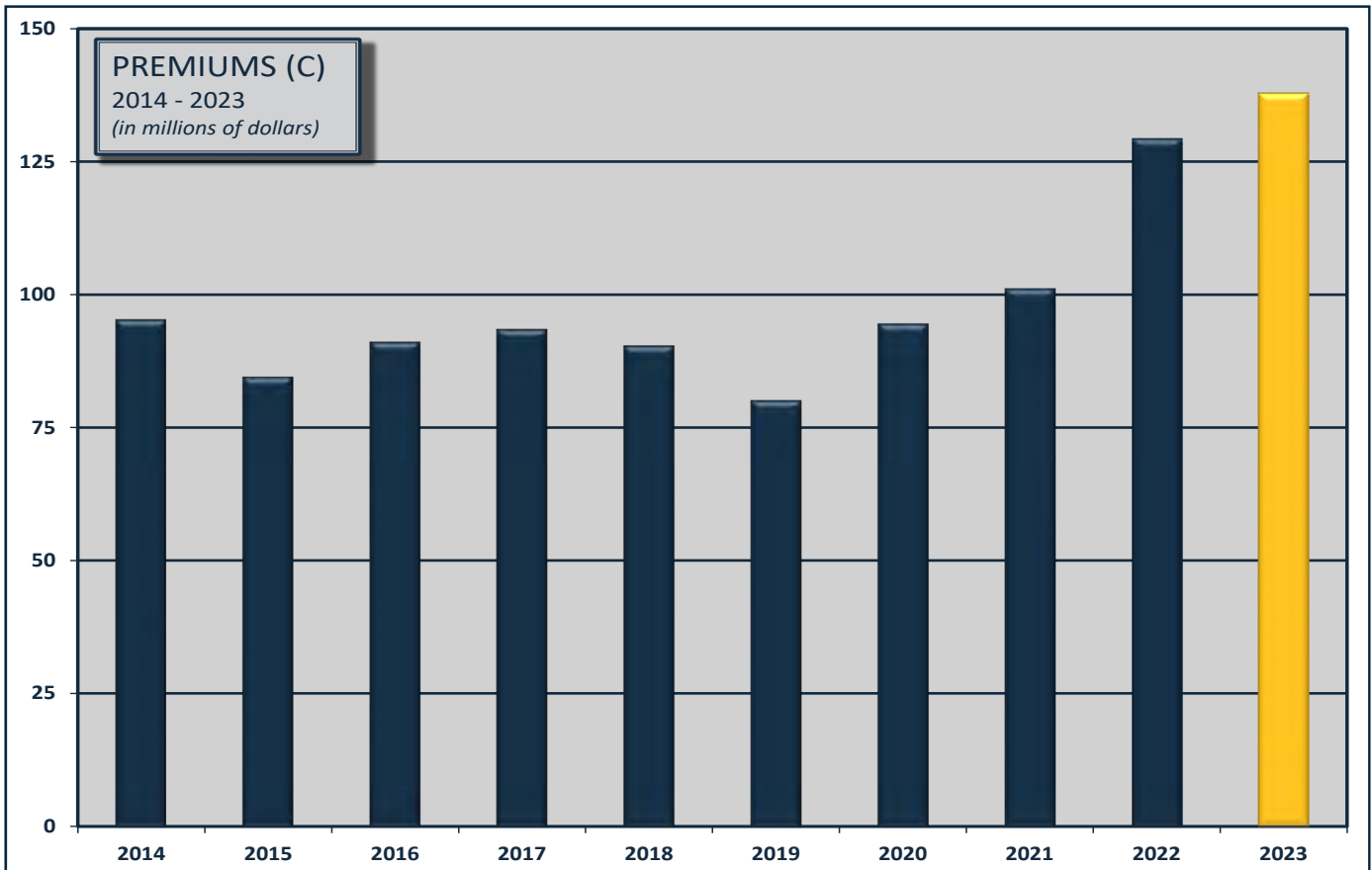
WAYNE BLACK

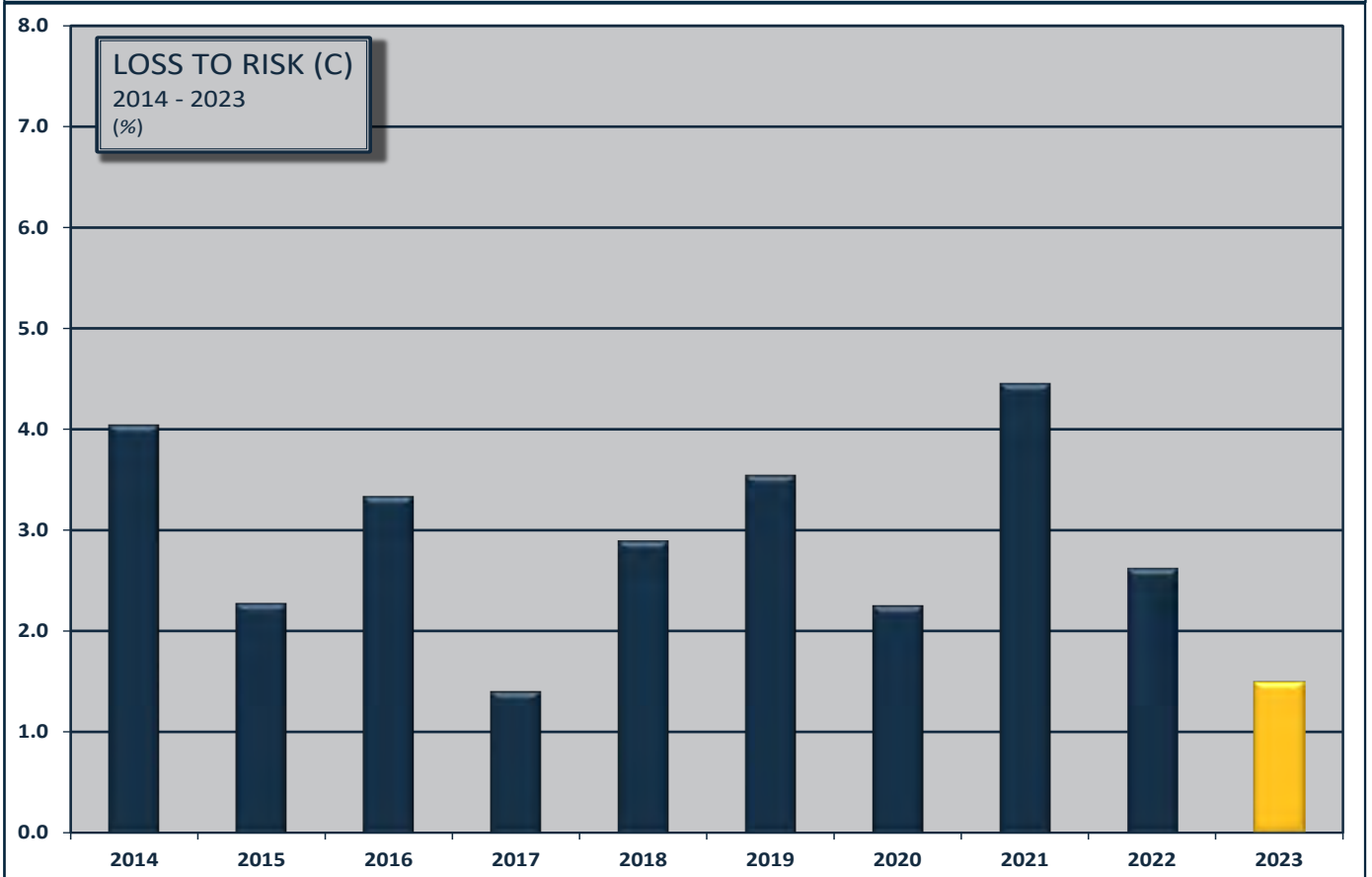
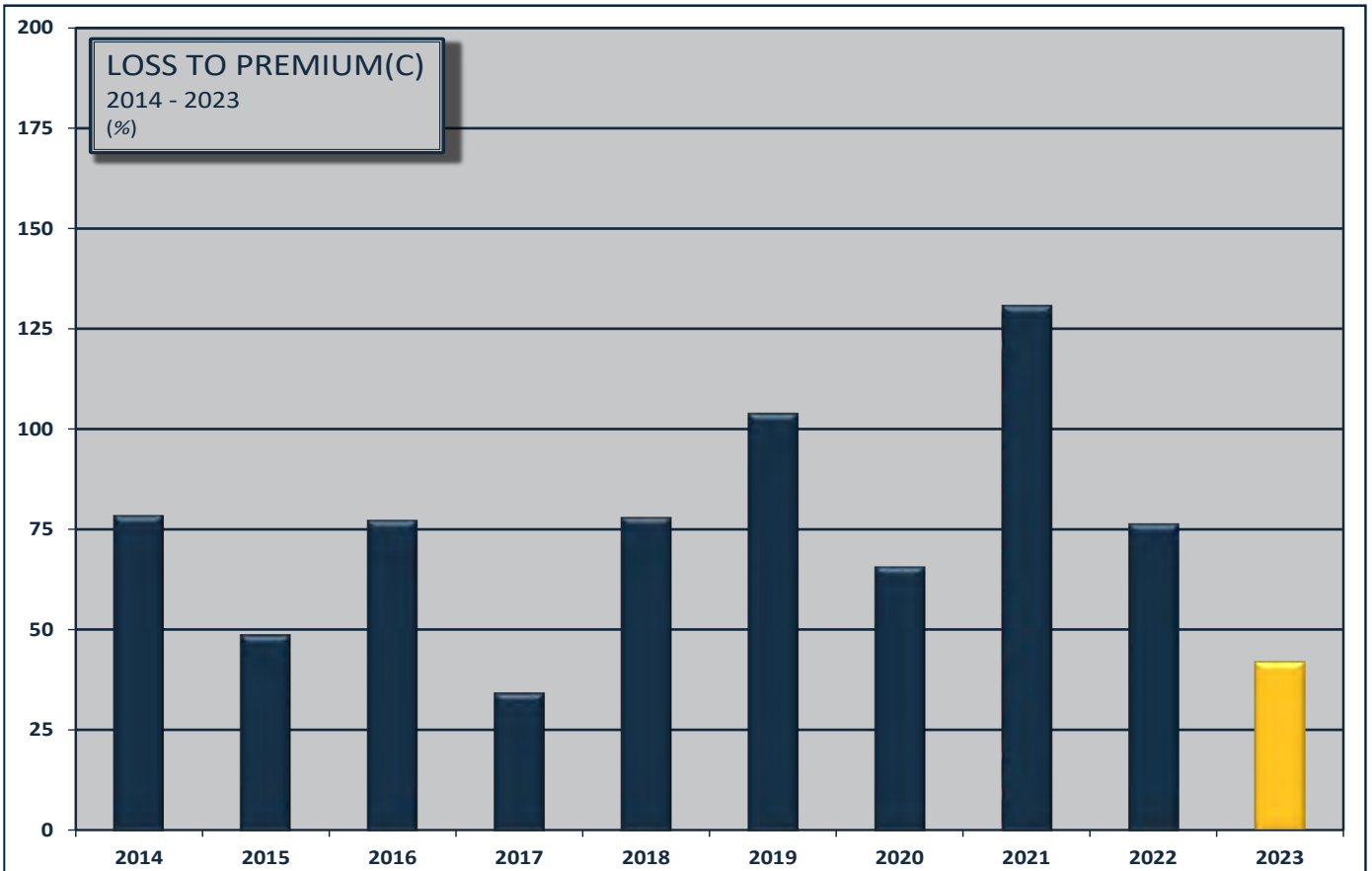
BLAIR CUMMINS

Regina, Saskatchewan
February 28th, 2024

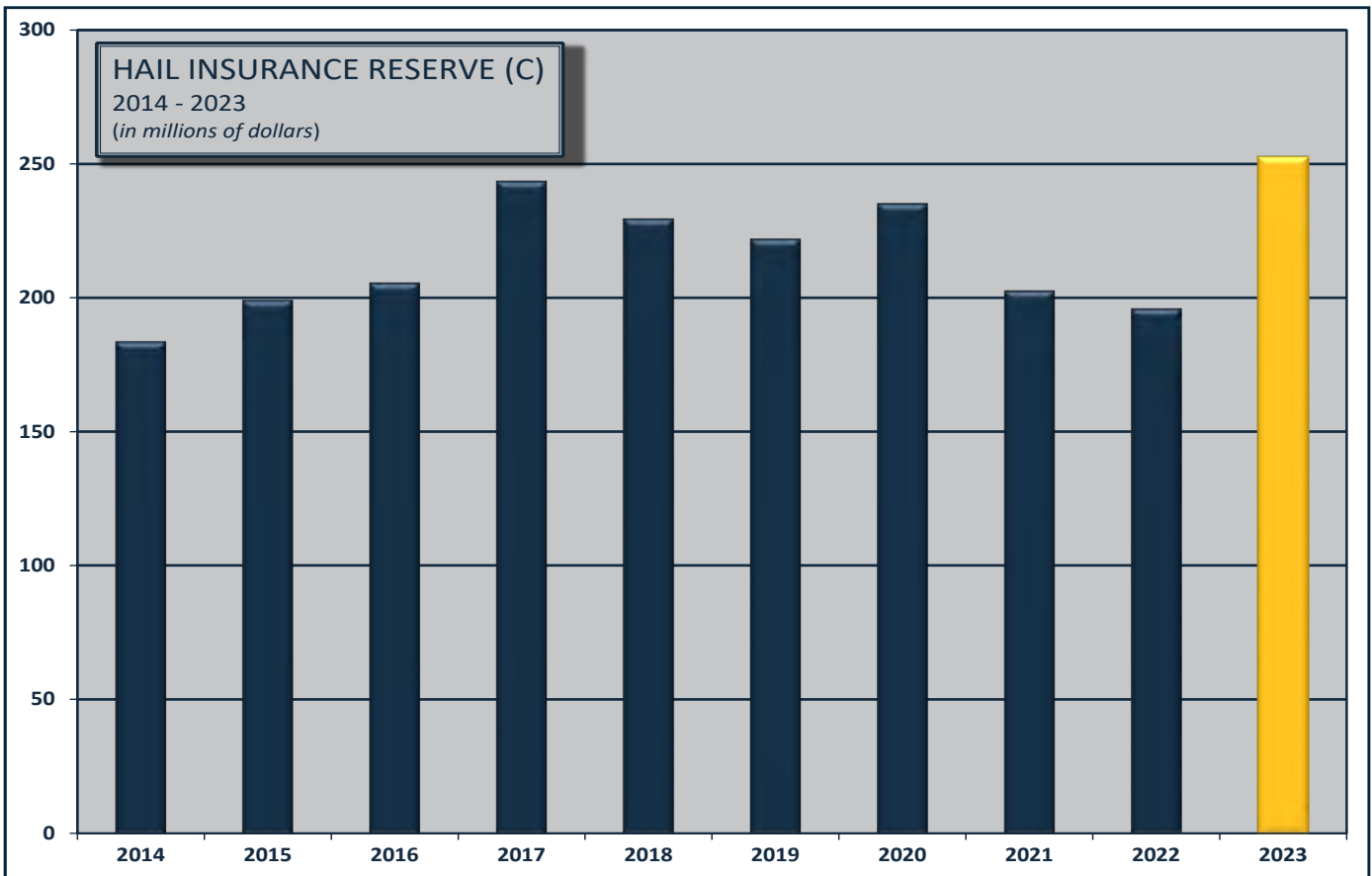


Municipal Hail
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INDEPENDENT AUDITOR'S REPORT

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, 2023
- 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, 2023 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 "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's 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 auditor's 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 auditor's report thereon, included in the annual report as at the date of this auditor's 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 auditor's report.

We have nothing to report in this regard.

Municipal Hail 2023 Annual Report

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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right. A horizontal line is drawn underneath the text.

Chartered Professional Accountants

February 28, 2024
Regina, Canada

consolidated statement of financial position

as at December 31:

	<u>2023</u>	<u>2022</u>
Assets		
Cash	\$ 54,447,971	\$ 32,660,872
Investments (note 4)	192,160,431	162,361,558
Accrued interest on investments	1,096,792	926,059
Accounts receivable	11,274,644	11,413,785
Capital assets (note 5)	3,040,237	3,023,423
	<u>\$ 262,020,075</u>	<u>\$ 210,385,697</u>
Liabilities and Net Assets		
Liabilities:		
Deferred indemnities	\$ 6,932,038	\$ 12,577,527
Accounts payable	2,272,465	1,718,112
	<u>9,204,503</u>	<u>14,295,639</u>
Net Assets:		
Hail insurance reserve	21,200,000	14,420,385
Unrestricted	231,615,572	181,669,673
	<u>252,815,572</u>	<u>196,090,058</u>
Contingencies (note 9)	<u>\$ 262,020,075</u>	<u>\$ 210,385,697</u>

See accompanying notes.

On behalf of the Board.



Wayne Black, Director



Foster Warriner, Director

consolidated statement of operations

Year ended December 31, 2023 with comparative figures for 2022

	<u>2023</u>	<u>2022</u>
Revenue:		
Assessments and premiums	\$ 137,976,269	\$ 129,431,171
Discounts	(4,147,978)	(3,814,204)
Penalties added	102,915	101,924
Ceded premiums	(6,768,750)	(12,950,000)
Ceded commission	1,286,062	2,460,500
	<u>128,448,518</u>	<u>115,229,391</u>
Expenses:		
Indemnities	57,829,631	99,099,157
Ceded indemnities	(3,161,163)	(9,633,049)
Reinsurance	14,382,941	14,194,926
Payments to RMs and agents	8,144,067	7,794,996
Administration	6,731,490	6,244,344
Adjustment costs	2,337,412	2,851,536
	<u>86,264,378</u>	<u>120,551,910</u>
Net underwriting income (loss)	<u>42,184,140</u>	<u>(5,322,519)</u>
Investment income (loss) (note 6)	14,541,374	(1,383,892)
Excess (deficiency) of revenue over expenses	<u>\$ 56,725,514</u>	<u>\$ (6,706,411)</u>

See accompanying notes.

consolidated statement of changes in net assets

Year ended December 31, 2023 with comparative figures for 2022

	<u>2023</u>	<u>2022</u>
Hail insurance reserve:		
Balance, beginning of year	\$ 14,420,385	\$ 13,113,052
Allocation from unrestricted net assets	6,779,615	1,307,333
Balance, end of year	<u>21,200,000</u>	<u>14,420,385</u>
Unrestricted net assets:		
Balance, beginning of year	181,669,673	189,683,417
Excess (deficiency) of revenue over expenses	56,725,514	(6,706,411)
Allocation to hail insurance reserve	(6,779,615)	(1,307,333)
Balance, end of year	<u>231,615,572</u>	<u>181,669,673</u>
Total net assets	<u>\$ 252,815,572</u>	<u>\$ 196,090,058</u>

See accompanying notes.

consolidated statement of cash flows

Year ended December 31, 2023 with comparative figures for 2022

	<u>2023</u>	<u>2022</u>
Cash flows from (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 56,725,514	\$ (6,706,411)
Items not involving cash:		
Amortization of capital assets (note 5)	366,246	251,151
Gain on sale of investments (note 6)	(308,428)	(423,822)
Change in fair value of investments (note 6)	(4,192,461)	11,567,694
Changes in non-cash operating items:		
Accrued interest on investments	(170,733)	43,279
Accounts receivable	139,141	(1,438,727)
Deferred indemnities	(5,645,489)	(7,177,905)
Accounts payable	554,353	492,754
	<u>47,468,143</u>	<u>(3,391,987)</u>
Investing:		
Proceeds on sale or maturity of investments	41,093,682	42,369,127
Purchase of investments	(66,391,665)	(27,944,125)
Purchase of capital assets	(383,061)	(284,417)
	<u>(25,681,044)</u>	<u>14,140,585</u>
Increase in cash	<u>21,787,099</u>	<u>10,748,598</u>
Cash, beginning of year	32,660,872	21,912,274
Cash, end of year	<u>\$ 54,447,971</u>	<u>\$ 32,660,872</u>

See accompanying notes.

notes to consolidated financial statements

December 31, 2023

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 Insurance (AMHI) to provide spot loss hail insurance coverage and Prairie Municipal Hail Insurance (PMHI) to act as an agency for AMHI.

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, AMHI & PMHI. All significant intercompany transactions have been eliminated.

(b) Financial assets and liabilities:

Financial instruments are recorded at fair value on initial recognition. Equity instruments, bonds, debentures, mutual funds and pooled funds 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, 2023

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 less accumulated amortization. Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Building	3%
Intellectual property	10%
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, AMHI, has established a hail insurance reserve pursuant to Section 8-94 of *The 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.

AMHI allocated \$6,779,615 to the Hail Insurance Reserve in 2023 to bring the balance at December 31, 2023 to \$21,200,000, which is in excess of 50% of the prior year's net hail insurance premium written of \$42,380,866. Net hail insurance premium written is composed of gross premiums related to hail insurance policies written, less associated discounts and amounts ceded to reinsurers.

(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, 2023

4. Investments:

The Association's investments are as follows:

	2023	2022
Guaranteed investment certificates (GICs)	\$ 18,018,892	\$ 22,184,000
Bonds, debentures and notes:		
Federal government	6,278,165	4,212,986
Provincial government	3,820,163	3,787,409
Corporate	48,882,170	23,955,714
Fixed income funds ¹	15,725,186	16,083,914
	92,724,576	70,224,023
Equities	57,112,972	53,225,516
Mutual funds	8,419,319	7,763,108
Pooled funds	18,876,674	17,621,531
Other investments	15,026,890	13,527,380
	\$ 192,160,431	\$ 162,361,558

¹Includes bonds, debentures and notes

5. Capital assets:

	2023		2022	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 891,465	\$ -	\$ 891,465	\$ 891,465
Building	1,859,213	1,047,990	811,223	845,521
Intellectual property	15,514	4,499	11,015	12,567
Furniture and equipment	1,316,061	1,037,189	278,872	195,319
Software	3,245,355	2,197,693	1,047,662	1,078,551
	\$ 7,327,608	\$ 4,287,371	\$ 3,040,237	\$ 3,023,423

Amortization expense of \$366,246 (2022 - \$251,151) was recorded in the current year and has been included in administration expense on the statement of operations.

notes to consolidated financial statements

December 31, 2023

6. Investment income (loss):

	2023	2022
Investment income	\$ 10,040,485	\$ 9,759,980
Gain on sale of investments	308,428	423,822
Change in fair value of investments	4,192,461	(11,567,694)
	\$ 14,541,374	\$ (1,383,892)

7. Reinsurance:

The Association follows the policy of reinsuring their undertakings of indemnity which limits the liability of the Association 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, liquidity risk and interest rate 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, 2023

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, 2023 is limited to the fair value of the financial assets summarized as follows:

	2023	2022
	Fair value	Fair value
Cash	\$ 54,447,971	\$ 32,660,872
Investments ¹	92,724,576	70,224,023
Accrued interest on investments	1,096,792	926,059
Accounts receivable	11,274,644	11,413,785
	\$ 159,543,983	\$ 115,224,739

¹Includes GICs, bonds, notes and debentures

Receivables are mostly due from 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, 2023

8. Financial risk management (continued):

Credit ratings for investments are as follows:

Credit Rating	2023	2023	2022	2022
	Fair value	Makeup of portfolio (%)	Fair value	Makeup of portfolio (%)
R1	\$ 12,000,000	12.9%	\$ 22,184,000	31.6%
AAA	6,278,165	6.8%	4,212,986	6.0%
AA	6,388,968	6.9%	2,858,262	4.1%
AA-	2,008,909	2.2%	229,402	0.3%
A+	8,087,813	8.7%	1,160,008	1.6%
A	16,850,542	18.2%	8,047,139	11.5%
A-	22,345,477	24.1%	9,326,849	13.3%
BBB+	987,100	1.1%	4,035,980	5.7%
BBB	1,062,600	1.1%	893,166	1.3%
BBB-	989,816	1.1%	1,192,317	1.7%
Not rated	15,725,186	16.9%	16,083,914	22.9%
Total	\$ 92,724,576	100.0%	\$ 70,224,023	100.0%

Not rated investments consist of fixed income funds that contain rated investments where no rating is established for the fund as a whole.

One issuer accounts for 12.2% (2022 - 8.9%) 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.

Equities, mutual funds and pooled funds comprise 40.3% (2022 - 47.2%) 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, 2023

8. Financial risk management (continued):

(d) Interest rate risk:

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

	2023	2023	2022	2022
Term to maturity (years)	Fair value	Average effective rates	Fair value	Average effective rates
GICs:				
One or less	\$ 3,000,000	3.2%	\$ 18,184,000	3.1%
After one through five	15,018,892	4.9%	4,000,000	2.7%
Bonds, debentures and notes:				
Federal government:				
One or less	433,060	5.0%	1,635,637	2.2%
After one through five	3,138,635	4.1%	2,577,349	1.7%
After five	2,706,470	3.5%	-	0.0%
Provincial government:				
One or less	901,623	7.7%	-	0.0%
After one through five	2,918,540	3.0%	1,879,187	5.2%
After five	-	0.0%	1,908,222	3.1%
Corporate:				
One or less	12,267,083	5.0%	11,582,801	4.9%
After one through five	13,145,196	4.9%	5,429,767	4.3%
After five	23,469,891	5.6%	6,943,146	3.5%
Fixed income funds:				
One or less	15,725,186	5.0%	16,083,914	4.4%
	\$ 92,724,576		\$ 70,224,023	

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.

notes to consolidated financial statements

December 31, 2023

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 \$169,518 (2022 - \$155,916) are included in administration expense and comprise the employer contributions for current service of employees during this period. The Association's liability is limited to the required contributions.

THE Farmers Dollar

Since 1917



Paid Out for Claims 77.7 cents

Paid Out for Expenses 13.5 cents

Reserve (1.2) cents

Reinsurance 10.0 cents



SMHI



AMHI



PMHI