Government of
Saskatchewan

Annual Report
2004-2005

Agricultural Credit Corporation of Saskatchewan

Saskatchewan Centennial 2005™

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Letter of Transmittal

Regina, Saskatchewan
June 10, 2005

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to present the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2005.

Respectfully submitted,

Mark Wartman
Minister of Agriculture and Food

Year in Review

The ACS loan portfolio was reduced from $54 million to $45.7 million while the number of loans decreased from 2,181 to 1,856. In addition, ACS holds assets of $6.6 million that were acquired as the result of settlement, quit claim or foreclosure.

Guarantees provided to lenders under The Livestock Drought Loan Program and

The BSE Livestock Loan Guarantee Program were reduced by $10.1 million to $35.7 million this past fiscal year. There continues to be uncertainty and difficulties for the agriculture industry due to the continued closure of the border as a result of the Bovine Spongiform Encephalopathy (BSE) case found in 2003. To provide support to the industry during these difficult times amendments were made to the guarantee regulations governing the programs to allow producers to defer their 2004 principal loan payments and extend the term of their loan by one year. Even with these amendments ACS paid out $1.3 million to lenders as a result of claims on the guarantees and these loans are now being administered by ACS.

ACS continues to work diligently and sensitively with customers. We have made steady progress on loan portfolio collection.

The Agri-Food Equity Fund (AFEF) continues to be wound down. The remaining investment portfolio of $14.5 million is invested in 13 companies.

Management's Responsibility for the Annual Report

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by Meyers Norris Penny LLP whose report follows.

Joe Rakochy
Manager

David Boehm
Director

Swift Current, Saskatchewan
April 14, 2005

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the consolidated balance sheet of Agricultural Credit Corporation of Saskatchewan as at March 31, 2005 and the consolidated statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan

Meyers Norris Penny LLP

April 14, 2005

Chartered Accountants

Agricultural Credit Corporation of Saskatchewan
Consolidated Balance Sheet
As at March 31, 2005

(in thousands of dollars)

	2005	*2004*
Assets		
Cash	**295**	179
Short-term investments	**297**	-
Accounts receivable	**305**	-
Inventory	**291**	-
Due from the General Revenue Fund	**3,559**	4,259
Loans receivable (Notes 4 and 5)	**28,147**	34,856
Assets held for resale (Note 6)	**3,725**	4,886
Property, plant and equipment (Note 7)	**1,579**	-
Investments (Note 8)	**910**	4,928
	39,108	49,108
Liabilities		
Accounts payable and accrued liabilities	**885**	2
Provision for loss on Livestock Drought Loan Program (Note 9)	**1,785**	1,800
Provision for loss on BSE Loan Program (Note 9)	**4,848**	5,295
Notes payable (Note 10)	**-**	9,100
Long-term debt (Note 10)	**7,749**	10,250
	15,267	26,447
Equity		
Accumulated surplus	**23,841**	22,661
	39,108	49,108

Contingencies and commitments (Note 9)

Approved on behalf of the board

Doug Matthies

Doug Matthies
Director

Hal Cushon

Hal Cushon
Director

Agricultural Credit Corporation of Saskatchewan

Consolidated Statement of Operations and Surplus

For the year ended March 31, 2005

(in thousands of dollars)

	2005	2004
Revenue *(Note 11)*		
Operating revenue	**7,565**	4,625
Expenses		
Cost of goods sold and overhead expenses	**3,222**	-
Amortization	**121**	-
Selling and administration expenses	**670**	-
Interest expense	**118**	494
	4,131	494
Surplus before the following	**3,434**	4,131
Other income (expense)		
Livestock Drought Loan Program interest subsidies (Note 9)	**-**	(336)
Investment loss provision	**(275)**	(1,082)
Loan loss provision	**(27)**	(3,377)
Counselling and Assistance For Farmers recoveries (Note 4f)	**302**	200
Grants from General Revenue Fund (Note 12)	**-**	4,259
Write down of carrying value of assets (Note 2)	**(2,254)**	-
	(2,254)	(336)
Surplus for the year	**1,180**	3,795
Accumulated surplus beginning of year	**22,661**	18,866
Accumulated surplus - end of year	**23,841**	22,661

Consolidated Statement of Cash Flows

For the year ended March 31, 2005

(in thousands of dollars)

	2005	*2004*
Cash provided by (used for) the following activities		
Operating		
Surplus for the year	**1,180**	3,795
Items not affecting cash		
Loan loss provision	**27**	3,377
Investment loss provision	**275**	1,082
Amortization	**121**	-
Write down of carrying value of assets	**2,254**	-
Changes in working capital other than cash (Note 13)	**841**	(5,624)
Loan payments received	**7,389**	8,601
	12,087	11,231
Investing		
Purchase of property, plant and equipment	**(145)**	-
Cash acquired on acquisition of subsidiary	**72**	-
Purchase of short term investments	**(297)**	-
	(370)	-
Financing		
Repayment of long-term debt and notes payable	**(11,601)**	(23,617)
Proceeds from notes payable	**-**	9,100
	(11,601)	(14,517)
Increase (decrease) in cash resources	**116**	(3,286)
Cash resources, beginning of year	**179**	3,465
Cash resources, end of year	**295**	179

1. Status of Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to Saskatchewan Agriculture, Food and Rural Revitalization, however ACS still is responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

2. Significant Accounting Policies

a) Basis of Presentation

In the prior year, ACS had an agreement for sale for the disposition of its equity interest in one of its investments within the Agri-Food Equity Fund Division. During the year, the purchaser (the minority shareholder) defaulted on the agreement and forfeited the shares to ACS resulting in ACS becoming the 100 per cent shareholder of the company and recognizing a write down of assets of $2,254,000. As a result, ACS has consolidated the operations, assets and liabilities of its subsidiary effective April 1, 2004.

Current assets acquired	$ 624,000
Property, plant and equipment	2,510,000
Current liabilities acquired	(1,340,000)
	$ 1,794,000

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements include the accounts of ACS and its wholly owned subsidiary. All significant intercompany transactions and balances have been eliminated. ACS and its subsidiary do not have coterminous year-ends and these consolidated financial statements reflect ACS's operations for the year ended March 31, 2005 and its subsidiary's operations for the year ended December 31, 2004.

b) Under Section 29 of The Agricultural Credit Corporation of Saskatchewan Act, the Minister of Agriculture, Food and Rural Revitalization may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the balance sheet as unexpended grants repayable.

New expenditures incurred in a fiscal year which exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

c) Short-term investments are recorded at cost and have original maturities of one year or less.

d) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. Fair market value is determined by the market value of the assets acquired. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets. The provision for losses represents management's estimate of possible losses on assets held for resale.

e) Investments are accounted for at cost. A provision for investment loss is recorded representing management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

f) Inventory is valued at the lower of cost and net realizable value. Cost is determined by the direct costing and first in, first out methods.

g) Property, plant and equipment are stated at cost. Amortization is provided using the following methods and annual rates:

Buildings	Straight-line	40 years
Computer equipment	Declining balance	30 per cent
Equipment	Straight-line	20 years

h) An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The Corporation records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. ACS estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. Management performs a net present value calculation on a sample of loans within the loan portfolio and extrapolates the results of the analysis to the entire loan portfolio population. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to underlying security value. As management identifies individual impaired loans, it assigns a specific allowance to the loan and adjusts the general allowance accordingly.

i) Revenue earned on the outstanding loan balance is recognized as earned, based on interest rates specific to each individual loan program. Dividend and interest income on the investment portfolio is recognized as earned. Sales revenue is recognized as the product is delivered to the customer.

3. Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. Also, in determining estimates of net realizable value for its investments, the Corporation relies on assumptions regarding financial performance as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying the investment valuations are limited by the availability of reliable data and the uncertainty of future events. In addition, there is management judgement involved in estimating the fair value of assets held for resale. There is also judgement with respect to management's estimate of losses on loans as a result of the guarantee programs. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term.

4. Loan Programs

a) Capital Loan Program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 5 per cent and 13½ per cent. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment Loan Program

Investment loans bear interest at rates between 6½ per cent and 10½ per cent and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production Loan Program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6 per cent, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2 per cent. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock Cash Advance Program

Effective August 1, 1993, customers with livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2 per cent over a maximum five-year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9 per cent.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring Seeding Loan Program

During the 1992 fiscal year, the Corporation paid out $48.6 million to honour guarantees on loans granted by financial institutions under the Spring Seeding Loan Program. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and Assistance For Farmers Program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and Assistance For Farmers Program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5 per cent. The loans are secured by way of an assignment of security from the original lender.

g) BSE Livestock Loan Program

During the 2005 fiscal year, the Corporation paid out $1.2 million to honour guarantees on loans granted by financial institutions under the BSE Livestock Loan Guarantee Program. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

h) Livestock Drought Loan Program

During the 2005 fiscal year, the Corporation paid out $ .1 million to honour guarantees on loans granted by financial institutions under the Livestock Drought Loan Guarantee Program. The loans bear interest at prime plus 2 per cent.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

i) Agri-Food Equity Fund Division (AFEF) debentures

On February 28, 2003, the AFEF debentures were transferred to ACS at their net book value. AFEF debentures include interest-bearing instruments at rates ranging from 6 per cent to 15 per cent with maturities extending to the year 2007. The profitability of the investee determines the repayment of principal and interest on the participating debenture.

5. Loans Receivable

	2005			2004		
	Gross	**Allowance**	**Net**	Gross	Allowance	Net
	(in thousands of dollars)			(in thousands of dollars)		
Capital Loans	**35,673**	**10,224**	**25,449**	42,734	11,760	30,974
Investment Loans	**307**	**156**	**151**	320	155	165
BSE loans	**1,141**	**400**	**741**	–	–	–
LDLP loans	**89**	**–**	**89**	–	–	–
Production Loans	**559**	**329**	**230**	933	567	366
Livestock Cash Advances	**377**	**262**	**115**	477	311	166
Spring Seeding Loans	**8**	**2**	**6**	9	3	6
Counselling and Assistance for Farmers Loans	**635**	**635**	**–**	903	903	–
AFEF debentures	**6,957**	**5,591**	**1,366**	8,634	5,455	3,179
	45,746	**17,599**	**28,147**	54,010	19,154	34,856

During the year a number of the Corporation's customers refinanced their Production Loans, Livestock Cash Advances, Spring Seeding Loans and Counselling and Assistance For Farmers loans under the Capital Loan Program.

6. Assets Held For Resale

	2005	2004
	(in thousands of dollars)	
Cost	**6,586**	7,760
Provision for losses	**(2,861)**	(2,874)
	3,725	4,886

Assets acquired are a result of settlement, quit claim or foreclosure and the Corporation actively pursues the sale of these assets in a timely manner.

7. Property, plant and equipment

	Cost	**Accumulated Amortization**	**2005**	2004
			(in thousands of dollars)	
Land	**16**	**–**	**16**	–
Building	**796**	**95**	**701**	–
Computer equipment	**6**	**4**	**2**	
Equipment	**1,124**	**264**	**860**	
		–		
	1,942	**363**	**1,579**	–

8. Investments

	2005	2004
	(in thousands of dollars)	
Common shares	**5,925**	7,640
Preferred shares	**1,655**	5,825
Agreement for sale	**–**	2,700
	7,580	16,165
Less: provision for investment loss	**(6,670)**	(11,237)
	910	4,928

9. Commitments

Guaranteed loans under The Agricultural Credit Corporation of Saskatchewan Act

a) Guaranteed Vendor Mortgage

Guarantees may be provided by the Corporation to vendors under the Guaranteed Vendor Mortgage program for the sale of farmland and existing improvements. The guarantees are for 100 per cent of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2005 is $223,721 (2004 $270,234).

b) Livestock Drought Loan Program (LDLP)

The Livestock Drought Loan Program was enacted under The Agricultural Credit Corporation of Saskatchewan Act in response to the severe drought experienced through parts of the province in 2002. The loans were made through financial institutions and are 100 per cent guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2005 is $6,946,738 (2004 - $10,432,840). The Corporation has recorded a provision of $1,785,000 to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. In addition, the first year's interest on the loans was in the form of a grant directly to the lenders on behalf of the participants. The accumulative interest paid on these loans was $535,026 (2004- $535,026). All loans are to be fully repaid by December 31, 2007.

c) BSE Livestock Loan Guarantee Program (BSE)

In September 2003, the BSE Livestock Loan Guarantee Program was enacted under The Agricultural Credit Corporation of Saskatchewan Act in response to the May 2003 border closure. The program was designed to provide support to livestock producers affected by export market restrictions and to assist with cash flow. The loans were made through financial institutions and are 100 per cent guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2005 is $26,887,982 (2004 - $35,350,605). The Corporation has recorded a provision of $4,848,000 to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. All loans are to be repaid in full by January 31, 2009.

10. Borrowing

Sections 17 and 19 of The Agricultural Credit Corporation of Saskatchewan Act allows the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2,000,000,000.

a) Long-term debt

The long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. The loan is non-interest bearing with no repayment terms.

b) Notes payable

Notes payable are due to the Province of Saskatchewan General Revenue Fund within 90 days. Interest was charged at an average rate of 2.08 per cent (2004 – 1.97 per cent).

11. Revenue

	2005	2004
	(in thousands of dollars)	
Interest revenue	**3,385**	4,198
Sales revenue	**3,699**	–
Interest recovery on impaired loans	**169**	28
Investments	**244**	178
Other interest	**12**	3
Dividend income	**56**	218
	7,565	4,625

12. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances from these transactions are included in the balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described in the financial statements and notes thereto.

At March 31, 2005, the Corporation has a receivable due from the General Revenue Fund of $3,559,000 (2004 - $4,259,000) for the loan loss funding on the BSE Program.

During the year, the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of $5,875 (2004 $19,218) was received from SCIC and paid back to Province of Saskatchewan General Revenue Fund.

All administration expenses for the Corporation are paid for by Saskatchewan Agriculture, Food and Rural Revitalization. These costs amounted to approximately $1,791,000 (2004 $1,780,000).

13. Change in Working Capital Other Than Cash

	2005	2004
	(in thousands of dollars)	
Decrease in accrued interest on loans receivable	**380**	225
Decrease in accrued interest on debt payable	**–**	(961)
Decrease in assets held for resale	**1,161**	1,166
Decrease (increase) in accounts receivable	**(53)**	64
Decrease in inventory	**16**	–
Increase in accounts payable and accrued liabilities	**121**	–
Increase in other operating activities	**(1,484)**	(1,859)
Decrease (increase) in due from General Revenue Fund	**700**	(4,259)
	841	(5,624)

14. Financial Instruments

Fair Values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

a) Cash, short-term investments, accounts receivable, due from the General Revenue Fund, accounts payable and accrued liabilities:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

c) Long-term debt:

The long-term debt is non-interest bearing and has no fixed repayment terms and is not practicable to determine its fair value.

d) AFEF Debentures and investments:

Fair value was not established for the AFEF debentures and investments due to there being no established market for the investments made by the Corporation.

Credit Risk Management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans the Corporation requires security agreements and personal guarantees on all loans.

Credit risk also arises from the potential that an investment will fail to perform its obligations. The Corporation had a mandate to promote, encourage and contribute to the development of agriculture in Saskatchewan, which involves start-up operations, new company products and expansions. The Corporation conducts a thorough due diligence process prior to committing to the investments and actively monitors the financial health of its investments on an on-going basis.

15. Comparative Figures

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