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ANNUAL ACCOUNTABILITY  
REPORT

*for the fiscal year  
ending March 31, 2004*


**Nova Scotia  
Farm Loan Board**

Her Honour  
The Honourable Myra A. Freeman  
Lieutenant-Governor of the  
Province of Nova Scotia

May It Please Your Honour,

I have the honour to submit the Annual Accountability Report of the Nova Scotia Farm Loan Board for the fiscal year ending March 31, 2004.

Respectfully submitted,



Chris d'Entremont  
Department of Agriculture  
& Fisheries

The Honourable Chris d'Entremont  
Minister of Agriculture & Fisheries  
Province of Nova Scotia  
Halifax, Nova Scotia

Sir:

On behalf of the Nova Scotia Farm Loan Board, we have the honour of presenting the 72nd Annual Report of the Nova Scotia Farm Loan Board covering the fiscal year ending March 31, 2004.

This report incorporates accountability reporting of the Farm Loan Board for the year ended March 31, 2004, and is prepared pursuant to the Section 12 of the Agriculture and Rural Credit Act, 1989, as well as the Provincial Financial Act and government policy and guidelines. These authorities require the reporting of outcomes against the Board's business plan information for the fiscal year 2003-04. The reporting of Farm Loan Board outcomes necessarily includes estimates, judgments and opinions by Board management.

We acknowledge that this accountability report is the responsibility of management and the Nova Scotia Farm Loan Board. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Board's business plans for the year.



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Derrick R. Jamieson  
Chief Executive Officer



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Leo Cox  
Chairman

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Board Members and staff as at March 31, 2004:

Board Members

Leo Cox	Chairman
Carol Versteeg	Vice-Chairman
Victor Moses	Member
Hank Bosveld	Member
Stephen Healy	Member

Principal Officers

Chief Executive Officer	Derrick Jamieson, P.Ag.
Solicitor to Board	Attorney General
Auditor	Auditor General

Truro Office

Manager, Administration	Philip Green, CMA, MPA
Credit Supervisor	Jim Houghton, P.Ag.
Senior Loan Officer	Maria McCurdy, P.Ag.
Loan Officer	John Murray, P.Ag.
Loan Officer	Jim Neary, P.Ag.
Loan Officer	Sandy Patterson, P.Ag.
Information Co-Ordinator	Sherry Canton
Client Service Support	Karen Murdock
Client Service Support	Susan Vergie
Client Service Support	Colleen Flemming
Client Service Support	Carolyn MacAulay
Client Service Support	Carol Elliott
Financial Services Officer	Susan Archibald
Accounting Clerk	Nancy Hillman

Kentville Office

Senior Loan Officer	Robb MacMillan, P.Ag.
Loan Officer	Pam Fraser
Client Service Support	Donna Lombard

## Chief Executive Officer's Report

The Nova Scotia Farm Loan Board promotes, encourages and supports agricultural and rural business development through the provision of long-term, fixed interest rate loans and financial counselling services. The Board is a Corporation of the Crown and is an integral part of the Nova Scotia Department of Agriculture and Fisheries. The Board also provides assistance to the Department of Natural Resources and other departments of government involved in rural Nova Scotia. Activities of the Board are consistent with the provincial government's objectives to stimulate economic growth and development, support the fundamentals of a strong society and strengthen Nova Scotia's human capital for people and communities to grow.

The Board works in close harmony with the Department of Agriculture and Fisheries and other departments involved in the growth of rural Nova Scotia and will continue to assist in the delivery of programs of benefit to the rural areas. The Board administers a New Entrants' program to attract and support new farmers. Involvement in these initiatives allows the Board to capitalize on opportunities for economic growth in the agricultural sector including, but not limited to, new crop and livestock investments and new technologies including those in biotechnology, value added activities, emerging and export markets, environmental improvements and agri-tourism.

The following strategic goals for the Board will need to be constantly reviewed and updated to meet the needs of rural Nova Scotia:

- Focus on access to stable, cost effective long-term developmental credit
- Identify and analyse growth opportunities in rural industries
- Promote awareness and use of financially sound business principles

Rural Nova Scotia will be in greater need of stable and available credit in the years ahead. Over the past five years total agricultural borrowing has increased by approximately \$200 million. Lending requirements will continue to increase as Nova Scotia agriculture continues to adopt new technologies and builds on market opportunities.

The Board will continue to use the investment capital available to provide partnership opportunities within the financial community. Financing the growth of rural Nova Scotia can best be accomplished through partnerships with other lenders. The Board has traditionally provided long-term financing at fixed, reasonable interest rates which has included financing of commodities not traditionally covered by other lending agencies. Today, through its strategic goals, the Board will continue to create alliances within the agricultural industry, forestry industry, and other lending stakeholders to provide the best available source of credit.

Low short-term interest rates in absolute terms and in comparison to long-term interest rates which began to have an effect during the 2001-02 fiscal year have continued through 2003-04 year. The Board's loan portfolio increased slightly over the course of the year. Low interest rates continued to result in a high volume of loan payouts, transfers, and refinancing. The Board offers long-term

funding with lending terms matched to the loan amortization. This results in higher rates than might be obtained for shorter terms, in the current environment but provides stability for the long-run. It is anticipated that interest rates will begin to rise, possibly during the next fiscal year and that demand for the Board's services will return to higher levels when that happens.

It is common for sectors within agriculture to experience cyclical fluctuations in price and supply. The hog sector is a current example of this with prices falling to \$1.08/kg in November, then rising to approximately \$1.57/kg by March 31, 2004. The identification of a case of bovine spongiform encephalopathy (BSE or 'mad cow') disease in Alberta and consequent US border closure has significantly reduced returns to beef producers during the past year and it is not yet possible to predict a market recovery. Weather conditions can have a significant impact on most agricultural sectors. Weather during the past two fiscal years has been generally favourable for producing crops although each region and crop must be analysed individually. The Board continues to work with clients who were negatively affected by market prices or weather conditions to manage arrears and work toward the long-term viability of those operations.

The past year has been positive in several respects: Interest rates continued to be at a forty year low. Thirty new entrants joined the agricultural industry during the year and were approved for grants through the New Entrants to Agriculture program. The dairy and poultry industries continue to be strong, with consistent returns generated under supply management. The blueberry sector has experienced a price recovery and blueberries have developed a reputation as a healthy food. The apple industry is working with new plantings and varieties to maintain markets. The mink sector is benefiting from strong market prices, resulting in growth within that sector.

It has been a pleasure for me as Chief Executive Officer to work with knowledgeable and dedicated Board and staff during the fiscal year ending March 31, 2004. It is through this dedication and commitment that the Board has continued to provide developmental long-term lending programs that have been cost effective and have helped to create opportunities that have strengthened the rural fabric of the province.



Derrick R. Jamieson  
Chief Executive Officer

## Board Operation Overview

### Direct Loans

During its 72nd year of operations the Board met on 9 occasions encompassing 16 days and conducted 5 conference call meetings. One hundred and ninety-three loan requests were approved, resulting in a total of \$25.9 million of new loans during the 2003-04 fiscal year.

In addition to its loan function to agriculture and owners of forest product mills, staff administered the New Entrants to Agriculture Program and the Land Purchase and Lease Program. Properties purchased under ARDA Project 22015 during the period of 1965–71 were a continuing responsibility of the Board and staff.

A total of 1,137 (Farm and Timber) loans were in effect at March 31, 2004.

Interest rates on loans during the year were:

	Hog Loan Support Program	1 - 5 years	6 - 14 years	15 - 19 years	20 - 24 years
Apr 1 - May 31, 2003	Min: 6.15% Max: 6.90%	6.25%	6.55%	7.10%	7.30%
June 1 - Sept 30, 2003	Min: 5.05% Max: 5.80%	5.25%	5.70%	6.305%	6.60%
Oct 1 - Dec 31, 2003	Min: 5.05% Max: 5.80%	5.25%	5.70%	6.30%	6.600%
Jan 1 - Mar 31, 2004	n/a	5.55%	6.00%	6.605%	6.90%

### Timber Loans

No new timber loans were approved during the year. There were sixteen Timber Loan category loans on March 31, 2004 totalling \$1,415,000.

Staff of the Farm Loan Board are responsible for administrative detail with respect to receiving applications, preparing documents, disbursing loans and maintaining loan records. Personnel of the Department of Natural Resources carry out loan appraisals, prepare reports and provide recommendations on timber loan requests. In addition, the Department of Natural Resources supervises requests to cut forest products from land held as security for loans and establishes stumpage rates for material removed.



### **Farm Consolidation and Land Use**

In the period 1965 to 1970, under the terms and conditions of a joint Government of Canada, Province of Nova Scotia Agricultural Rehabilitation and Development Act (ARDA) project, properties were purchased for leasing to enlarge commercial farm operations. The administration of properties under a lease is a continuing responsibility of the Board.

ARDA lease accounts at March 31, 2004, had a net outstanding balance of \$32,000. Nine accounts remain under this program after five exercised purchase options during the year.

### **Land Purchase and Lease**

The Nova Scotia Farm Loan Board, at the request of the Land Purchase and Lease Committee, carries out the administrative details in the leasing of these properties.

Seven leases were transferred under the client purchase option during the year for a total cost to those clients of \$202,000. In total, 64 properties are currently held under the program. The outstanding balance on leased properties under this program at year-end was \$1,520,000.

### **New Entrants to Agriculture Program**

This is the fourth year for this program. The objective is to encourage new Nova Scotian farmers to purchase and develop successful farm operations. Funds available under this program will be extended to improve the viability of each farm operation as key areas requiring improvement are outlined by the new entrant in a business plan. Eligible applicants receive a grant in the amount of interest paid on qualifying loans for the first two years to a maximum of \$10,000 per year. For the 2003-04 year 30 applications were accepted resulting in a commitment of \$490,000 to be disbursed over the following two years.

### **Life Insurance**

The Farm Loan Board administers a creditor group life insurance for farmers. The policy is held with the Sun Life Assurance Company of Canada. Total insurance in force at the end of 2003-04 was \$128.6 million.

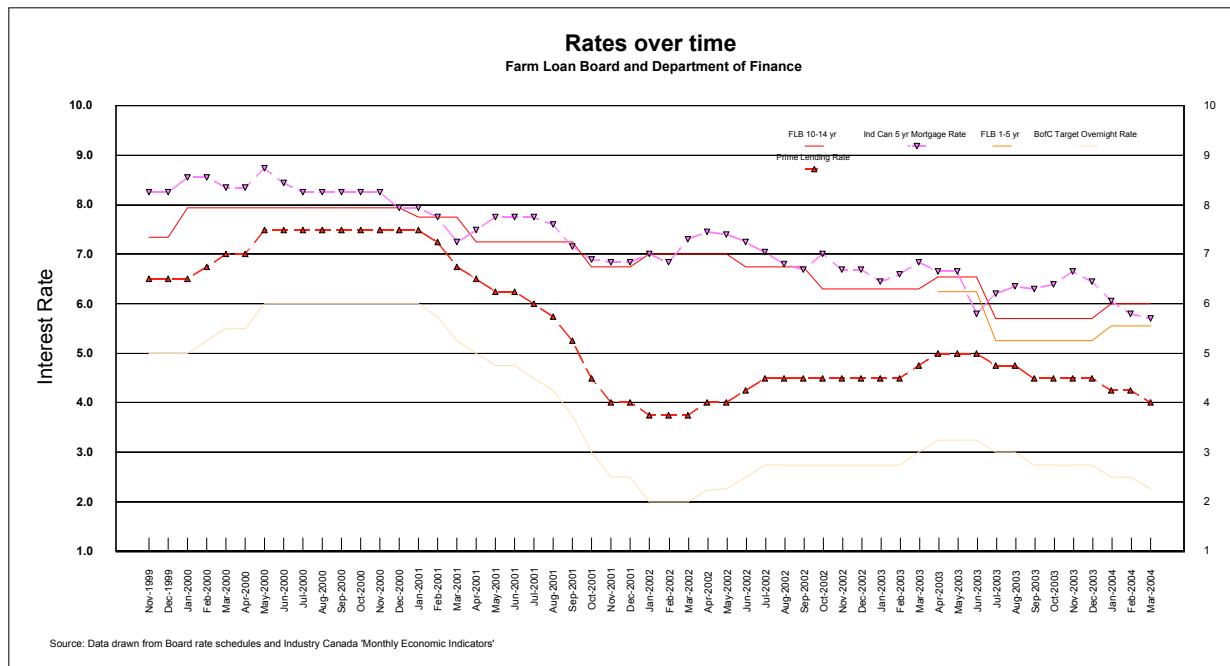
## Results (Progress and Accomplishments)

**Priority:** Focus on access to stable, cost effective, long-term developmental credit

- Provide \$25 million of lending capital to the agricultural and timber industries.

*Result:* Capital available for loans was approved at a maximum of \$25 million with anticipated repayments of \$18 million for the 2003-04 fiscal year. Loans of \$25.9 million were advanced with principal repayments of \$21.6 million. Prevailing interest rates, especially for short-term and variable rate loans remain low. It appears that some borrowers have decided to meet long-term credit needs with short-term funds from commercial lenders.

A total of 193 loan applications were approved. Staff continued to meet with clients, attend information sessions, and setup and present at meetings of general interest to the agricultural community. Special attention is given to clients demonstrating financial difficulty. Survey of clients receiving loans indicate that 94 percent felt that they received good counselling.



- Seek legislation and regulation changes to improve service and efficiency, including amendments to the Timber Loan Board regulations, and review of authorized lending limits.

*Result:* The Board's authority to grant loans without reference to Governor-in-Council approval was increased to a total indebtedness of \$2 million per client, allowing the Board to meet the needs of more clients directly, reducing approval time and

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workload demands. The Board continues to await notification of regulation change from the Department of Natural Resources.

- Enhance client service and administrative efficiency by implementing new technology and systems.

*Result:* Approval has been received to proceed to implement a replacement loan accounting and administration system jointly with the Fisheries and Aquaculture Loan Board during the 2004-05 year. The SAP loans module has been chosen for implementation. This implementation is intended to be available as a template for other lending agencies within the Province which may wish to move to this system in the future.

- Manage accounts such that write-offs and arrears remain stable in relation to the portfolio size while maintaining a 'patient lender' approach by supporting industries through cyclical downturns.

*Result:* Arrears have increased over the year (from 2.4% in 2002-03) to 2.8% of the loan balance at March 2004. Write-off requests also remained exceptionally low with a total of \$114,000 submitted for approval representing 0.07% of the loan portfolio. See the performance measures table for further information.

**Priority:** Program Administration

- Administer a New Entrants Program in concert with the Nova Scotia Department of Agriculture and Fisheries.

*Result:* In the fourth year of this Program, 29 new entrants grant applicants were assisted including 15 involved in inter-generational transfers in order to provide long-term stability and renewal of farm ownership.

- Explore flexible loan programs and continue to review the needs and potential for expansion and development of industry sectors in partnership with the Department of Agriculture and Fisheries and Nova Scotia Federation of Agriculture.

*Result:* In addition to the five-year term loans and the Hog Loan Support Program introduced in the previous year, flexibility has been offered to clients affected by short-term conditions such as hurricane Juan to allow for delay of payment to those affected.

<b>Actual/Budget Comparison - Loan Operating</b>				
<b>2002-2003</b>	<b>Description</b>	<b>2003-2004</b>	<b>2003-2004</b>	<b>Change</b>
<b>Actual</b>		<b>Actual</b>	<b>Budget</b>	
<b>(\$ 000)</b>		<b>(\$ 000)</b>	<b>(\$ 000)</b>	<b>(\$ 000)</b>
12,203	Interest	11,874	12,400	(526)
159	Insurance revenue (expense)*	(232)	190	(422)
630	Fee revenue and other income*	572	385	187
12,992	Total revenue	12,214	12,975	(761)
10,420	Interest	9,914	10,300	(386)
1,105	Operating expenses*	1,161	1,156	5
595	Bad debt expense (recovery)	(1,055)	530	(1,585)
12,120	Total expenses	10,020	11,986	(1,966)
872	Income before govt. contributions	2,194	989	1,205
1,105	Government contributions	1,161	1,156	5
1,977	Net Income	3,355	2,145	1,210

See Financial Statements for complete financial information and notes.  
 Items marked \* are budgeted as part of the Department of Agriculture & Fisheries estimates. Items not marked are not identified in approved estimates at this level of detail but are included in the Board's annual business plan.

**Significant variations from Budget:**

- Interest: Interest rates have continued to trend downward and the portfolio did not expand as anticipated causing both interest revenues and expenses to be below budget. The average interest margin on loans decreased, in part due to a combination of the steady decline of interest rates and the Board's policy of committing to rates for 90 days.
- Fees: Early repayment fees (penalties) were up significantly as clients paid out existing loans early to move to lower current rates with the Board or other lenders.
- Bad Debt Expense: A significant recovery is reported for the 2003-2004 bad debt expense as a result of a review and reduction in the Board's general provision for impaired loans (see note 6 of the Board's annual financial statements).

**Actual/Budget Comparison - Capital Funds**

<b>2002-2003 Actual (\$ 000)</b>	<b>Description</b>	<b>2003-2004 Actual (\$ 000)</b>	<b>2003-2004 Budget (\$ 000)</b>	<b>Change (\$ 000)</b>
172,782	Opening principal	171,307	170,000	1,307
22,409	Funds advanced	25,927	25,000	927
(23,690)	Principal repayments	(22,238)	(18,000)	(4,238)
(194)	Written off	(322)	(500)	178
171,307	Advanced principal at year-end	174,674	176,500	(1,826)
(7,893)	Allowance for impairment	(6,543)	(7,938)	1,395
163,414	Net principal at year-end	168,131	168,562	(431)

**Significant variations from Budget:**

- Principal repayments: As further explained under the lending priority, repayments were significantly above expectations primarily because of low interest rates now offered, especially low short-term and variable rates offered by commercial lenders.

**Actual/Budget Comparison - New Entrants Program**

<b>2002-2003 Actual (\$ 000)</b>	<b>Description</b>	<b>2003-2004 Actual (\$ 000)</b>	<b>2003-2004 Budget (\$ 000)</b>	<b>Change (\$ 000)</b>
611,000	Grant approvals	490,000	600,000	(110,000)

**Significant variations from Budget:**

- The BSE situation, lower pork prices, and yield and price pressures experienced in the horticultural sector has contributed to a reduced number of grant applications (30) being received.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
FINANCIAL STATEMENTS  
MARCH 31, 2004**



**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
FINANCIAL STATEMENTS  
MARCH 31, 2004**

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## AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

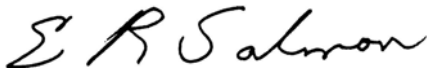
To the Minister of Agriculture and Fisheries

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 2004 and the statements of operations and retained earnings for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I have been unable to obtain satisfactory evidence to support a conclusion on management's estimate of the allowance for loan impairment. Accordingly, I was not able to determine whether any adjustments might be necessary to loans receivable (net), bad debt expense and net income.

In my opinion, except for the effect of adjustments, if any, which I may have determined to be necessary had I been able to obtain sufficient evidence regarding the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



E.R. Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
September 1, 2004



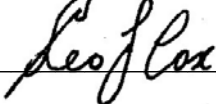
**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
BALANCE SHEET  
MARCH 31, 2004**

ASSETS	2004	2003
	(in thousands)	
Cash (Note 2a)	\$ 1,459	\$ 1,828
Interest and other receivables	4,086	3,645
Deposits held by the Province of Nova Scotia (Note 3)	2,395	1,792
Loans receivable (net) (Note 4)	163,249	158,969
Real estate (Note 5)	<u>4,882</u>	<u>4,445</u>
	\$ <u>176,071</u>	\$ <u>170,679</u>
<b>LIABILITIES</b>		
Provision for future life insurance claims (Note 7)	\$ 2,350	\$ 2,350
Advances from the Province of Nova Scotia (Note 8)	<u>172,218</u>	<u>167,265</u>
	<u>174,568</u>	<u>169,615</u>
<b>EQUITY</b>		
Retained earnings (Note 2h)	<u>1,503</u>	<u>1,064</u>
	\$ <u>176,071</u>	\$ <u>170,679</u>

**Commitments and contingencies (Note 9)**

See accompanying notes to financial statements

APPROVED ON BEHALF OF THE BOARD

Chair 

Member 

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED MARCH 31, 2004**

	<b>2004</b>	<b>2003</b>
	(in thousands)	
<b>Revenues</b>		
Interest revenue	\$ 11,874	\$ 12,203
Revenue (expense) on life insurance operations (Note 7)	(232)	159
Fee revenue and other income	<u>572</u>	<u>630</u>
	<u>12,214</u>	<u>12,992</u>
<b>Expenses</b>		
Interest expense (Note 2h)	9,914	10,420
Operating expenses (Note 10)	1,161	1,105
Bad debt expense (recovery) (Note 6)	<u>(1,055)</u>	<u>595</u>
	<u>10,020</u>	<u>12,120</u>
Income before government contributions	2,194	872
Government contributions (Note 10)	<u>1,161</u>	<u>1,105</u>
<b>Net Income</b>	<b>\$ <u>3,355</u></b>	<b>\$ <u>1,977</u></b>

See accompanying notes to financial statements

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
STATEMENT OF RETAINED EARNINGS  
FOR THE YEAR ENDED MARCH 31, 2004**

	<b>2004</b>	<b>2003</b>
	(in thousands)	
<b>Retained earnings</b> , beginning of year	\$ 1,064	\$ 890
Income before government contributions	2,194	872
Distribution to Province of Nova Scotia (Note 2h)	<u>(1,755)</u>	<u>(698)</u>
<b>Retained earnings</b> , end of year	\$ <u>1,503</u>	\$ <u>1,064</u>

See accompanying notes to financial statements

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**1. Authority**

The Nova Scotia Farm Loan Board, a Provincial agency, operates under the authority of the Agricultural and Rural Credit Act and the Forests Act (for timber loans). The Board was established to provide assistance to the agricultural sector in the Province.

Principal in loans outstanding is limited by regulation to \$200 million. Maximum advances to be disbursed in any given year is established through the annual budgeting process. For the year ended March 31, 2004, maximum new advances were \$25 million (2003 - \$28 million).

Loans in excess of \$2 million require approval by Governor-in-Council.

**2. Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies used in the preparation of these financial statements.

**a) Cash**

The Farm Loan Board operates as an agency of the Province of Nova Scotia. All cash is received and disbursed through accounts managed centrally by the Province.

Cash reported consists of funds held by the Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance program. A portion of the funds are restricted under the terms of the life insurance contract. The remainder is internally restricted.

	<b>2004</b>	<b>2003</b>
	(in thousands)	
Contractually restricted deposits	\$ 31	\$ 128
Internally restricted deposits	<u>1,428</u>	<u>1,700</u>
	<b>\$ <u>1,459</u></b>	<b>\$ <u>1,828</u></b>

**b) Statement of cash flows**

Except for funds held by the insurance carrier, the Board holds no cash (see Note 2a). All disbursements are drawn from the Province and all receipts are deposited to accounts of the Province. A statement of cash flows has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**c) Loans receivable**

Loans receivable is the principal portion of loans outstanding net of the allowance for loan impairment.

Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

**d) Allowance for loan impairment**

The allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. The allowance is determined based on management's identification and evaluation of problem accounts, as well as estimated losses that exist in the remaining portfolio. These judgements are influenced by the composition and quality of the portfolio, general economic conditions, conditions affecting specific commodities, as well as the Board's policy to act as a patient lender, providing additional time for repayment where full future repayment seems reasonable.

The provision is established in two components:

- 1) A specific reserve based on a loan-by-loan review is established to value impaired loans at the lower of their recorded amount or the estimated realizable value of their underlying security.
- 2) A general reserve is an estimate of probable but unidentified losses in the portfolio that have not been included in the specific reserve. This estimate is based on general and commodity specific economic conditions, as well as past experience and a comparison of allowances made by other similar lenders.

The allowance for loan impairment is an accounting estimate. Events may occur that render underlying assumptions invalid and thus cause actual credit losses to vary significantly from management's estimate.

**e) Real estate acquired in settlement of loans**

Real estate acquired in settlement of loans which is held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and the estimated fair value of security held less disposal costs.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**e) Real estate acquired in settlement of loans (continued)**

Net operating costs incurred on real estate held for sale are added to the carrying value of the property. A provision is used to adjust the carrying value to net realizable value, resulting in inclusion of these costs in the expense for bad debts.

**f) Real estate acquired for leasing or other purposes**

The Board holds land purchased under a Provincial "Landbank" program and under a Federal-Provincial "Agriculture and Rural Development Agreement" (ARDA). Both of these programs have ceased to exist, however existing leases continue with renewable five year terms. Property acquired under these programs is valued at cost less the unamortized value of the Federal contribution to the ARDA program. The Federal contribution is amortized to other income when related properties are sold. Lease clients are entitled to purchase the related property at its original purchase cost.

**g) Capital assets**

The Board applies the capitalization policies of the Province. No assets acquired by the Board meet the minimum guidelines for capitalization.

**h) Interest expense and retained earnings**

A Memorandum of Understanding (MOU) dated March 16, 1999 between the Nova Scotia Farm Loan Board and the Nova Scotia Department of Finance formalizes the Board's funding arrangements and enables the Board to retain 20% of its net income for future use (as retained earnings). The agreement took effect on April 1, 1998.

Under the MOU, the Board estimates projected lending requirements on a quarterly basis. The Department arranges the required financing and advances it to the Board at interest rates related to the terms and volumes requested. Funding is maintained to cover the Board's investment in loans receivable and real estate. The Board tracks the draws arranged with the Department of Finance and computes the interest cost based on the terms of these draws.

Also, under the terms of the MOU, the Board is entitled to set aside 20% of its income before government contributions as retained earnings. Funds related to retained earnings are included in "Deposits held by the Province of Nova Scotia" and may be used by the Board for specific stated purposes; subject to the approval of the Department of Finance.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**i) Interest recognition**

Interest is recognized when earned. Recognition of interest on impaired loans is offset by the allowance for loan impairment. Interest recognition ceases on loans when the requirement to recover on security becomes likely.

**j) Fee revenue**

All loan related fees are reported as revenue in the period in which they were earned.

**k) Measurement uncertainty**

Preparation of the Board's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported. Significant assumptions are required in the determination of the allowance for impaired loans and the provision for future life insurance claims. See notes related to those accounts for additional information. Actual results may differ.

**l) Risk management**

*Credit Risk*

The risk that clients may not pay amounts owing on loans and lease accounts, resulting in a loss to the Board, is managed through an initial assessment of the client's ability to pay, and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to a cyclical industry, or other temporary difficulties, it is the Board's policy to work with clients on an individual basis to provide time for recovery. See Note 4 for additional loan information.

*Liquidity Risk*

The Province of Nova Scotia provides funding and cash management services to the Board. There is no risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on lending authority as identified in Note 1.

*Interest Rate Risk*

In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Board attempts to match terms of loans offered with those of funds drawn through the Province. All loans provide for an optional 10% repayment at any time during each calendar year and an optional full repayment on each 5 year anniversary. All loans are contracted for the full term of their amortization which may range from 1 to 30 years. Funds drawn through the Province provide for 10% annual and 5 year full optional repayments.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**3. Deposits Held by the Province of Nova Scotia**

Deposits held by the Province represent funds deposited by the Board which will be available for future use (see Note 2a).

	<b>2004</b>	<b>2003</b>
	(in thousands)	
Insurance deposit	\$ 892	\$ 728
This consists of funds received as a result of past surpluses within the self-administered Creditor Group Life Insurance program. These funds are internally restricted to insurance related purposes.		
Retained Earnings deposit	<u>1,503</u>	<u>1,064</u>
These funds are composed of the accumulated 20% portion of annual net income held by the Province for use by the Board, subject to approval by the Department of Finance (see Note 2h).		
	\$ <u>2,395</u>	\$ <u>1,792</u>

**4. Loans Receivable**

Summarized below are anticipated loan repayments based on loan payment schedules and maturities. Values represent book value of loan funds disbursed less principal portion of repayments to date. Allowance for loan impairment adjusts values to anticipated amounts recoverable. Government approval for write-off is requested after all security has been realized and a deficiency remains.



**PROVINCE OF NOVA SCOTIA  
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NOTES TO FINANCIAL STATEMENTS  
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**4. Loans Receivable (continued)**

**2004**  
(in thousands)

	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	\$ 21,697	\$ 30,183	\$ 107,005	\$ 158,885
Timber loans	<u>305</u>	<u>587</u>	<u>523</u>	<u>1,415</u>
Total performing loans	\$ <u>22,002</u>	\$ <u>30,770</u>	\$ <u>107,528</u>	160,300
Average effective annual interest rate	6.72%	6.75%	6.86%	
Add principal receivable on impaired loans (excluded from above)				<u>6,208</u>
Total principal				166,508
Less allowance for loan impairment				<u>3,259</u>
Loans receivable (net)				\$ <u>163,249</u>

**2003**  
(in thousands)

	Under 1 Year	1-5 Years	Over 5 Years	Total
Farm loans	\$ 17,981	\$ 26,682	\$ 110,335	\$ 154,998
Timber loans	<u>431</u>	<u>637</u>	<u>733</u>	<u>1,801</u>
Total performing loans	\$ <u>18,412</u>	\$ <u>27,319</u>	\$ <u>111,068</u>	156,799
Average effective annual interest rate	7.22%	7.19%	7.30%	
Add principal receivable on impaired loans (excluded from above)				<u>6,567</u>
Total principal				163,366
Less allowance for loan impairment				<u>4,397</u>
Loans receivable (net)				\$ <u>158,969</u>

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**4. Loans Receivable (continued)**

<b>Sector Distribution</b> (performing loans)	<b>2004</b>		<b>2003</b>	
	(\$ in thousands)			
Dairy	\$ 49,624	30.9%	\$ 51,547	33.0%
Poultry	25,579	16.0%	25,272	16.1%
Hog	19,277	12.0%	15,915	10.1%
Beef	12,519	7.8%	12,628	8.1%
Vegetables and Other Crops	10,020	6.3%	10,418	6.6%
Blueberries	7,901	4.9%	8,195	5.2%
Greenhouse	7,564	4.7%	8,594	5.5%
Fur	5,462	3.4%	5,507	3.5%
Apple				
Other Fruit	3,937	2.5%	3,916	2.5%
	2,854	1.8%	3,029	1.9%
Timber	1,415	0.9%	1,801	1.1%
Other				
	<u>14,148</u>	<u>8.8%</u>	<u>9,977</u>	<u>6.4%</u>
	\$ <u>160,300</u>	<u>100.0%</u>	\$ <u>156,799</u>	<u>100.0%</u>

**5. Real Estate**

	<b>2004</b>	<b>2003</b>
	(in thousands)	
Real estate held for resale	\$ 6,074	\$ 5,620
Less allowance for impairment/adjustment to net realizable value	<u>3,284</u>	<u>3,496</u>
Net real estate held for resale	<u>2,790</u>	<u>2,124</u>
Real estate held for long-term use		
Land bank	1,520	1,719
Land consolidation		
Agriculture and Rural Development Agreement (ARDA)	66	83
Less Federal Government share of ARDA properties	(34)	(43)
Property used by NS Agricultural College and Community		
Pastures	<u>540</u>	<u>562</u>
Total property acquired for long-term use	<u>2,092</u>	<u>2,321</u>
	\$ <u>4,882</u>	\$ <u>4,445</u>

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**6. Allowance for Impairment**

	<b>2004</b> (in thousands)		
	Loans	Real Estate	Total
<b>Allowance, beginning of year</b>			
Principal	\$ 4,397	\$ 3,496	\$ 7,893
Interest	<u>394</u>	<u>172</u>	<u>566</u>
	4,791	3,668	8,459
Write-offs	-	(322)	(322)
Current year adjustments	259	80	339
Recoveries	<u>(1,375)</u>	<u>(19)</u>	<u>(1,394)</u>
<b>Allowance, end of year</b>	\$ <u>3,675</u>	\$ <u>3,407</u>	\$ <u>7,082</u>
Distribution of allowance			
Principal	\$ 3,259	\$ 3,284	\$ 6,543
Interest	<u>416</u>	<u>123</u>	<u>539</u>
	\$ <u>3,675</u>	\$ <u>3,407</u>	\$ <u>7,082</u>

	<b>2004</b>	<b>2003</b>
	(in thousands)	
Specific provision	\$ 5,860	\$ 5,843
General provision	<u>1,222</u>	<u>2,616</u>
	\$ <u>7,082</u>	\$ <u>8,459</u>
Loans and real estate for which a specific allowance has been identified	\$ 12,282	\$ 12,187
Remaining loans against which a general provision has been established	<u>162,392</u>	<u>159,120</u>
	\$ <u>174,674</u>	\$ <u>171,307</u>

As the result of an analysis conducted during the year by management, including reviewing historical write-offs and total provisions by other similar lenders, the general provision was reduced from 1.75% to 0.80% of the unimpaired portfolio, effective for the 2004 provision. This change resulted in a recovery of previously reported bad debt expense in the amount of \$1,055,000. (The general provision is reduced by 50% on funds issued during the fiscal year.)

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**7. Provision for Future Life Insurance Claims**

The Board requires borrowers to participate in a group life insurance program administered by the Board. The terms of the agreement with the Board's insurance carrier provide that claims above 125% of total annual client premiums will be paid by the insurance carrier. Smaller claims and administrative costs must be met through premiums received or funded by the Board.

The provision is an estimate of future insurance costs to the Board as a result of claims on existing loans that exceed 100% of annual premiums. The estimate has been established by management based on a periodic actuarial study of the portfolio, adjusted in interim years in proportion to significant changes in the loan portfolio balance. The most recent actuarial study was completed in November 2001.

Any excess or shortfall in this provision at year-end is reported on the operating statement as income or expense.

**8. Advances from the Province of Nova Scotia**

Advances are provided by the Province of Nova Scotia to fund loans issued by the Farm Loan Board. Interest is calculated in accordance with a memorandum of understanding with the Department of Finance (see Note 2h).

**9. Commitments and Contingencies**

The Board will hold interest rates for ninety days for a client from the date of loan approval if interest rates increase.

As at March 31, 2004, the Board had authorized loans of \$2,646,000 (2003 - \$6,447,000) which had not been disbursed.

The loan interest rate on outstanding approved commitments at March 31, 2004 was 5.8%.

The Board is aware of environmental issues on two properties used to secure loans at March 31, 2004. Legal responsibility and cleanup costs are not yet resolved. Total cleanup costs are estimated to be between \$30,000 and \$300,000.

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA FARM LOAN BOARD  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004**

**10. Operating Expenses**

	<b>2004</b>	<b>2003</b>
	(in thousands)	
Salaries	\$ 999	\$ 944
Supplies and services	44	44
Travel	47	49
Training and development	23	10
Professional/special services	36	16
Equipment and other	<u>12</u>	<u>42</u>
	<b>\$ <u>1,161</u></b>	<b>\$ <u>1,105</u></b>

Government provides an annual contribution equal to operating expenses.

**11. Related Party Transactions**

The Board is related to all other departments, agencies, boards, and commissions of the Province of Nova Scotia. The Nova Scotia Department of Finance is the sole source of funding for loans (see Note 2h). Property used by the Nova Scotia Agricultural College is property purchased by the Board for College use and will eventually be transferred to another government department. Transactions with other Provincial entities were entered into in the normal course of business.

**12. Pension and Post-Retirement Benefits**

All full-time employees of the Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Province of Nova Scotia and any unfunded liability as well as other obligations related to post-retirement benefits are the responsibility of the Province. It is not anticipated that any such future costs would be allocated to the Board.

**13. Comparative Figures**

Certain 2003 figures have been reclassified to conform with the current year's presentation.

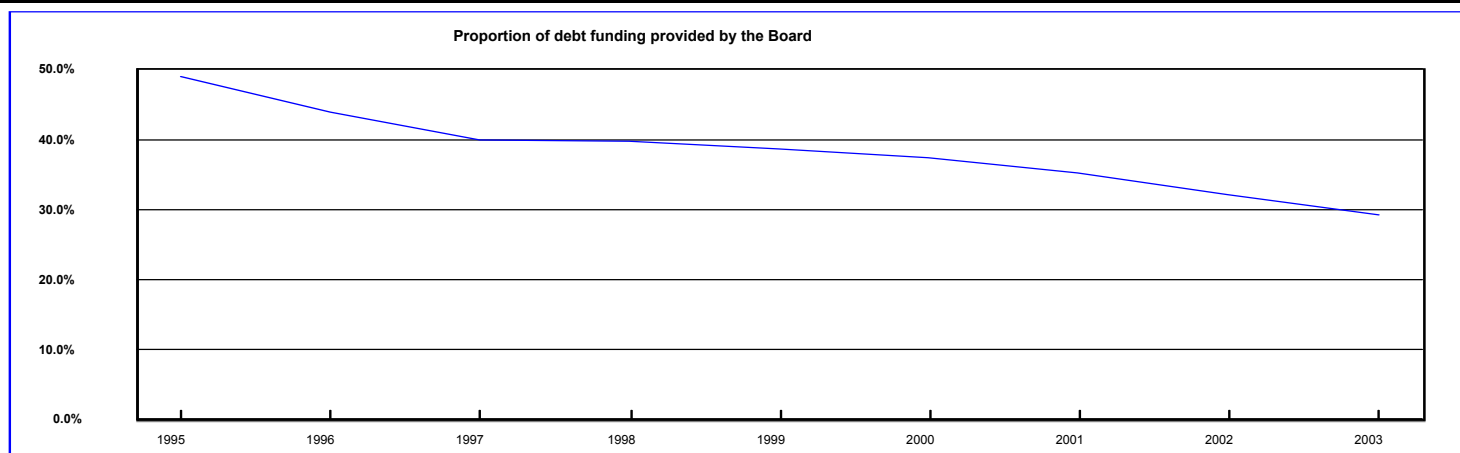
## Measuring Our Performance

The following sections provide results of performance measures identified in the Board's Business Plan for 2003-04.

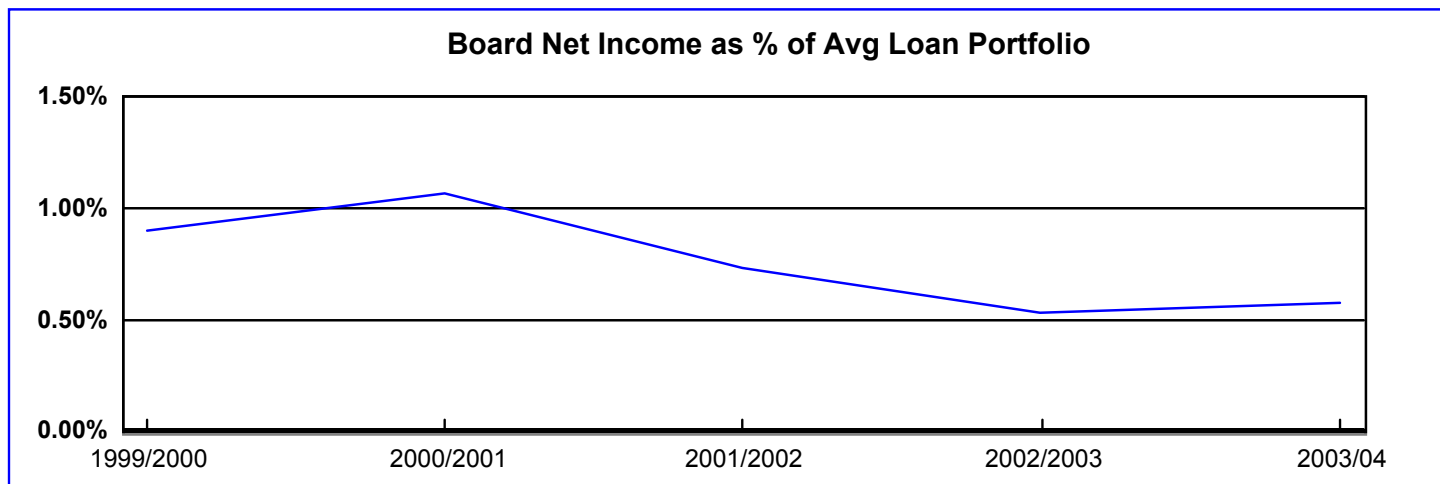
### Core Business Area I: Lending

This is the primary focus of the Board. Although lending activities address all three of the strategic goals, lending most directly bears upon ensuring access to stable, cost effective long-term developmental credit. The following measures provide an indication of the Board's success in pursuit of this goal:

Measure I-1:	Farm Loan Board loans as a percentage of total Nova Scotia Farm Debt	
What this measure tells us:	Where we are now:	Where we are going:
<p>Proportion of Nova Scotia farm debt provided by the Farm Loan Board. This is an indication of the Board's ability to meet industry needs.</p> <p>{Reporting on this measure is for the previous calendar year, based on Statistics Canada data}</p>	<p>Base year (calendar) 2000: 37.5%</p> <p>2001: 35.2%</p> <p>2002: 32.1%</p> <p>2003: 29.3%</p> <p>As discussed in the 'Results' section farm credit requirements remain strong however, many clients have taken loans with commercial lenders to take advantage of unusually low short-term interest.</p>	<p>Target 2003: 34.5%</p> <p>Target 2004: 36.5%</p> <p>Requests for Board loans are expected to increase as short-term rates return to their historical relationship to long-term rates. It will take some time (several years) to reach the target from current values once the transition takes place.</p>



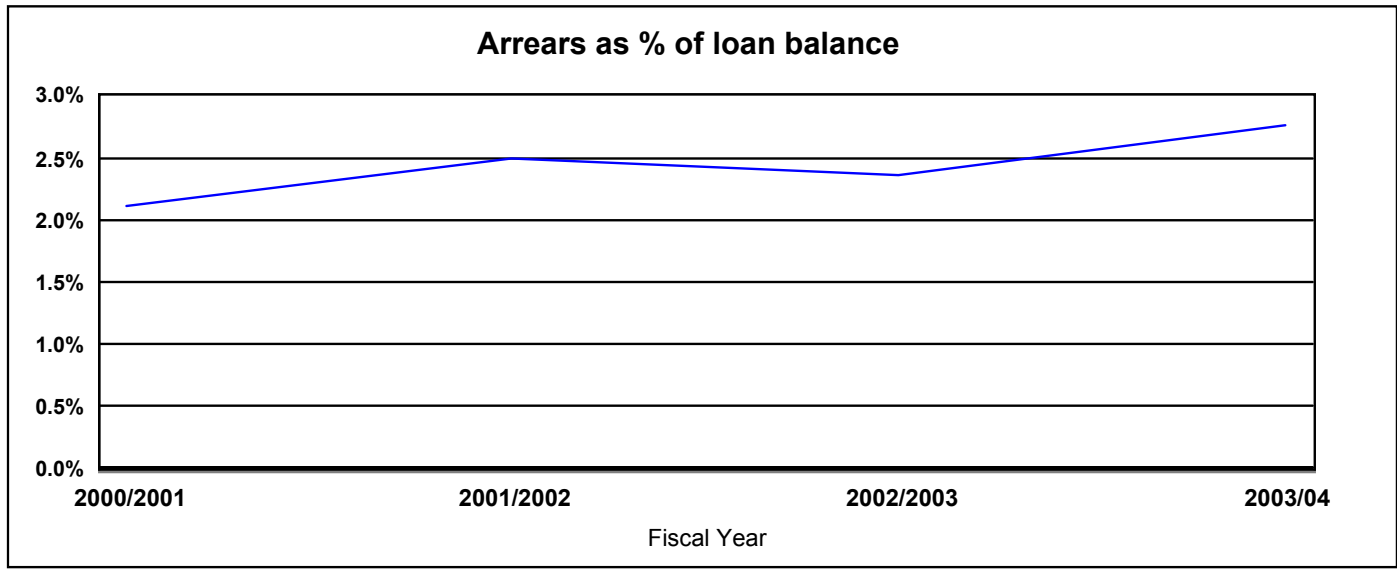
Measure I-2:	Income (before government contributions) as a percentage of the average active loan balance	
What this measure tells us:	Where we are now:	Where we are going:
By comparing net income to the size of the loan portfolio, this measure provides an indication of the Board's efficiency assuming stable interest margins.	Base year: 1998-99: 0.1% 2001-02: 0.7% 2002-03: 0.5% 2003-04: 0.5% (excluding unusual recovery on impaired loans)  Meets Target	Stability: Target 2003-04: 0.5% or above Target 2004-05: 0.5% or above



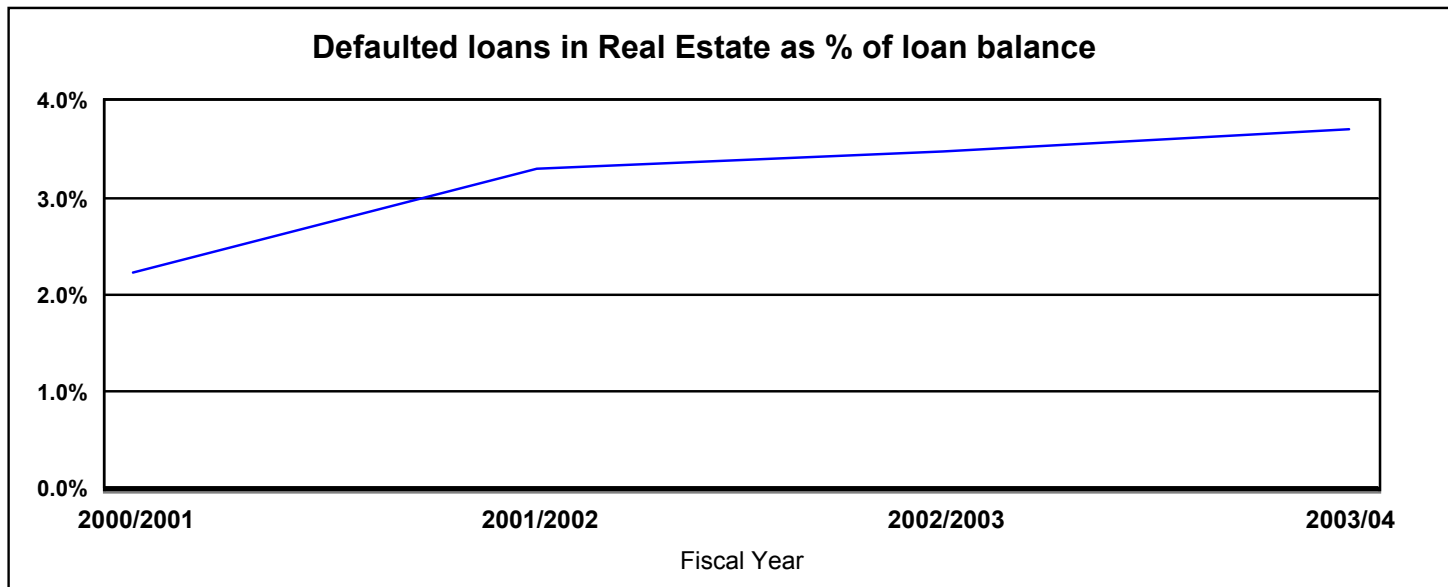
Measure I-3:	Client satisfaction based on survey of clients receiving loans Combined results of responses to Courtesy, Promptness, Knowledge, Commitment	
What this measure tells us:	Where we are now:	Where we are going:
This measure provides the client's view of services provided and may identify areas for improvement.	<u>Percentage Good to Excellent:</u> Base year: 2000-01: 92% 2001-02: 92% 2002-03: 96% 2003-04: 92.5% Exceeds standard	<u>Percentage Good to Excellent:</u> Target 2003-04: 90% or above Target 2004-05: 90% or above



Measure I-4:	Arrears (>\$100) as a percent of the value of all accounts	
What this measure tells us:	Where we are now:	Where we are going:
This measure provides an indication of Client Success overall. It also measures the performance of the Board's policies and procedures for monitoring arrears and assisting clients in difficulty. Arrears as measured at March 31 of each year.	<p>Base:           2001: 2.1%</p> <p>                      2002: 2.5%</p> <p>                      2003: 2.4%</p> <p>                      2004: 2.8%</p> <p>A large number of loan payouts by strong clients transferring to short-term loans have limited the portfolio size and reduced the average strength of clients remaining. Difficulties experienced by beef producers as a result of the BSE situation and US border closure has weakened that sector. High arrears are also being experienced in the mink and 'other crop' sectors.</p>	<p>Target Mar 2004: 2.5% or less</p> <p>Target Mar 2005: 2.5% or less</p> <p>Client counselling and arrears follow-up are being pursued to mitigate the effects of this issue.</p>



Measure I-5:	Defaulted accounts held as real estate as a % of total of all accounts	
What this measure tells us:	Where we are now:	Where we are going:
This measure provides an additional indication of Client Success overall. It measures the performance of the Board's policies and procedures for monitoring and assisting clients in difficulty and the overall level of client distress.	Base:           2001: 2.1% 2002: 2.5% 2003: 2.4% 2004: 2.8%  Above historical & targeted levels	Target Mar 2004: 2.5% or less Target Mar 2005: 2.5% or less



**Core Business Area II: Programs Administration**

The Board administers loan-based assistance programs on behalf of the Department of Agriculture and Fisheries allowing it to take advantage of systems and information already in place to deliver programs efficiently and to support credit based goals of the Board.

Measure II-1:	Number of approved applications to the New Entrant Program	
What this measure tells us:	Where we are now:	Where we are going:
This measure indicates the relevance of the program by measuring take-up by qualified applicants.	Base year: 2000-01: 49 Current: 2001-02: 56 2002-03: 47 2003-04: 30	Target 2003-04: 50 Target 2004-05: 50

Measure II-2:	Administered Programs expenditures within budget																
What this measure tells us:	Where we are now:	Where we are going:															
Measures prudent management of programs under the Board's authority.	New Entrants Program Approvals: <table border="0"> <tr> <td></td> <td>Budget</td> <td>Actual</td> </tr> <tr> <td>2000-01:</td> <td>\$600,000</td> <td>\$706,000 *</td> </tr> <tr> <td>2001-02:</td> <td>\$600,000</td> <td>\$856,000 *</td> </tr> <tr> <td>2002-03:</td> <td>\$600,000</td> <td>\$611,000 *</td> </tr> <tr> <td>2003-04:</td> <td>\$600,000</td> <td>\$490,000</td> </tr> </table> * Additional grants approved from Departmental budget before issued.		Budget	Actual	2000-01:	\$600,000	\$706,000 *	2001-02:	\$600,000	\$856,000 *	2002-03:	\$600,000	\$611,000 *	2003-04:	\$600,000	\$490,000	Continue to maintain ability to meet budget.
	Budget	Actual															
2000-01:	\$600,000	\$706,000 *															
2001-02:	\$600,000	\$856,000 *															
2002-03:	\$600,000	\$611,000 *															
2003-04:	\$600,000	\$490,000															

<b>Table 1</b>						
<b>Historical Financial Summary (\$ '000)</b>						
	1999	2000	2001	2002	2003	2004
Funds Advanced (all accounts)	\$ 31,584	\$ 18,573	\$ 25,013	\$ 24,157	\$ 22,409	\$ 25,927
Principal Repayments (all accounts)	(17,068)	(14,825)	(14,101)	(22,906)	(23,690)	(22,238)
Written off	(271)	(527)	0	(356)	(194)	(322)
Advanced Principal at Year-End	157,754	160,975	171,887	172,782	171,307	174,674
Provision for Doubtful Accounts (Principal)	(6,593)	(6,431)	(6,957)	(7,506)	(7,893)	(6,543)
Net Principal at Year-End	\$ 151,161	\$ 154,544	\$ 164,930	\$ 165,276	\$ 163,414	\$ 168,131
Revenue	\$ 11,926	\$ 13,020	\$ 13,269	\$ 13,849	\$ 12,992	\$ 12,214
Expense	(11,784)	(11,636)	(11,553)	(12,641)	(12,120)	(10,020)
Net Income (before Gov. contributions)	\$ 142	\$ 1,384	\$ 1,716	\$ 1,208	\$ 872	\$ 2,194

See Financial Statements for notes related to the above information.

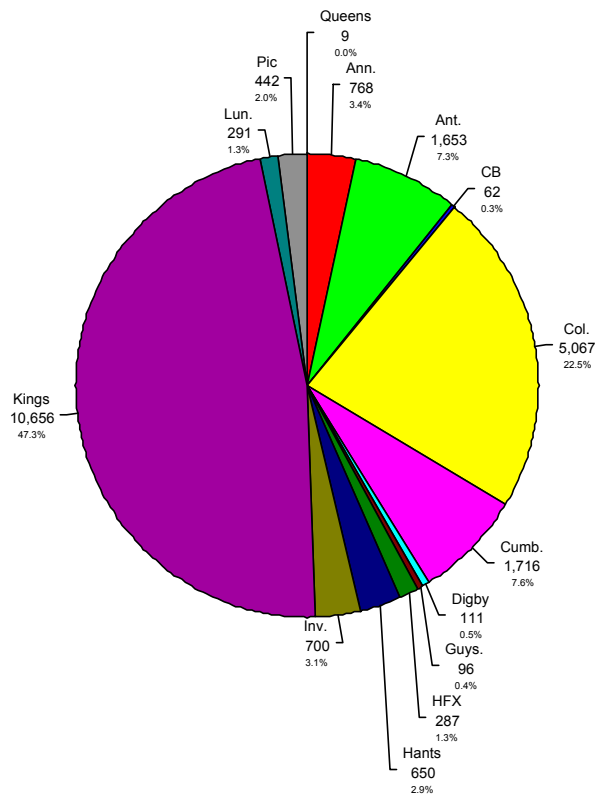
**Table 2**  
**Number of Loans Approved by County, 2003-2004**

County	#	Value (\$ '000)	County	#	Value (\$ '000)
Annapolis	9	\$768	Hants	10	\$650
Antigonish	13	\$1,653	Inverness	3	\$700
Cape Breton	4	\$62	Kings	77	\$10,656
Colchester	25	\$5,067	Lunenburg	2	\$291
Cumberland	33	\$1,716	Pictou	9	\$442
Digby	2	\$111	Queens	1	\$9
Guysborough	2	\$96			
Halifax	3	\$287			

<b>Total Farm Loan</b>	193	\$22,508
<b>Timber Loan Board</b>	0	\$0
<b>Total Loan Activity</b>	193	\$22,508

**Value of loans approved by County**

2003/04



**Table 3**  
**No. of Loans Approved By Purpose 2003-2004**

	#	(\$ '000)
Number of New Loans	125	\$21,042
Number of Refinanced loans	48	\$ 470
Combination	20	\$996
Total Farm Loans Approved	193	\$22,508
Number of Timber Loans	0	\$0
Total Loans	193	\$22,508

Table 4 Loans Approved By Commodity 2003-2004					
Commodity	#	\$ (‘000)	Commodity	#	\$ (‘000)
Beef	35	\$2,316	Greenhouse	4	\$401
Berry Crops	20	\$882	Hog	19	\$6,443
Dairy	29	\$3,836	Poultry	26	\$3,389
Fruit	14	\$1,171	Vegetable	14	\$1,416
Fur	4	\$342	Other	28	\$2,312

Total	193	\$22,508
Timber Loan	0	\$0
Grand Total	193	\$22,508

