Nova Scotia Fisheries and Aquaculture Loan Board

Financial Statements
March 31, 2019
(in thousands of dollars)

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board of Directors reviews internal financial statements on a monthly basis and external audited financial statements yearly.

The external auditor, PricewaterhouseCoopers LLP, conducts an independent examination, in accordance with Canadian auditing standards, and expresses their opinion on the financial statements. The external auditor has full and free access to financial management of the Nova Scotia Fisheries and Aquaculture Loan Board and meets when required.

On behalf of the Nova Scotia Fisheries and Aquaculture Loan Board

Jennifer Thompson, Director of Crown Lending Agencies

October 29, 2019

Independent auditor's report

To the Members of the Legislative Assembly and the Minister of Agriculture

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Fisheries and Aquaculture Loan Board (the Board) as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited
The Board's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 report.

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

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

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 public sector accounting standards, 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.

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166

In preparing the financial statements, management is responsible for assessing the Board'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 Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board'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 these 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 Board'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 Board'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 Board 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.

We 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Halifax, Nova Scotia
October 29, 2019

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Financial Position

As at March 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Assets		
Financial assets		
Loans receivable, net (note 4)	154,372	124,407
Interest receivable, net	3,220	2,972
Due from the General Revenue Fund of the Province (note 5)	50,475	81,889
	208,067	209,268
Liabilities		
Financial liabilities		
Applicants' funds on deposit (note 5)	116	421
Due to the General Revenue Fund of the Province	3,220	2,972
Fisheries and Aquaculture Development Fund, net (note 1)	204,731	205,875
	208,067	209,268
Accumulated surplus	-	-

Commitments and contingencies (note 6)

Approved by the Board of Directors

R Denny Morrow Director _______ Director

The accompanying notes are an integral part of these financial statements.

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2019

(in thousands of dollars)

	2019 Budget $ (unaudited)	2019 Actual $	2018 Actual $
Revenues			
Interest on loans (note 4)	6,500	8,195	6,682
Loan processing and other fees	184	500	451
	6,684	8,695	7,133
Expenses			
Lending expenses (note 8)	5,071	7,944	5,150
Annual surplus before distribution to the General Revenue Fund of the Province	1,613	751	1,983
Distribution to the General Revenue Fund of the Province	(1,613)	(751)	(1,983)
Annual and accumulated surplus – Beginning and end of year	-	-	-

The accompanying notes are an integral part of these financial statements.

Nova Scotia Fisheries and Aquaculture Loan Board

Statement of Cash Flows

For the year ended March 31, 2019

(in thousands of dollars)

	2019 $	2018 $
Cash provided by (used in)		
Operating activities		
Annual surplus	-	-
Net charge (credits) to operations not involving cash		
Increase in allowance for loan impairment	767	(183)
	767	(183)
Net change in non-cash working capital balances related to operations		
Increase in interest receivable	(248)	(435)
Increase in due to the General Revenue Fund of the Province – net	248	435
Increase (decrease) in applicants' funds on deposit	(305)	21
	462	(162)
Financing activities		
Increase in due from the General Revenue Fund of the Province – net	30,270	22,742
Investing activities		
Increase in loans receivable – net	(30,732)	(22,580)
Net change in cash for the year	-	-
Cash – Beginning of year	-	-
Cash – End of year	-	-

The accompanying notes are an integral part of these financial statements.

(in thousands of dollars)

1 Nature of operations

Authority

The Nova Scotia Fisheries and Aquaculture Loan Board (the "Loan Board") was established pursuant to Section 34 of the Fisheries and Coastal Resources Act.

The objective and purpose of the Loan Board is to make loans and guarantees of loans to fishers, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province of Nova Scotia (the "Province").

The Loan Board receives funding from the Fisheries and Aquaculture Development Fund (the "Fund") to finance the loans and guarantees of the Loan Board.

The Loan Board is responsible to forward interest earned on loans receivable to the General Revenue Fund of the Province. Lending expenses incurred are funded by the General Revenue Fund.

As of March 31, 2019, the total principal in loans outstanding was limited by Order-in-Council to $225,000 less $20,269 in bad debt since the inception of the Fund. Maximum advances disbursed in any given year are established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2019, new advances were $51,963. These were able to exceed the capital allocation authorized of $35,000 by using the unfilled allocation of the Nova Scotia Farm Loan Board. The Loan Board received repayments of loan principal of $21,673 during the year.

	2019 $	2018 $
Fisheries and Aquaculture Development Fund – Beginning of year	205,875	205,875
Less: Loans written off	(1,144)	-
Fisheries and Aquaculture Development Fund – End of year	204,731	205,875
Comprised of:		
Loans receivable, net (note 4)	154,372	124,407
Loans authorized but not advanced (note 5)	14,888	12,810
Funds available for additional loans (note 5)	35,471	68,658
	204,731	205,875

Loans in excess of $5,000 and any loan write-offs, require approval by the Governor in Council.

2 Capital management

As an agency of the Province, the Loan Board does not maintain its own capital. Operations are funded by contributions from the General Revenue Fund.

(in thousands of dollars)

3 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian public sector accounting standards (“PSAS”).

The following significant accounting policies were used in preparation of these financial statements:

Cash

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

Revenue recognition

Revenues are recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest received on impaired loans is recognized in earnings only if there is no longer doubt as to the collectability of principal.

Expenses

Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenues.

Loans receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are classified as impaired when loan payments are in arrears for more than 90 days or when, in management’s opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest.

Valuation allowance for loan impairment

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

Valuation allowances are made for estimated losses on certain loans and loan guarantees, which are recorded in the statement of operations and accumulated surplus as bad debt expense. Loans written off also reduce the balance of the Fisheries and Aquaculture Development Fund. Recoveries of bad debts do not increase the Fund’s balance.

(in thousands of dollars)

3 Summary of significant accounting policies (continued)

Valuation allowance for loan impairment (continued)

The Loan Board records a specific valuation allowance based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net recoverable value of their underlying security.

In addition, the Loan Board calculates a collective valuation allowance. This is an estimate of incurred but unidentified losses based on a review of historic loan write-offs.

Management estimates

PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. By their nature, as described further in note 4, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of the future period financial statements.

Financial instruments

The Loan Board has adopted Handbook Section PS3450 “Financial Instruments” and is required to designate its financial instruments into one of the following two categories: (i) fair value; or (ii) cost or amortized cost. All of the Loan Board’s financial instruments are measured at amortized cost using the effective interest method.

The Loan Board’s financial instruments consist of loans receivable, interest receivable, applicants’ funds on deposit and amounts due to/from the General Revenue Fund of the Province. Transaction costs relating to loans are recorded as part of the total amount outstanding. The carrying value of loans approximates their net recoverable value. The Loan Board holds all loans to maturity.

Remeasurement gains and losses

Under PSAS, the Loan Board is required to present a statement of remeasurement of gains and losses. As the Loan Board has no remeasurement in gains and losses, a statement of remeasurement of gains and losses has not been presented.

(in thousands of dollars)

4 Loans receivable

a) Loans receivable, net

The following tables set out the scheduled maturities of the financial assets as at March 31, 2019, together with the weighted-average interest rates being earned on the financial assets:

				2019	2018
	Under 1 year $	**1 – 5 years $**	**Over 5 years $**	**Total $**	**Total $**
Total performing loans	4,819	21,434	126,431	152,684	122,410
Average effective annual interest rate	5.8%	5.9%	5.8%	5.8%	5.8%
Add: Principal receivable on impaired loans				3,848	4,366
Total principal				156,532	126,776
Less: Provision for loan impairment				2,160	2,369
Net loans receivable				154,372	124,407

b) Allowance for impaired loans

Loans are considered impaired when there has been deterioration in credit quality to the extent the Loan Board no longer has reasonable assurance of timely collection of the full amount of principal and interest. The allowance calculated is comprised of two components, the specific allowance for individually identified impaired loans and a collective allowance for impaired loans.

The specific allowance for individually identified loans was established based upon a review of impaired loans. Primary factors considered in estimating the specific allowance on individual loans were the estimated net realizable value of security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

(in thousands of dollars)

4 Loans receivable (continued)

b) Allowance for impaired loans (continued)

The collective allowance for impaired loans has been determined by management's best estimate of the loss that is likely to be experienced on impaired loans that were not known to be impaired at the year-end. The collective allowance was calculated based on management's judgment.

	2019		2018	
	Impaired loans $	Allowance for impairment $	Impaired loans $	Allowance for impairment $
Specific allowance	3,848	1,527	4,366	2,114
Collective allowance	-	633	-	423
	3,848	2,160	4,366	2,537

Significant judgment was exercised by management in estimating the allowance for impaired loans. As such, actual losses that occurred on loans outstanding as at March 31, 2019, will differ from these estimates and the difference could be material. The actual realization of impaired loans could be significantly different from the estimated amounts.

c) Continuity of allowance for impaired loans

	2019 $	2018 $
Allowance – Beginning of year	2,537	2,578
Add: Current year provision (recovery)	767	(41)
Less: Loans written off	(1,144)	-
Allowance – End of year	2,160	2,537
Valuation allowance on principal	2,089	2,369
Valuation allowance on interest	71	168
	2,160	2,537

(in thousands of dollars)

4 Loans receivable (continued)

d) Loans receivable past due but not impaired

A loan is considered past due when a counter-party has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because: (i) they have no payments over 90 days in arrears; or (ii) in management's opinion, there is reasonable assurance of the timely collection of the full amount of principal and interest. Loans that are past due but not impaired are as follows:

	16 to 30 days $	31 to 60 days $	61 to 90 days $	91 days or more $	Total $
2019	272	530	-	1,700	2,502
2018	290	1,015	14	2,633	3,952

5 Due from the General Revenue Fund of the Province

The portion of the Fund that has not been advanced as loans is maintained in the General Revenue Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (note 1). Deposits provided to the Loan Board by loan applicants are also maintained in the General Revenue Fund. Financial commitments made by the Loan Board reduce the amount of this account which is available for additional loans.

	2019 $	2018 $
Board commitments (note 6)		
Loans authorized but not advanced	14,888	12,810
Applicants’ funds on deposit	116	421
Funds available for additional loans	35,471	68,658
Due from General Revenue Fund of the Province	50,475	81,889

6 Commitments and contingencies

a) Commitments

The Loan Board has committed to provide loans of $14,888 (2018 - $12,810) which were approved by the Loan Board but not advanced by year-end.

b) Contingencies

The Loan Board has been named as a counterparty in a lawsuit relating to issues with the construction of a vessel for which the Loan Board provided financing. It is the view of management that the amount and the likelihood of the claim being successful is not reasonably determinable and therefore no amount has been accrued in these statements.

(in thousands of dollars)

7 Bad debt expense (net of recoveries)

	Budget 2019 $ (unaudited)	2019 $	2018 $
Bad debt expense (net of recoveries)	78	899	(41)
Unpaid interest added to principal on refinance	-	(132)	(142)
	78	767	(183)

8 Lending expenses

	Budget 2019 $ (unaudited)	2019 $	2018 $
Bad debt expense (net of recoveries) (notes 4 (b), 4 (c) and 7)	78	767	(183)
Interest expense (notes 9 and 10)	4,300	6,481	4,544
Other	4	6	19
Professional services	41	38	41
Travel	46	57	73
Salaries and benefits (net of recoveries)	577	549	577
Supplies and services	25	46	79
	5,071	7,944	5,150

9 Interest expense

Loans provided by the Loan Board are funded through advances from the Fisheries and Aquaculture Development Fund. Interest is charged, at a fixed rate, to the Loan Board for these advances on the assumption that the funds are borrowed by the Province to lend to the Loan Board. Interest expense is calculated by the Loan Board based on loan estimates provided quarterly by the Department of Finance at the rate at which the Province could borrow funds over the next quarter. Interest expense on funds borrowed to make loans of $6,481 (2018 - $4,544) is an expense of the Department of Finance. The weighted-average interest rate for the year was 4.16% (2018 – 3.95%).

10 Distributions to the General Revenue Fund of the Province

Administration expenses of the Loan Board for the year ended March 31, 2019, totalling $696 (2018 - $789), net of bad debt expense, were paid by the Department of Fisheries and Aquaculture on behalf of the Loan Board. Interest expense on funds borrowed to make loans of $6,481 (2018 - $4,544) is an expense of the Department of Finance. Accordingly, the total of these expenses are included in Distributions to the General Revenue Fund of the Province in the statement of operations and accumulated surplus. Interest received on the loans receivable is paid to the General Revenue Fund of the Province.

(in thousands of dollars)

11 Related party transactions

The Loan Board is related to all other departments, agencies, board and commissions of the Province. The General Revenue Fund of the Province is the sole source of funding for loans (note 5). Transactions with other provincial entities were entered into in the normal course of business.

The Province pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses on behalf of, and with no charge to, the Loan Board.

12 Pension and post-retirement benefits

All full-time employees of the Loan Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The pension plan is funded by equal employee and employer contributions. The employer's contributions of $33 (2018 - $40) are included in the Loan Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits are the responsibility of the pension plan.

13 Financial instruments and risk management

Risk management

Credit risk

The Loan Board is exposed to financial risk that arises from the credit quality of the individuals and entities to which it provides loan services. Credit risk arises from the possibility that the individuals and entities to which the Loan Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The risk that clients may not pay amounts owing on loans, resulting in a loss to the Loan 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 cyclical industry, or other temporary difficulties, it is the Loan Board's policy to work with clients on an individual basis to provide time for recovery. See note 4 for additional loan information.

The total loans receivable as at March 31, 2019, is $154,372 (2018 - $124,407). The majority of loans are secured primarily by a first mortgage on a vessel and a security agreement over fishing licenses. The maximum exposure to credit risk is the total loans outstanding.

All clients are involved in fishing and aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 5% of the total loan. Collateral held for security is assigned a value by a vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The Loan Board adjusts the allowance for impaired loans to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears.

(in thousands of dollars)

13 Financial instruments and risk management (continued)

Risk management (continued)

Liquidity risk

The Province provides funding and cash management services to the Loan Board. There is considered to be minimal risk that funds will be unavailable to meet lending commitments except to the extent of legislative and budgetary limitations on spending 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 Loan Board attempts to match terms of loans offered with those of funds drawn through the Province. The interest on loans offered and the interest on funds drawn through the Province are both at fixed rates. A 1% change in interest rates would have a $1,582 impact on interest revenues and interest expense.