

# **Nova Scotia Fisheries and Aquaculture Loan Board**

Financial Statements  
**March 31, 2020**  
(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 and exercises these responsibilities through the Board of Directors. 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

August 21, 2020



## *Independent auditor's report*

To the Board of Directors of Nova Scotia Fisheries and Aquaculture Loan Board

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### *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, 2020 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, 2020;
  - 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.
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### *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.

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### *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.

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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.

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### *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**

Halifax, Nova Scotia  
August 21, 2020

# Nova Scotia Fisheries and Aquaculture Loan Board

## Statement of Financial Position

As at March 31, 2020

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(in thousands of dollars)

	2020 \$	2019 \$
<b>Assets</b>		
<b>Financial assets</b>		
Loans receivable, net (note 4)	193,608	154,372
Interest receivable, net	3,734	3,220
Due from the General Revenue Fund of the Province (note 5)	186,008	50,475
	<hr/> 383,350	<hr/> 208,067
<b>Liabilities</b>		
<b>Current liabilities</b>		
Applicants' funds on deposit (note 5)	300	116
Due to the General Revenue Fund of the Province	3,734	3,220
Fisheries and Aquaculture Development Fund (note 1)	379,316	204,731
	<hr/> 383,350	<hr/> 208,067
<b>Accumulated surplus</b>	<hr/> -	<hr/> -

**Commitments and contingencies** (note 6)

**Approved by the Board of Directors**

\_\_\_\_\_ 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, 2020

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(in thousands of dollars)

	<b>2020 Budget \$</b> (unaudited)	<b>2020 Actual \$</b>	<b>2019 Actual \$</b>
<b>Revenue</b>			
Interest on loans	6,500	9,513	8,195
Loan processing and other fees	184	349	500
	<hr/> 6,684	<hr/> 9,862	<hr/> 8,695
<b>Expenses</b>			
Lending expenses (note 8)	5,104	8,294	7,944
	<hr/> 5,104	<hr/> 8,294	<hr/> 7,944
<b>Annual surplus before distribution to the General Revenue Fund of the Province</b>	1,580	1,568	751
<b>Distributions to the General Revenue Fund of the Province</b>	<hr/> (1,580)	<hr/> (1,568)	<hr/> (751)
<b>Annual and accumulated surplus – Beginning and End of year</b>	<hr/> -	<hr/> -	<hr/> -

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, 2020

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(in thousands of dollars)

	2020 \$	2019 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Annual and accumulated surplus	-	-
Net charge (credits) to operations not involving cash		
Increase in allowance for loan impairment	435	767
	<hr/> 435	<hr/> 767
Net charge in non-cash working capital balances related to operations		
Decrease (increase) in interest receivable	(514)	(248)
Increase (decrease) in due to the General Revenue Fund of the Province – net	514	248
Increase (decrease) in applicants' funds on deposit	185	(305)
	<hr/> 620	<hr/> 462
<b>Financing activities</b>		
Increase in due from the General Revenue Fund of the Province – net	<hr/> 39,051	<hr/> 30,270
<b>Investing activities</b>		
Increase in loans receivable – net	<hr/> (39,671)	<hr/> (30,732)
<b>Net change in cash during the year and Cash – Beginning and End of year</b>	<hr/> <hr/> -	<hr/> <hr/> -

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



# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(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 purpose of the Fisheries and Aquaculture Development Fund (the “Fund”) is to finance the loans and guarantees of the Loan Board.

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”).

As at March 31, 2020, the total principal in loans outstanding was limited by Order-in-Council to \$400,000 less \$20,685 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, 2020, new advances were \$61,450. These were able to exceed the capital allocation authorized of \$35,000 by using the unfilled allocation of the Nova Scotia Farm Loan Board. During the year, the Loan Board received repayments of loan principal of \$22,625.

	2020 \$	2019 \$
Fisheries and Aquaculture Development Fund – Beginning of year	204,731	205,875
Add: Loans written off (4 (c))	(415)	(1,144)
Add: Additional capital added to Development Fund	175,000	-
	<hr/>	<hr/>
Fisheries and Aquaculture Development Fund – End of year	379,316	204,731
	<hr/>	<hr/>
Comprised of:		
Loans receivable, net (note 4)	193,608	154,372
Loans authorized but not advanced (note 5)	17,870	14,888
Funds available for additional loans (note 5)	167,838	35,471
	<hr/>	<hr/>
	379,316	204,731
	<hr/>	<hr/>

Loans in excess of \$5,000 or any loan write-offs, require approval by 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 capital contributions from the Province.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(in thousands of dollars)

### 3 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:

#### Revenue recognition

Revenue is recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest on loans is recognized in income 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 revenue.

#### Loans receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are considered for impairment 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.

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

#### 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 probable losses on certain loans and loan guarantees, which are recorded in the statement of operations and accumulated surplus as bad debt expense. Bad debt expense also reduces the balance of amount due to the Fisheries and Aquaculture Development Fund. Recoveries of bad debt does not increase the Fund's balance.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(in thousands of dollars)

### 3 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 in the specific reserve. This is an estimate of incurred but unidentifiable losses based on a review of historic loan write-offs on an industry sector basis.

#### 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 revenue 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 carry value of loans approximates its 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 gains and losses, this statement has not been presented.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(in thousands of dollars)

### 4 Loans receivable

#### a) Loans receivable, net

The following table sets out the scheduled maturities of the financial assets as at March 31, 2020, together with the weighted-average interest rates being earned on the financial assets:

				2020	2019
	Under 1 year \$	1 - 5 years \$	Over 5 years \$	Total \$	Total \$
Total performing loans	6,728	31,029	153,816	191,573	152,684
Average effective annual interest rate	5.2%	5.3%	5.2%	5.4%	5.8%
Add: Principal receivable on impaired loans				4,630	3,848
Total principal				196,203	156,532
Less: Provision for loan impairment				2,595	2,160
<b>Net loans receivable</b>				193,608	154,372

#### 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 a large sample 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.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

(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.

	2020		2019	
	Impaired loans \$	Allowance for impairment \$	Impaired loans \$	Allowance for impairment \$
Specific allowance	4,630	1,516	3,848	1,527
Collective allowance	-	1,153	-	633
	4,630	2,669	3,848	2,160

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, 2020 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

	2020 \$	2019 \$
Allowance – Beginning of year	2,160	2,537
Add: Current year provision	925	767
Less: Loans written off	(416)	(1,144)
Allowance – End of year	2,669	2,160
Valuation allowance on principal	2,595	2,089
Valuation allowance on interest	74	71
	2,669	2,160

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(in thousands of dollars)

### 4 Loans receivable (continued)

#### d) Loans receivable past due but not impaired

A loan is considered past due when a counterparty 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 \$
2020	6	357	1,656	1,224	3,243
2019	272	530	-	1,700	2,502

### 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.

	2020 \$	2019 \$
Loan Board commitments (note 6)		
Loans authorized but not advanced	17,870	14,888
Applicants' funds on deposit	300	116
Funds available for additional loans	167,838	35,471
Due from General Revenue Fund of the Province	186,008	50,475

### 6 Commitments and contingencies

#### a) Commitments

The Loan Board has committed to provide loans of \$17,869 (2019 - \$14,888) 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 financial statements.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

(in thousands of dollars)

### 7 Bad debt expense (net of recoveries)

	Budget 2020 \$ (unaudited)	2020 \$	2019 \$
Bad debt expense net of recoveries	78	1,011	899
Unpaid interest added to principal on refinance	-	(86)	(132)
	<u>78</u>	<u>925</u>	<u>767</u>

### 8 Lending expenses

	Budget 2020 \$ (unaudited)	2020 \$	2019 \$
Bad debt expense (net of recoveries) (notes 4 (c) and 7)	78	925	767
Interest expense (notes 9 and 10)	4,300	6,795	6,481
Other	4	4	6
Professional services	41	41	38
Travel	45	36	57
Salaries and benefits (net of recoveries)	611	478	549
Supplies and services	25	15	46
	<u>5,104</u>	<u>8,294</u>	<u>7,944</u>

### 9 Interest expense

Loans provided by the Loan Board are funded through advances from the General Revenue Fund of the Province. Interest is charged, at a fixed rate, to the Loan Board for these advances. 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. The weighted-average interest rate for the year was 3.95% (2019 - 4.16%).

### 10 Distributions to the General Revenue Fund of the Province

Administration expenses of the Loan Board for the year ended March 31, 2020, totalling \$574 (2019 - \$696), 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 \$6,795 (2019 - \$6,481) 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.

# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(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 \$34 (2019 - \$33) 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 performing loans as at March 31, 2020, is \$191,573 (2019 - \$152,684). The majority of loans are secured primarily by a first mortgage on a vessel. It is not practical to determine the maximum exposure to credit risk due to the cost associated in determining the fair value of security and collateral security on unimpaired loans.

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.



# Nova Scotia Fisheries and Aquaculture Loan Board

## Notes to Financial Statements

For the year ended March 31, 2020

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(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 no 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 \$1,936 (2019: \$1,582) impact on interest revenue and expense.

### 14 Impact of COVID-19

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to the economy, it has now spread to many countries, including Canada, and infections have been reported around the world which resulted in the World Health Organization declaring a pandemic on March 11, 2020. This has caused the Canadian and Nova Scotia governmental authorities and many non-governmental entities to introduce measures to try to limit this pandemic.

The continued spread of COVID-19 and the actions being taken to limit its spread could adversely impact the Loan Board’s operations, including among others, increasing the credit risk and default rates in its loan portfolio, limiting the Loan Board’s ability to quickly respond to changes in credit risk and potentially limiting the Loan Board’s ability to serve our customers. These could have an adverse impact on the Loan Board’s business and financial results.