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**PROVINCE OF NOVA SCOTIA  
FISHERIES AND AQUACULTURE LOAN BOARD  
FINANCIAL STATEMENTS  
MARCH 31, 2009**

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Nova Scotia

# Office of the Auditor General

1888 Brunswick Street, Suite 302  
Halifax, Nova Scotia  
B3J 3J8 Canada

902•424•5907 tel  
902•424•4350 fax  
[www.oag-nb.ca](http://www.oag-nb.ca)

## AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Fisheries and Aquaculture

I have audited the balance sheet of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2009 and the statements of operations and continuity of fund for the year then ended. These financial statements are the responsibility of the Loan Board's management. My responsibility is to express an opinion on these financial statements based upon my audit.

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.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Alan D. Horgan, CA  
Deputy Auditor General

Halifax, Nova Scotia  
June 22, 2009

Province of Nova Scotia  
Fisheries and Aquaculture Loan Board  
**Balance Sheet**  
**March 31, 2009**  
(\$ thousands)

**ASSETS**

	2009	2008
Loans receivable (net) (Note 5)	\$ 84,470	\$ 88,990
Interest receivable	2,891	2,566
Due from Consolidated Fund of the Province (Note 7)	<u>51,201</u>	<u>46,751</u>
	<u>\$ 138,562</u>	<u>\$ 138,307</u>

**LIABILITIES AND FUND BALANCE**

**Liabilities**

Applicants' funds on deposit	\$ 11	\$ 31
Due to Consolidated Fund of the Province	<u>2,891</u>	<u>2,566</u>
	2,902	2,597
<b>Fisheries and Aquaculture Development Fund</b>	<u>135,660</u>	<u>135,710</u>
	<u>\$ 138,562</u>	<u>\$ 138,307</u>

**Commitments** (Note 8)

APPROVED ON BEHALF OF THE BOARD

\_\_\_\_\_  
Chair

\_\_\_\_\_  
Member

(See accompanying notes to the financial statements)

Province of Nova Scotia  
Fisheries and Aquaculture Loan Board  
Statement of Operations  
For the Year Ended March 31, 2009  
(\$ Thousands)

	Budget 2009	Actual 2009	Actual 2008
<b>Revenues</b>			
Interest income	\$ 6,300	\$ 6,143	\$ 6,133
Loan fees	<u>116</u>	<u>49</u>	<u>116</u>
	<u>6,416</u>	<u>6,192</u>	<u>6,249</u>
<b>Expenses</b>			
Interest expense (Note 9)		4,008	4,098
Salaries and benefits (net of recoveries)		576	539
Board honoraria		6	4
Travel		61	63
Supplies and services		24	19
Professional services		22	33
Bad debt expense (net of recoveries)		<u>50</u>	<u>10</u>
		<u>4,747</u>	<u>4,766</u>
<b>Operating Surplus</b> before Government contributions		1,445	1,483
Government contributions (Note 10)		<u>4,747</u>	<u>4,766</u>
<b>Surplus</b>		6,192	6,249
Distribution to Consolidated Fund of the Province		<u>6,192</u>	<u>6,249</u>
<b>Accumulated Surplus</b> , end of year		<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes to the financial statements)

Province of Nova Scotia  
**Fisheries and Aquaculture Loan Board**  
**Statement of Continuity of Fund**  
**For the Year Ended March 31, 2009**  
(\$ Thousands)



	2009	2008
<b>Fisheries and Aquaculture Development Fund,</b> beginning of year	\$ 135,710	\$ 135,720
Deduct: Bad debt expense (Note 2d)	<u>50</u>	<u>10</u>
<b>Fisheries and Aquaculture Development Fund,</b> end of year	<u>\$ 135,660</u>	<u>\$ 135,710</u>
Comprising:		
Loans receivable (Note 5)	\$ 84,470	\$ 88,990
Loans authorized but unadvanced (Note 7)	1,221	1,571
Funds available for additional loans (Note 7)	<u>49,969</u>	<u>45,149</u>
	<u>\$ 135,660</u>	<u>\$ 135,710</u>

(See accompanying notes to the financial statements)

## **1. Authority**

The Fisheries and Aquaculture Development Fund is established pursuant to Section 34 of the Fisheries and Coastal Resources Act. The purpose of the Fund is to finance the loans and guarantees of the Nova Scotia Fisheries and Aquaculture Loan Board.

The objective and purpose of the Board is to make loans and guarantees of loans to fishermen, aquaculturists, companies, cooperatives, associations or other persons in order to encourage, sustain, improve and develop the fishing industry in the Province.

Principal in loans outstanding is limited by Order-in-Council to \$150 million, less \$14.3 million in bad debts 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, 2009, maximum new advances were \$20 million of which \$7.2 million were advanced. The Board received repayments of loan principal of \$11.8 million during the year.

Loans in excess of \$1 million, and any loan write-offs, require approval by Governor in Council.

## **2. Significant Accounting Policies**

These financial statements are 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) Revenue recognition**

Revenues are recorded on the accrual basis. The main components of revenue are interest and various fees for loans and guarantees. Interest on impaired loans is not recorded in the financial statements.

### **(b) 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.

### **(c) 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, 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.

**2. Significant Accounting Policies (continued)**

**(d) Provision for Loan Impairment**

The allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. It is determined based on management's review of individual loan accounts and identification of problem accounts.

Loan write offs must be approved by the Governor in Council.

Provisions are made for probable losses on certain loans and loan guarantees, and recorded in the statement of operations as bad debt expense. Bad debt expense also reduces the balance of the Fisheries and Aquaculture Development Fund. Recoveries of bad debts do not increase the Fund balance.

**(e) Statement of Cash Flow**

A statement of cash flow has not been included in these financial statements because disclosure in the balance sheet and statement of operations is considered adequate. Disbursements are drawn and receipts are deposited to accounts managed by the Province.

**(f) Use of Estimates**

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. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

**(g) Financial Instruments**

The Board is required to designate its financial instruments into one of the following five categories: (i) held for trading, (ii) available for sale, (iii) held to maturity, (iv) loans and receivables, or (v) other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value with any change in fair value recorded in the statements of operations and the continuity of fund, respectively. All other financial instruments are measured at amortized cost using the effective interest method.

Financial instruments consist of loans receivable, interest receivable, applicants' funds on deposit, and amounts due to and from the Province of Nova Scotia. With the exception of loans receivable, which have been designated as loans and receivables, the Board's financial instruments are designated as held for trading. Transaction costs associated with issuing loans become part of the total outstanding loan balance. The Board holds all loans to maturity.



### **3. Adoption of New Accounting Pronouncements**

Effective April 1, 2008, the Board adopted the Canadian Institute of Chartered Accountants' Handbook Sections 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 3862, Financial Instruments – Disclosures, describes the required disclosures related to the significance of financial instruments on the Board's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non financial derivatives.

As required by the transition provisions, these new standards have been applied without restatement of prior period amounts. The required disclosures of Sections 3862 and 3863 are included in Notes 4 and 12.

### **4. Risk Management**

#### *Credit Risk*

The risk that clients may not pay amounts owing on loans, 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 5 for additional loan information.

The total of loans not in default at March 31, 2009, is \$84,058 (2008 - \$88,989). The majority of loans are secured primarily by a first mortgage on the 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 the fishing or aquaculture industries in Nova Scotia. Regulations provide that loan deposits shall be a minimum of 10% of the total loan. Collateral held for security is assigned a value by the vessel inspector considering known transactions of similar vessels and condition of the vessel based on an inspection.

The 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.

#### 4. Risk Management (continued)

##### *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 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 Board attempts to match terms of loans offered with those of funds drawn through the Province.

#### 5. Loans Receivable (net)

	2009	2008
Principal due on fishery loans:		
Performing loans	\$ 81,912	\$ 87,893
Impaired loans	547	150
Allowance for impaired fishery loans	(135)	(149)
Principal due on aquaculture loans:		
Performing loans	2,146	1,096
Impaired loans	3	3
Allowance for impaired aquaculture loans	(3)	(3)
Net loans receivable	\$ <u>84,470</u>	\$ <u>88,990</u>

Summarized below are anticipated loan repayments based on loan payment schedules and maturities. Values represent the book value of loan funds disbursed less principal repayments to date. The provision for loan impairment adjusts the value of loans to their anticipated recoverable amounts.

Province of Nova Scotia  
Fisheries and Aquaculture Loan Board  
Notes to the Financial Statements  
March 31, 2009  
(\$ Thousands)

**5. Loans Receivable (net) (continued)**

	2009			2008	
	Year 1	Years 2-5	Beyond 5 Years	Total	Total
Total performing loans	\$ 10,449	\$ 32,318	\$ 41,291	\$ 84,058	\$ 88,989
Weighted average interest rate	7.12%	7.07%	6.83%		
Add: principal receivable on impaired loans				550	153
Total principal				84,608	89,142
Less: allowance for loan impairment				138	152
Net loans receivable				<u>\$ 84,470</u>	<u>\$ 88,990</u>

**6. Allowance for Loan Impairment Continuity**

	Fisheries Loans	Aquaculture Loans	2009 Total Loans	2008 Total Loans
<b>Allowance</b> , beginning of year	\$ 149	\$ 3	\$ 152	\$ 429
Write-offs	-	-	-	(242)
Current year adjustment	<u>(14)</u>	<u>-</u>	<u>(14)</u>	<u>(35)</u>
<b>Allowance</b> , end of year	<u>\$ 135</u>	<u>\$ 3</u>	<u>\$ 138</u>	<u>\$ 152</u>

The Board did not repossess any boats in 2008-09, and did not recover any amounts previously written off.

**7. Due from Consolidated Fund of the Province**

The portion of the Fisheries and Aquaculture Development Fund that has not been advanced as loans is maintained in the Consolidated 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 Board by loan applicants are also maintained in the Consolidated Fund. Financial commitments made by the Board reduce the amount of this account which is available for additional loans.

	2009	2008
Board commitments (Note 8)		
Loans authorized but unadvanced	\$ 1,221	\$ 1,571
Applicants' funds on deposit	11	31
Funds available for additional loans (Note 1)	<u>49,969</u>	<u>45,149</u>
Due from Consolidated Fund of the Province	<u>\$ 51,201</u>	<u>\$ 46,751</u>

**8. Commitments**

Commitments include loans of \$1,221 (2008 - \$1,571) which were approved by the Board but not advanced by year end.

**9. Interest Expense**

Loans provided by the Board are funded through advances from the Consolidated Fund of the Province. Interest is charged to the Board for these advances on the assumption that the funds are borrowed by the Province to lend to the Board. Interest expense is calculated by the Board based on an estimate by the Department of Finance of the rate at which the Province could borrow funds over the next quarter. The Board does not prepare an annual budget for interest expense.

**10. Contributions and Surplus**

Administration expenses of the Board for the year ended March 31, 2009 totalling \$4,747 (2008 - \$4,766) were paid by the Department of Fisheries and Aquaculture on behalf of the Board. Interest expense on funds borrowed to make loans is an expense of the Department of Finance. Accordingly these expenses are included in Government Contributions in the Statement of Operations.

**11. 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 Government of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the Province.

**12. Fair Value of Financial Instruments**

The fair value of the Board's financial instruments, excluding loans receivable, approximates their carrying amounts due to their relatively short terms to maturity.

The fair value and book value, excluding any reserves, of loans receivable as at March 31, 2009 are \$83,889 and \$84,608, respectively.

**13. Related Party Transactions**

The Board is related to all other departments, agencies, boards, and commissions of the Province of Nova Scotia. The Consolidated Fund of the Province is the sole source of funding for loans (see Note 7). Transactions with Provincial entities were entered into in the normal course of business.