NOVA SCOTIA FARM LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2009

CONTENTS

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-ns.ca

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Agriculture

I have audited the balance sheet of the Nova Scotia Farm Loan Board as at March 31, 2009 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 provision for loan impairment. Accordingly, I was not able to determine whether any adjustments might be necessary to the provision for loan impairment, or to the amount due to the Province of Nova Scotia, and deficit.

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, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Jacques R. Lapointe, CA
Auditor General

Halifax, Nova Scotia
May 25, 2009

($thousands)

ASSETS

	2009	2008
Cash (Note 2a)	$ 1,611	$ 1,649
Interest and other receivables (net) (Note 4)	3,451	2,686
Loans receivable (net) (Note 5)	168,477	167,679
Real estate (net) (Note 6)	4,745	4,142
	$ 178,284	$ 176,156
LIABILITIES		
Due to the Province of Nova Scotia	$ 1,611	$ 1,649
Advances from the Province of Nova Scotia (Note 8)	176,673	174,507
	178,284	176,156
EQUITY		
Retained earnings	-	-
	$ 178,284	$ 176,156

Commitments and contingencies (Note 15)

APPROVED ON BEHALF OF THE BOARD

Member

Member

(See accompanying notes to the financial statements.)

Nova Scotia Farm Loan Board
Statement of Operations
For the Year Ended March 31, 2009
($thousands)

	2009	2008
Revenues		
Interest revenue (Note 2f)	$ 10,802	$ 10,981
Revenue on life insurance operations (net) (Note 11)	222	222
Fee revenue and other income	218	254
	11,242	11,457
Expenses		
Interest expense	9,749	9,416
Operating expenses (Note 9)	1,263	1,179
Bad debt expense (Note 7)	4,763	8,695
	15,775	19,290
Deficit before government contributions	(4,533)	(7,833)
Government contributions (Note 10)	4,533	7,833
	$ -	$ -

(See accompanying notes to the financial statements.)

Nova Scotia Farm Loan Board
Statement of Retained Earnings
For the Year Ended March 31, 2009
($thousands)

	2009	2008
Retained earnings, beginning of year	$ -	$ 1,323
Deficit before government contributions	(4,533)	(7,833)
Government Contributions (Note 10)	4,533	6,510
Retained earnings, end of year	$ -	$ -

(See accompanying notes to the financial statements.)

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, 2009 maximum new advances were $30 million, of which $26.7 million was advanced. The Board received loan principal repayments of $20.1 million during the year.

Loans in excess of $2 million and any loan write offs require approval by Governor in Council.

2. Significant 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.

b) Statement of cash flow

Except for funds held by the insurance carrier, the Board holds no cash. Disbursements are drawn and receipts are deposited to accounts managed by the Province. A statement of cash flow has not been provided because disclosure in the balance sheet and statement of operations is considered adequate.

c) Loans receivable

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

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

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

d) **Provision for loan impairment**

The provision for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. The provision is determined based on management's identification and evaluation of problem accounts and estimated losses that exist in the remaining portfolio. These judgements are influenced by the composition and quality of the portfolio, general economic conditions, and 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 appears reasonable.

The Board records a specific provision based on a loan-by-loan review. Impaired loans are valued at the lower of their recorded investment or the estimated net realizable amount of their underlying security.

In addition, the Board records a general provision equal to .8% of the portfolio not included in the specific reserve. This is an estimate of probable but unidentifiable losses.

e) **Real estate**

Real estate acquired through foreclosure and held for sale is initially recorded at the lower of the recorded investment in the foreclosed loan and the estimated fair value based on the resale value of security held less disposal costs.

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

The Board also 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 properties and 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.

f) **Revenue recognition**

Interest income is recorded on an accrual basis until such time as a loan is classified as impaired. The loan reverts to an accrual status when all provisions for impairment are reversed and the ultimate collection of the principal and interest is reasonably assured.

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

2. Significant Accounting Policies (continued)

g) 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 provisions for impaired loans and real estate. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

h) 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. All other financial instruments are measured at amortized cost using the effective interest method.

The Board's financial instruments consist of cash, accrued interest and other accounts receivable, loans receivable and accounts payable. With the exception of loans receivable, which have been designated as loans and receivables, the Board's financial instruments have been designated as held for trading. Transaction costs related to loans are recorded as part of the total amount outstanding. The carrying value of loans receivable approximates their net realizable value. The Board holds all loans to maturity.

i) 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 Note 11 and 12.

3. Interest Expense and Retained Earnings

Since April 1, 1998, a Memorandum of Understanding (MOU) between the Nova Scotia Farm Loan Board and the Nova Scotia Department of Finance has formalized the Board's funding arrangement. Under the MOU arrangement, the Board estimates

($thousands)

3. Interest Expense and Retained Earnings (continued)

projected lending requirements on a quarterly basis. The Department of Finance arranges the requested financing for terms requested and provides this financing 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 in 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. Actual financing costs are included as interest costs of the Province.

4. Interest and Other Receivables (net)

Interest and other receivables consists of the following:	2009	2008
Interest receivable	$ 4,024	$ 2,889
Accrued interest	98	931
Other charges	280	243
	4,402	4,063
Less: provisions for impairment	(951)	(1,377)
Interest and Other Receivables (net)	$ 3,451	$ 2,686

5. Loans Receivable (net)

The following are anticipated loan repayments based on loan payment schedules and maturities.

	2009				2008
	Under 1 Year	1-5 Years	Over 5 Years	Total	Total
Farm loans	$ 11,801	$ 44,093	$ 94,075	$ 149,969	$ 152,329
Timber loans	84	160	138	382	510
Total performing loans	$ 11,885	$ 44,253	$ 94,213	150,351	152,839
Average effective annual interest rate	6.16%	6.17%	6.38%		
Add: principal receivable on impaired loans (excluded from above)				32,228	25,520
Total principal				182,579	178,359
Less: provision for loan impairment				(14,102)	(10,680)
Loans receivable (net)				$ 168,477	$ 167,679

($thousands)

6. Real Estate (net)

	2009	2008
Real estate held for resale	$ 9,407	$ 7,148
Less: provision for impairment	(6,219)	(4,452)
Net real estate held for resale	3,188	2,696
Real estate held for long-term use		
Land bank	671	673
Land consolidation		
Agriculture and Rural Development Agreement (ARDA)	21	32
Less Federal Government share of ARDA properties	(11)	(16)
Property used by NS Agricultural College and Community Pastures	876	757
Total real estate acquired for long-term use	1,557	1,446
Real estate (net)	$ 4,745	$ 4,142

7. Provision for Impairment

	2009			2008
	Loans	Real Estate	Total	
Balance, beginning of year	$ 11,469	$ 5,040	$ 16,509	$ 8,127
Write-offs	-	-	-	(374)
Current year recovery	-	-	-	61
Current year provision	3,256	1,507	4,763	8,695
Balance, end of year	$ 14,725	$ 6,547	$ 21,272	$ 16,509
Provision on principal	$ 14,102	$ 6,219	$ 20,321	$ 15,132
Provision on interest	623	328	951	1,377
	$ 14,725	$ 6,547	$ 21,272	$ 16,509

The balance at March 31, 2009 includes a specific allowance of $20,170 (2008 - $15,360). The general allowance of $1,102 (2008 - $1,149) relates only to loans receivable.

($thousands)

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 expense is calculated in accordance with a Memorandum of Understanding with the Department of Finance (Note 3).

9. Operating Expenses

	2009	2008
Salaries	$ 1,052	$ 952
Supplies and services	61	73
Travel	56	57
Training and development	9	11
Professional/special services	61	54
Equipment and other	24	32
Operating expenses	$ 1,263	$ 1,179

10. Government Contributions

Expenses for the year ended March 31, 2009 were paid by the Department of Agriculture 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. 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 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.

The total of loans at March 31, 2009, is $182,579 (2008 - $178,359). The majority of loans are secured primarily by real property using mortgage or Agreement of Sale (providing rights similar to a mortgage). Dairy and Poultry loans are generally also secured by an irrevocable assignment of production quota. Collateral security may also be provided by equipment, livestock or chattels. 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.

11. **Risk Management** (continued)

All clients are involved in agriculture in Nova Scotia. Involvement in processing is limited to on-farm processing. Regulations provide that loans must not exceed 90% of security value without approval by the Board. Collateral held for security is assigned a value by the loan officer considering the loan based on known transactions of similar property, with additional information provided by property assessments and external assessments where available.

Credit Risk (continued)
The Board adjusts the Provision for Impairment to recognize management's estimate of recoveries on impaired accounts. Impairment is primarily identified by review of arrears, refinanced loans, and accounts in sectors experiencing difficulty. A total of $2,413 was issued in refinanced loans during 2008-2009 to clients with significant arrears.

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. 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.

Life Insurance Risk
The Board requires borrowers to participate in a group life insurance program administered
by the Board unless the borrower has arranged alternative life insurance coverage. The net annual gain or loss under contract with the insurance provider (premium revenue less the cost of life insurance claims) to a maximum of $250 on any claim, plus administrative costs, are costs or revenues of the Board and may vary from year to year.

12. **Fair Value of Financial Instruments**

The carrying value of cash, accrued interest and other accounts receivable, and accounts payable approximate their fair value because of their short term-to-maturity. The fair value and carrying value of loans receivable, excluding any reserves, as at March 31, 2009 are estimated to be $173,450 and $182,579 respectively. Fair value was determined using an observable market rate.

13. 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 3). 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.

14. 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.

15. Commitments and Contingencies

The Board will hold interest rates for ninety days for any client from the date of receipt of a loan application. As at March 31, 2009, the Board had authorized loans of $3.2 million which had not been disbursed.