Nova Scotia Farm Loan Board

Financial Statements
March 31, 2018

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 schedules, 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 express their opinion on the financial statements. The external auditor has full and free access to financial management of the Nova Scotia Farm Loan Board and meet when required.

On behalf of the Nova Scotia Farm Loan Board

Jennifer Thompson, Director of Crown Lending Agencies

Andrew Vermeulen, Chairman

June 26, 2018

June 26, 2018

Independent Auditor's Report

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

We have audited the accompanying financial statements of Nova Scotia Farm Loan Board (the "Board"), which comprise the statement of financial position as at March 31, 2018 and the statements of operations and accumulated surplus, changes in net debt and cash flows for the year then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2018 and the results of its operations, changes in its net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
710 Prince Street, PO Box 632, Truro, Nova Scotia, Canada B2N 5E5
T: +1 902 895 1641, F: +1 902 893 0460

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Nova Scotia Farm Loan Board

Statement of Financial Position

As at March 31, 2018

(in thousands of dollars)

	2018 $	2017 $
Financial assets		
Accounts receivable	32	22
Interest and other receivables, net (note 4)	1,760	2,128
Loans receivable, net (note 5)	163,664	162,451
Real estate held for resale, net (note 6)	246	2,442
	165,702	167,043
Liabilities		
Due to the Province of Nova Scotia	32	22
Advances from the Province of Nova Scotia (note 7)	169,065	169,680
	169,097	169,702
Net debt	(3,395)	(2,659)
Non-financial assets		
Real estate, net (note 8)	3,395	2,659
Accumulated surplus	–	–

Commitments (note 17)

Approved by the Board of Directors

Director

Director

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

Nova Scotia Farm Loan Board

Statement of Changes in Net Debt

For the year ended March 31, 2018

(in thousands of dollars)

	2018 $	2017 $
Net surplus	–	–
Acquisition of real estate	(736)	(440)
	(736)	(440)
Net debt – Beginning of year	(2,659)	(2,219)
Net debt – End of year	(3,395)	(2,659)

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

Nova Scotia Farm Loan Board

Statement of Operations and Accumulated Surplus

For the year ended March 31, 2018

(in thousands of dollars)

	(Unaudited) Budget 2018 $	Actual 2018 $	Actual 2017 $
Revenue			
Interest on loans	6,800	5,867	6,265
Loan processing and other fees (note 9)	209	211	250
Life insurance program revenue, net	22	23	24
	7,031	6,101	6,539
Expenses			
Lending expenses (note 10)	6,604	10,827	9,788
Annual surplus (deficit) before distributions from the Province of Nova Scotia	427	(4,726)	(3,249)
Distributions from the Province of Nova Scotia	(427)	4,726	3,249
Annual surplus for the year and Accumulated surplus – Beginning and End of year	–	–	–

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

Nova Scotia Farm Loan Board

Statement of Cash Flows

For the year ended March 31, 2018

(in thousands of dollars)

	2018 $	2017 $
Cash flows provided by (used in)		
Operating activities		
Annual surplus for the year	–	–
Net charges (credits) to operations not involving cash		
Valuation allowance for impaired loans (including real estate held for resale)	5,144	3,960
	5,144	3,960
Net charge in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	(10)	(1)
Decrease (increase) in interest and other receivables	368	(718)
Increase (decrease) in due to the Province of Nova Scotia, net	10	1
Loans written-off during the year	(2,392)	(434)
	3,120	2,808
Financing activities		
Decrease in advances from the Province of Nova Scotia, net	(615)	(1,598)
Investing activities		
Increase in loans receivable (including real estate held for resale), net	(1,769)	(770)
Capital activities		
Increase in real estate, net	(736)	(440)
Net change in restricted cash for the year	–	–
Restricted cash – Beginning of year	–	–
Restricted cash – End of year	–	–

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

(in thousands of dollars)

1 Authority

Nova Scotia Farm Loan Board (the "Board") provides loans to the agriculture and forestry sector for farms operating in rural Nova Scotia.

The Board is a provincial agency and operates under the authority of the Agriculture and Rural Credit Act and the Forests Act (for timber loans).

Principal in loans outstanding is limited by regulation to $200 million. Maximum advances to be disbursed in any given year, are established through the annual budgeting process. For the year ended March 31, 2018, maximum new advances were $40 million, of which $27.8 million was advanced. The Board received loan principal repayments of $23.3 million during the year.

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

2 Capital management

As an agency of the Province of Nova Scotia, the Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

3 Significant accounting policies

Basis of accounting

These financial statements are prepared in accordance with the Canadian public sector accounting standards (PSAS) as issued by the Canadian Accounting Standards Board.

Restricted cash and accounts receivable

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.

Accounts receivable reported consists of funds held by Sun Life Assurance Company of Canada in relation to the Board's Creditor Group Life Insurance Program.

Loans receivable

Loans receivable are the principal portion of loans outstanding, net of the valuation 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.

(in thousands of dollars)

3 Significant accounting policies (continued)

Valuation allowance for loan impairment

The valuation allowance for loan impairment represents management's best estimate of losses due to impaired loans in the 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 Board policy to act as a patient lender, providing additional time for repayment where full future repayment appears reasonable.

The 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 Board records a collective valuation allowance for loans in the portfolio not assessed 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.

Real estate

Real estate acquired through foreclosure 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 the security held, less disposal costs.

Net operating costs incurred on real estate are added to the carrying value of the property. The related provision is used to adjust the carrying value to net recoverable value, resulting in inclusion of these costs in bad debt expenses if the carrying value exceeds net recoverable value.

The Board also holds land purchased under a Provincial "Landbank" program. This program has ceased; however, existing properties and leases continue with renewable five-year terms. Property acquired under this program is valued at the lower of cost and recoverable amount. Lease clients are entitled to purchase the related property at its original purchase cost.

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 interest is likely.

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

Government transfers are recognized as revenue when the transfer is authorized, any eligibility criteria are met, and reasonable estimates of the amounts can be made.

(in thousands of dollars)

3 Significant accounting policies (continued)

Financial instruments

The 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 Board’s financial instruments are measured at amortized cost using the effective interest method.

The Board’s financial instruments consist of accrued interest and other accounts receivable, loans receivable and real estate and are measured at amortized cost using the effective interest method. Transaction costs related to loans are recorded as part of the total amount outstanding.

Management estimates

Canadian public sector accounting standards require 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 reporting period. By their nature, as described further in note 5, these estimates are subject to measurement uncertainty and any changes in those estimates could have an impact on the results of future period financial statements.

Remeasurement gains and losses

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

4 Interest and other receivables, net

	2018 $	2017 $
Interest receivable	1,236	1,071
Accrued interest	829	1,495
Other charges	137	107
	2,202	2,673
Less: Valuation allowance for interest on impaired loans	359	289
Valuation allowance for interest on real estate	83	256
	1,760	2,128

(in thousands of dollars)

5 Loans receivable

a) Loans receivable, net

The following schedule sets out the scheduled maturities of the principal balances of the financial assets as at March 31, 2018, together with the weighted average interest rates being earned on the financial assets.

				2018	2017
Performing loans	**Under 1 year $**	**1 - 5 years $**	**Over 5 years $**	**Total $**	**Total $**
Farm loans	14,459	40,554	97,620	152,633	148,366
Timber loans	10	4	–	14	40
	14,469	40,558	97,620	152,647	148,406
Average effective annual interest rate	3.6%	3.6%	3.7%		
Add: Impaired loans				27,040	26,132
Total loans				179,687	174,538
Less: Valuation allowance for loan impairment				(16,023)	(12,087)
				163,664	162,451

b) Allowance for impaired loans

Loans are considered impaired when they are risk rated as substandard or worse or when the loan is more than 90 days in arrears at year-end and there is insufficient collateral security valued at forced sale to cover the balance outstanding. The allowance 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 impaired 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 security pledged and the financial condition of the borrower and/or, where applicable, guarantors.

The collective allowance for impaired loans is 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 determined based on management's judgment and recent experience by calculating the average estimated historical loss ratio by loan type and then applying these ratios to the current portfolio of unimpaired loans.

(in thousands of dollars)

5 Loans receivable (continued)

b) Allowance for impaired loans (continued)

	2018		2017	
	Impaired loans $	Allowance for impairment (principal) $	Impaired loans $	Allowance for impairment (principal) $
Specific allowance	27,040	15,205	26,132	11,386
Collective allowance	–	818	–	701
	27,040	16,023	26,132	12,087

Significant judgement was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2018, will differ from these estimates and the differences could be material. Management estimates that the actual realization of impaired loans could result in significant variance from the estimated amounts.

c) Continuity of allowance for impaired loans

	2018 $	2017 $
Allowance for impaired loans – Beginning of year	12,376	9,888
Other adjustments	22	–
Add: Valuation allowance for impaired loans	3,984	2,488
Allowance for impaired loans – End of year	16,382	12,376
Valuation allowance on principal	16,023	12,087
Valuation allowance on interest	359	289
	16,382	12,376

(in thousands of dollars)

5 Loans receivable (continued)

d) Loans 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 they either (i) have a strong risk rating; (ii) have an arrears amount less than $1; or (iii) are fully secured and collection efforts are reasonably expected to result in repayment. Loans that are past due but not impaired are as follows:

	1-30 days $	31-60 days $	61-90 days $	91 or more days $	2018 $	2017 $
Farm loans	418	4,922	306	5,515	11,161	12,374

6 Real estate held for resale

a) Real estate held for resale, net

The assets held for sale, comprising land, buildings and equipment, have been written-down to estimated recoverable value. Recoverable value was estimated by management, utilizing external appraisals for the land and buildings, based on the expected selling prices, net of estimated closing costs.

Real estate held for resale has been written down from the original loan amounts as follows:

	2018 $	2017 $
Original funds advanced	3,711	5,921
Less: Valuation allowance for real estate	(4,168)	(3,479)
Add: Transferred to lease property	703	–
Real estate held for sale	246	2,442

b) Allowance for real estate

	2018 $	2017 $
Allowance for real estate – Beginning of year	3,735	1,562
Valuation allowance for real estate	2,908	2,609
Less: Real estate written off	(2,392)	(434)
Less: Other	–	(2)
Allowance for real estate – End of year	4,251	3,735
Valuation allowance on principal	4,168	3,479
Valuation allowance on interest	83	256
	4,251	3,735

(in thousands of dollars)

7 Advances from the Province of Nova Scotia

Advances are provided by the Province of Nova Scotia to fund loans issued by the Board. Interest expense is calculated in accordance with a Memorandum of Understanding with the Nova Scotia Department of Finance (note 11).

8 Real estate, net

	2018 $	2017 $
Real estate held for long-term use		
Former loan property under lease	3,289	2,383
Land bank	30	200
Property used by for community pastures	76	76
	3,395	2,659

In the current year, the Board reached settlements with two loan clients (2017 – two loan clients) such that the properties of these clients were transferred to the Board to settle the outstanding loan balances. The Board has recorded these properties as former loan properties under lease at the lower of the loan balance and the assessed value of the property. Subsequently, the Board entered into lease agreements over the properties to allow the loan clients to continue to operate on the properties. The Board has not recorded amortization on these properties.

9 Loan processing and other fees

	2018 $	2017 $
Fees and other charges	100	237
Cost recoveries	111	13
	211	250

(in thousands of dollars)

10 Lending expenses

	2018 $	2017 $
Interest (note 11)	4,067	4,335
Payroll	1,326	1,310
Bad debt (note 12)	5,144	3,960
Supplies and services	115	60
Travel	41	45
Professional services/special services	96	53
Training and development	6	7
Equipment and other	32	18
	10,827	9,788

11 Interest expense

Since April 1, 1998, a Memorandum of Understanding ("MOU") between the Board and the Nova Scotia Department of Finance has formalized the Board's funding arrangement. Under the MOU arrangement, the Board estimates projected lending requirements on a quarterly basis. The Nova Scotia 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 Nova Scotia 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.

12 Bad debt expense

	2018 $	2017 $
Bad debt expense (recovery) includes:		
Valuation allowance for impaired loans	3,984	2,488
Capitalization of suspended interest	(1,748)	(1,137)
Write-down of real estate held for resale	2,908	2,609
	5,144	3,960

(in thousands of dollars)

13 Financial instruments and risk management

(i) Fair value of financial instruments

The 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 Board provides loan services may experience financial difficulty and be unable to fulfill their obligations.

The Board has recorded a valuation allowance for potential credit losses after an extensive review of the loan portfolio by management. Due to the number of factors which would affect the fair value of the loan portfolio, including the credit rating of the borrower and the related risk premium, interest rates and valuation of the security; it is not practical to determine the fair value of this financial asset with sufficient reliability.

(ii) 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 the client on an individual basis to provide time for recovery.

The total of loans receivable at March 31, 2018 is $179,687 (2017 - $174,538). 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.

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.

The Board adjusts the valuation allowance 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 $1,450 (2017 - $949) was issued in refinanced loans during 2017 - 2018 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.

(in thousands of dollars)

13 Financial instruments and risk management (continued)

(ii) Risk management (continued)

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. Loans may be contracted for the full term of their amortization (from 1 to 30 years) or may be of fixed terms of 3, 5 or 10 years with an amortization period of up to 30 years. Funds drawn through the Province provide for 10% annual and 5-year full optional repayments.

14 Government contributions

Expenses for the year ended March 31, 2018, 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 Nova Scotia Department of Finance. Accordingly, these expenses are included in Government Contributions in the Statement of Operations.

15 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 1). Transactions with provincial entities were entered into in the normal course of business.

The Province of Nova Scotia pays certain expenses, including rent, building maintenance, computer networks and support, computerized accounting systems and miscellaneous office expenses in relation to building and computer systems, on behalf of the Board with no charge to the Board.

Loans and interest receivable includes $1,521 (2017 - $4,090) resulting from outstanding loans to Board members and immediate family of Board members. These loans were issued under normal terms and conditions using market interest rates.

(in thousands of dollars)

16 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 of $96 (2017 - $92) are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Public Service Superannuation Plan Trustee Inc. and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the pension plan. It is not anticipated that any such future costs would be allocated to the Board.

17 Commitments

The Board will hold interest rates for ninety days for any client from the date of loan approved. As of March 31, 2018, the Board has authorized loans of $12.4 million (2017 - $11.6 million) which had not been disbursed.