



Financial Statements

Nova Scotia Farm Loan Board

March 31, 2023

Contents

	Page
Independent auditor's report	2-3
Statement of financial position	4
Statement of operations and accumulated surplus	5
Statement of changes in net debt	6
Statement of cash flows	7
Notes to the financial statements	8-16

Independent auditor's report

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To the Board of Directors of Nova Scotia Farm Loan Board

Opinion

We have audited the financial statements of Nova Scotia Farm Loan Board (the "Loan Board"), which comprise the statement of financial position as at March 31, 2023, and the statement of operations and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Farm Loan Board as at March 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance 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.

In preparing the financial statements, management is responsible for assessing the Loan Board's ability to continue as a going concern, disclosing, as applicable, matters related to a 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 to do so.

Those charged with governance are responsible for overseeing the Loan Board's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Loan 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 Tourism'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.

Grant Thornton LLP

Chartered Professional Accountants

Halifax, Canada
June 22, 2023

Nova Scotia Farm Loan Board Statement of financial position

March 31

(in thousands of dollars)

	2023	2022
Financial assets		
Accounts receivable	\$ -	\$ 16
Interest and other receivables, net (Note 4)	1,633	1,576
Loans receivable, net (Note 5)	226,460	190,925
Real estate held for resale	67	137
	<u>228,160</u>	<u>192,654</u>
Liabilities		
Due to the Province of Nova Scotia	-	16
Accounts Payable	14	-
Advances from the Province of Nova Scotia (Note 6)	229,963	193,320
	<u>229,977</u>	<u>193,336</u>
Net debt	<u>(1,817)</u>	<u>(682)</u>
Non-financial assets		
Real estate (Note 7)	1,817	682
	<u>1,817</u>	<u>682</u>
Accumulated surplus	\$ -	\$ -

Commitments (Note 14)

On behalf of the Board

DocuSigned by:

 4642EBDB5189416... Director

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 42E392BC9BFD4FA... Director

Nova Scotia Farm Loan Board

Statement of operations and accumulated surplus

Year ended March 31

(in thousands of dollars)

	Budget 2023	2023	2022
Revenues			
Interest on loans	\$ 6,300	\$ 7,623	\$ 6,940
Loan processing and other fees	233	160	245
Life insurance program revenue, net	<u>-</u>	<u>14</u>	<u>18</u>
	<u>6,533</u>	<u>7,797</u>	<u>7,203</u>
Expenses			
Lending expenses (Note 8)	<u>6,288</u>	<u>6,778</u>	<u>7,051</u>
	<u>6,288</u>	<u>6,778</u>	<u>7,051</u>
Annual surplus before distributions from the Province of Nova Scotia	271	1,019	152
Distributions to the Province of Nova Scotia	<u>(271)</u>	<u>(1,019)</u>	<u>(152)</u>
Annual surplus for the year and Accumulated surplus – Beginning and End of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

Nova Scotia Farm Loan Board

Statement of changes in net debt

Year ended March 31

(in thousands of dollars)

	2023	2022
Net surplus	\$ -	\$ -
Net change in real estate held	<u>(1,135)</u>	<u>10</u>
Net debt		
Beginning of year	<u>(682)</u>	<u>(692)</u>
End of year	\$ <u>(1,817)</u>	\$ <u>(682)</u>

Nova Scotia Farm Loan Board

Statement of cash flows

March 31

(in thousands of dollars)

2023

2022

Net increase (decrease) in cash and cash equivalents

Operating

Annual and accumulated surplus	\$	-	\$	-
Net charges (credits) to operations not involving cash				
Valuation allowance for impaired loans (including real estate held for resale)		298		1,663
Valuation allowance for real estate		-		-
Valuation allowance for accrued interest		16		<u>56</u>
		314		<u>1,719</u>
Net change in non-cash operating working capital balances related to operations				
(Increase) decrease in accounts receivable		16		(1)
(Increase) decrease in interest and other receivables		(73)		(43)
Increase (decrease) in accounts payable		14		-
Increase (decrease) in due to the Province of Nova Scotia, net		(16)		<u>1</u>
		255		<u>1,676</u>

Financing activities

Increase in advances from the Province of Nova Scotia, net		36,643		<u>27,080</u>
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Investing activities

Increase in loans receivable (including real estate held for resale), net		(36,898)		<u>(28,756)</u>
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Net change in cash and cash equivalents		<u>-</u>		<u>-</u>
Cash and cash equivalents, beginning of year		<u>-</u>		<u>-</u>
End of year	\$	<u>-</u>	\$	<u>-</u>

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

1. Nature of operations

Authority

The Nova Scotia Farm Loan Board (the "Loan Board") supports the development of sustainable agriculture, agri-food, and forestry business in Nova Scotia through responsible lending.

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 \$275 million. Maximum advances to be disbursed in any given year, are established through the annual budgeting process. For the year ended March 31, 2023, new advances were \$58,834 (2022 - \$52,339). During the year, the Loan Board received repayments of loan principal of \$25,273 (2022 - \$28,150).

Loans in excess of \$5 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 Loan Board does not maintain its own capital. Operations are funded by contributions from the Province.

3. Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared by management by applying the principles of the Chartered Professional Accountants of Canada Public Sector Accounting Standards for other government organizations as defined by the Canadian Public Sector Accounting Board, which sets out generally accepted accounting principles for government organizations.

Restricted cash and accounts receivable

The 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.

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.

Valuation 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 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 additional time for repayment where full future repayment appears reasonable.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

3. Summary of significant accounting policies (continued)

Valuation 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 records a collective valuation allowance for loans in the portfolio not assessed in the specific reserve. This is an estimate of incurred but unidentified 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.

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 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.

Measurement uncertainty

Uncertainty in the determination of the amount at which an item is recorded in the financial statements is known as measurement uncertainty. Many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action and are reviewed annually to reflect new information as it becomes available with adjustments made to the annual surplus or deficit as appropriate. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in the accruals for such items as health and retirement obligations. The nature of the uncertainty in the accruals for pension and retirement obligations arises because actual results may differ significantly from the Loan Board's various assumptions about plan members and economic conditions in the marketplace.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

3. Summary of significant accounting policies (continued)

Financial instruments

The Loan Board applies 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 Loan Board's financial instruments consist of accounts receivable, interest and other receivables, loans receivable, due to the Province of Nova Scotia and advances from the Province of Nova Scotia and are measured at amortized cost using the effective interest method.

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 reporting period. By their nature, as described further in note 5b, these estimates are subject to measurement uncertainty and any changes in those estimates could have material impact on the results of future period financial statements.

Remeasurement gains and losses

Under PSAS, the Loan 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	<u>2023</u>	<u>2022</u>
Interest receivable	\$ 994	\$ 1,712
Accrued interest	1,365	1,180
Other charges	<u>17</u>	<u>21</u>
	2,376	2,913
Less: valuation allowance for interest on impaired loans	35	50
valuation allowance on real estate	<u>708</u>	<u>1,287</u>
	\$ 1,633	\$ 1,576

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(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, 2023, together with the weighted average interest rates being earned on the financial assets.

	Under <u>1 year</u>	<u>1-5 years</u>	Over <u>5 years</u>	2023 Total	2022 <u>Total</u>
Performing loans					
Farm loans	\$ 17,591	\$ 48,657	\$ 148,417	\$ 214,665	\$ 184,209
Timber loans	<u>959</u>	<u>2,992</u>	<u>1,998</u>	<u>5,949</u>	<u>3,932</u>
	\$ 18,550	\$ 51,649	\$ 150,415	\$ 220,614	\$ 188,141
 Average effective annual interest rate	3.81%	3.94%	4.27%	4.15%	3.50%
 Add: impaired loans				<u>14,968</u>	<u>14,550</u>
 Total loans				235,582	202,691
 Less: valuation allowance for loan impairment				<u>(9,122)</u>	<u>(11,766)</u>
				\$ 226,460	\$ 190,925

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 unidentified impaired loans.

The specific allowance for individually identified impaired loans was established based upon a review 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 unidentified 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.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

5. Loans receivable (continued)

b) Allowance for impaired loans (continued)

	<u>2023</u>		<u>2022</u>	
	Impaired loans	Allowance for impairment	Impaired loans	Allowance for impairment
Specific allowance	\$ 14,968	\$ 5,694	\$ 14,550	\$ 7,812
Collective allowance	-	3,428	-	3,954
	<u>\$ 14,968</u>	<u>\$ 9,122</u>	<u>\$ 14,550</u>	<u>\$ 11,766</u>

Significant judgement was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2023 will differ from these estimates and the differences could be material.

c) Continuity for allowance for impaired loans

	<u>2023</u>	<u>2022</u>
Allowance for impaired loans – beginning of year	\$ 11,816	\$ 13,610
Add: Valuation allowance for impaired loans	197	1,641
Less: Amounts written off	(2,856)	(3,432)
Other adjustments	-	(3)
Allowance for impaired loans – end of year	<u>9,157</u>	<u>11,816</u>
Valuation allowance on principal	9,122	11,766
Valuation allowance on interest	<u>35</u>	<u>50</u>
	<u>\$ 9,157</u>	<u>\$ 11,816</u>

b) 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:

	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91 or more days</u>	<u>2023</u>	<u>2022</u>
	\$ 383	\$ -	\$ 134	\$ 3,090	\$ 3,607	\$ 2,171

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

6. Advances from the Province of Nova Scotia, net

Advances are provided by the Province of Nova Scotia to fund loans issued by the Loan Board. The amortization periods of the advances range from 2 to 30 years. Advances are repayable in quarterly instalments of interest and principal. Interest rates vary from 2.0% to 6.7% with terms ranging from April 1, 2022 to January 1, 2049. Interest expense is calculated in accordance with a Memorandum of Understanding with the Nova Scotia Department of Finance (Note 10).

7. Real estate	<u>2023</u>	<u>2022</u>
Real estate held for long-term use		
Nova Scotia Provincial Exhibition Grounds	\$ 576	\$ 576
Property used by community pastures	<u>1,241</u>	<u>106</u>
	<u>\$ 1,817</u>	<u>\$ 682</u>

The Board has recorded these properties as former loan properties under lease at the lower of the principal 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.

The Nova Scotia Provincial Exhibition Grounds in Bible Hill are an important piece of agriculture history in Nova Scotia. The loan board took ownership over the lands in 2017 to ensure its continued availability to promote agriculture and harness racing activities in the province.

The Farm Loan Board has community pastures located throughout rural Nova Scotia. Developed in the 1950's, the Community Pastures program was designed to help beef farmers keep their costs down by providing grazing land for their animals throughout the summer months.

8. Lending expenses	Budget	<u>2023</u>	<u>2022</u>
Bad debt expense (Note 10)	\$ 253	\$ 314	\$ 1,719
Interest expense (Note 9)	4,700	5,391	4,559
Other	242	20	14
Professional services	61	127	47
Salaries and benefits	910	842	656
Supplies and services	78	66	48
Training and development	6	6	4
Travel	<u>38</u>	<u>12</u>	<u>4</u>
	<u>\$ 6,288</u>	<u>\$ 6,778</u>	<u>\$ 7,051</u>

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

9. Interest expense

Since April 1, 1998, a Memorandum of Understanding (“MOU”) between the Loan Board and the Nova Scotia Department of Finance has formalized the Loan Board’s funding arrangement. Under the MOU arrangement, the Loan 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 Loan Board at interest rates related to the terms and volumes requested. Funding is maintained to cover the Loan Board’s investment in loans receivable and in real estate. The Loan 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.

10. Bad debt expense

Bad debt expense includes:

	<u>2023</u>	<u>2022</u>
Allowance for impaired loans	\$ 197	\$ 1,450
Impairment of real estate held for resale	100	213
Recovery of real estate	-	-
Allowance for interest	<u>17</u>	<u>56</u>
	<u>\$ 314</u>	<u>\$ 1,719</u>

11. Financial instruments

Fair value of financial instruments

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

Risk management

Credit risk

The risk that clients may not pay amounts owing on loans and lease accounts, 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 the client on an individual basis to provide time for recovery.

The total of loans receivable at March 31, 2023 is \$235,582 (2022 - \$202,691). 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. The maximum exposure to credit risk is the total loans outstanding.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2023

(in thousands of dollars)

11. Financial instruments (continued)

All clients are involved in agriculture, food and beverage productions, or forestry in Nova Scotia. Regulations provide that loans must not exceed 90% of security value without approval by the Loan 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 Loan 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. No loans were issued in refinanced loans during 2022 - 2023 to clients with significant arrears (2022 - \$287).

Liquidity risk

The Province of Nova Scotia provides funding and cash management services to the Loan Board. There is minimal risk that funds will be unavailable to meet lending commitments or payments of other expenses 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. 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. A 1% change in interest rates would have a \$2,265 (2022 - \$1,909) impact on interest income and on interest expense.

12. Related party transactions

The Loan 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 Loan Board with no charge to the Board.

Loans and interest receivable includes \$3,499 (2022 - \$3,278) and interest revenue includes \$110 (2022 - \$96) resulting from outstanding loans to Loan Board members and immediate family of Board members. These loans were issued under normal terms and conditions using market interest rates.

Nova Scotia Farm Loan Board

Notes to the financial statements

March 31, 2022

(in thousands of dollars)

13. 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 plan is funded by equal employee and employer contributions. The employer's contributions of \$62 (2022 - \$48) are included in the Loan 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 Loan Board.

14. Commitments

The Board will hold interest rates for ninety days for any client from the date of loan approval. As of March 31, 2023, the Board has authorized loans of \$48,577 (2022 - \$19,655) which had not been disbursed.