



Nova Scotia
Farm Loan Board

2018-2019

ANNUAL REPORT

NOVA SCOTIA FARM
LOAN BOARD

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Nova Scotia Farm Loan Board Annual Report 2018-2019

Nova Scotia Farm Loan Board

February 2020

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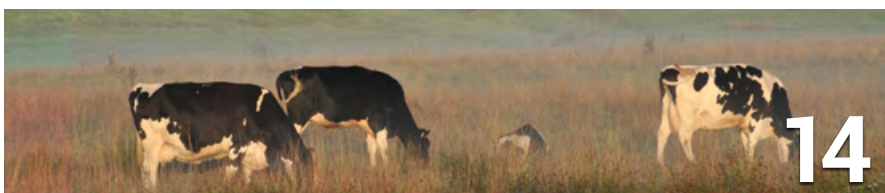
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MESSAGE FROM THE BOARD CHAIR



The Nova Scotia Farm Loan Board (FLB) supports agriculture and agri-food businesses by providing direct financial assistance to the sector. Loans support the purchase of farmland, buildings, new construction, new crop varieties, equipment upgrades and implementation of new and innovative technologies to name only a few. Communities from one end of the province to the other benefit when new or experienced farmers and processors can access funds at competitive rates to develop and grow their businesses and the Board is pleased to have invested over \$24 million dollars in the past year to make that happen.

The Board is a developmental lender that strives to understand the full business model of the applicant to lower risk for both the applicant and the province, with the end goal always being to support successful enterprises in the sectors we support. The Board is particularly pleased to be able to provide opportunities for

new entrants with reduced down payments, longer amortizations and flexible payment arrangements.

In the past year, the Board has also moved to recognize the hard work and dedication many longer-term enterprises have brought to the sector by introducing risk-adjusted rates. These rates provide a discount off posted rates to established operations which meet certain criteria - a strong credit background, good repayment history, and prior experience with the Board to name a few. This program also aims to maintain a balance in the Board's overall portfolio.

The FLB Board of Directors is responsible for providing leadership and independent oversight for the organization's lending program. The Board members come from different areas of the province with varying backgrounds related to agriculture and lending.

The Board is proud of the work staff and management have done to responsibly deliver on the organization's goals in the past year. The FLB is pleased to be playing an essential role in supporting and providing opportunities for economic development, particularly the opportunities it creates in rural parts of our province.

Andy Vermeulen

Acting Chair, Nova Scotia Farm Loan Board



MESSAGE FROM THE CEO



It is an exciting time to be such an integral part of the agriculture and agri-food industries in Nova Scotia, from the continued rise in the buy local movement, growth in vineyards and related agritourism to the ongoing work to increase exports and domestic consumption of our agricultural products. The Farm Loan Board is pleased to be nearing a century of providing innovative, flexible and affordable lending solutions to our farmers and processors. In 2018-19, the Board positioned itself for success with regulation changes and continued alignment of lending practices with its sister organization, the Fisheries and Aquaculture Loan Board.

As the Department of Agriculture's lending agency, the FLB is a self-sustaining Crown Corporation with a talented and dedicated staff of 27 spread over 5 locations. The FLB lending team has intimate knowledge of the industries and how to build loan programs to support their growth. Performance in 2018-19 demonstrated the Board's commitment

to adapting with the industries we serve. In the past year, we have increased lending limits, simplified our fee structure and introduced risk adjusted interest rates.

A continued priority for the Board has been to connect with industry and foster relationships with key partners in the sector. Response from our clients has been positive and the Board is committed to increasing awareness of the advantages of working with us as their local lender.

Internally, we are taking steps to modernize the tools the FLB has available to build capacity and further strengthen our role as a leader in agriculture and agri-food lending in the province. Staff began work in 2018-19 to procure new lending technology, build a web and social media presence and streamline administrative processes. The FLB is positioned to support and grow with our sector into the future.

It is the commitment of the Board of Directors and staff to industry that has made these successes possible. I thank them for their knowledge, expertise, enthusiasm and above all, their dedication to serve the sector and the Province. I look forward to continuing to build on the success in 2019-20.

Jennifer Thompson

CEO, Nova Scotia Farm Loan Board





BOARD OF DIRECTORS

The Farm Loan Board has an industry-based Board of Directors that are active in their businesses and communities while providing leadership and direction to the Board. They offer valuable insight into industry and shape the strategic direction of the organization.

ANDREW VERMEULEN ACTING CHAIR & DIRECTOR

Andy has been raised in the farming industry, successfully operating multiple farming companies for over 26 years. As owner of Vermeulen Farms Ltd, Andy has gained considerable experience in financial accounting, strategic business and succession planning, sales, production and food safety. In addition to his employment background, Andy's education includes a Bachelor of Science in Agricultural Engineering and completion of the Canadian Total Excellence in Agricultural Management program from the George Morris Centre in 2012. He currently holds multiple positions on numerous boards and committees in his profession and community, offering expertise in board structure and operations.

WILLIAM G. VERSTEEG DIRECTOR

Willy has extensive experience in the Nova Scotia agriculture industry, having owned and operated Barneybrook Farms Ltd (Dairy) for 27 years in the community of Hardwoodlands in East Hants. He is a corporate and community leader and has held many leadership roles including, Municipal Counselor, President of the Nova Scotia Federation of Agriculture and the Farm Practices Review Board. Willy's interest as a Director has been in the areas of audit and governance. His current business focus is in the area of real estate development and seniors housing. Willy has always been supported in life by his wife and business partner, Sherma. Willy and Sherma have 3 adult daughters. Willy will tell you that the Nova Scotia Farm Loan Board is a critically important tool in the development of agriculture and growing the economy of Nova Scotia.



DIANNE KELDERMAN

DIRECTOR

Dianne has extensive experience in the agriculture industry. She has worked in the co-operative sector for more than twenty years, working alongside several agriculture businesses. With a Master's in Economics, she has significant knowledge and experience in business analysis and financing and she is currently managing a \$160 million business financing program. She has served on many provincial, regional and national boards, including several crown corporations.

Dianne feels the agriculture industry is a backbone industry for the Nova Scotia economy and a significant contributor to the provincial Gross Domestic Product. It is critically important to our food, food access and security, and to our environment. It touches many other industries such as transportation, processing and production, export, technology, research and science. She takes pleasure in serving on the FLB and seeing first-hand the hardworking people who are committed to the industry, their business and their communities. The risks they take and their impact is admirable.



CALEB WOOD

DIRECTOR

Caleb has a strong background in agriculture as he grew up on a farm in Nova Scotia. Caleb has a Bachelor of Commerce and is a Chartered Professional Accountant. He has extensive leadership, financial reporting, treasury management and operational experience in a wide range of industries.

STEVE BROWN

DIRECTOR

Steve is familiar with the agriculture industry and is a former Forestry Supervisor with the Nova Scotia Department of Natural Resources. He also has experience in leadership roles, serving on the Board of Directors for the North Nova Forest Owners. Steve is also a grower and seller of Christmas trees and is familiar with other local industries, such as the blueberry, cranberry, strawberry and maple syrup industries.

“The flexibility offered with different payment structure was crucial when starting a business. Interest only payments can really help during the beginning stages.”

- Glenn Dodge
Bent Ridge Winery Ltd., Hants
Vineyard/Winery



METRICS

NET INCOME **\$298,000**

NUMBER OF CLIENTS **463**

INTEREST REVENUE **\$6,311,000**

NUMBER OF LOANS **726**

NEW LOANS
ADVANCED

\$24 M

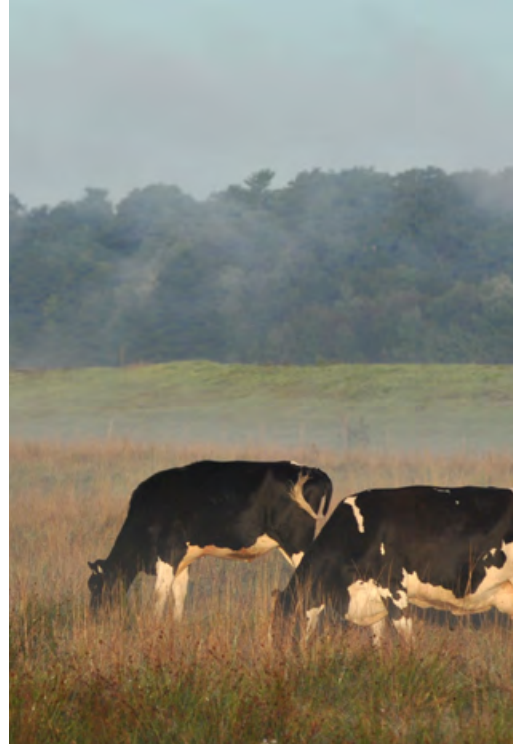
REGIONAL OFFICES **2**

AVERAGE INTEREST RATE **4.03%**



ABOUT

**THE NOVA SCOTIA
FARM LOAN BOARD**



MISSION

The Farm Loan Board supports the development of sustainable agriculture and agri-rural business in Nova Scotia through responsible lending.

VISION

The Farm Loan Board is a recognized leader in agricultural lending, creating opportunities in rural Nova Scotia.

MANDATE

The mandate of the FLB is to support the agricultural industry through the provision of capital financing. It operates as a corporation of the Crown under the *Agriculture and Rural Credit Act*. This Act provides authority to the Board to make loans to, or guarantee loans of, a borrower for acquiring or improving any farm asset, including livestock. Regulations made under the Act govern the terms and conditions of loans provided by the FLB.

“*Van Meekeren Farms chose to obtain financing from the Nova Scotia Farm Loan Board because they understand the financial needs of agricultural businesses, and have a suite of products available to meet those needs.*”

- Stephen Van Meekeren
Van Meekeren Farms Ltd., Kings
Apples



ECONOMIC

LANDSCAPE



FARM CASH RECEIPTS

Nova Scotia farm cash receipts remained stable in 2018 at \$563.6 million, a slight decline of \$1.3 million (-0.2%) over 2017 (\$564.9 million). Dairy, poultry and eggs accounted for most farm cash receipts in 2018 with these supply-managed sectors contributing approximately half of the province's farm cash receipts.

Other major contributors to farm cash receipts include furs (\$48.7 million), fresh vegetables excluding potatoes and greenhouses, (\$34.8 million), and floriculture/nursery products and sod (\$23.9 million).



INTERNATIONAL TRADE CONTRACTS DURING 2018

Nova Scotia's small domestic market means that exports are crucial to the economic well-being of the industry. Nova Scotia international agri-food exports totaled \$360 million in 2018, up 15% from 2017 (excluding interprovincial exports).

Wild blueberries and mink are Nova Scotia's most valuable international agri-food exports. Wild blueberries exports were valued at \$104 million in 2018, an increase of 39% from 2017. Mink (fur) exports were valued at \$48.6 million in 2018.

Nova Scotia exported agri-food products to 83 countries in 2018, up from 69 in 2008. The main export destinations in 2018 were the United States (44% of exports), Netherlands (10%) and China (8%).





NOVA SCOTIA FARM

LOAN PROGRAM

The FLB is committed to meeting the needs of industry and to growing businesses by matching clients with viable loans programs and customized solutions based on credit, risk assessment and client need. Loans can range from as low as \$3,000 to multimillion-dollar projects. Although the Board does not set a maximum value for loans, those over \$5 million are subject to Governor-in-Council approval.

The FLB offers a suite of lending programs to assist with working capital, land and equipment purchases, life insurance and debt refinancing. It also has several products designed to serve specific lending needs including long term development projects like orchards and grapes, loans for quotas and new entrant supports to encourage new farmers to establish commercial farms in Nova Scotia.

SPECIALIZED LENDING PRODUCTS

- **Fast Tracktor** – provides a preapproved purchasing line of credit for new or used equipment.
- **Quota Loan** – for buying dairy, egg, broiler or turkey quota. This loan is designed to make the license quota affordable with investment repayment, as cash flow allows.
- **Micro-Loan Program** – assists direct-to-market small scale working groups to expand their agricultural business through the availability of \$50,000 or less for capital or operating projects. There were 4 micro-loans approved in 2018-19.
- **Deferred Product Options Loan** – specifically designed for apple and blueberry development and vineyards. It is beneficial in situations where a long-range approach to cash flow is required.
- **Jump Start Program** – is designed for new entrants with emphasis on providing clients with flexibility, combining some of the best components of the FLB's other credit products.
- **The Farm Debt Consolidator** – is a financial tool used for debt restructuring by 'cleaning up' short-term payables, stagnant operating debt, medium term loans and restructuring long-term debt with other lenders.



The Board supported the capitalization of rural Nova Scotia businesses with an investment of \$180.5 million in Nova Scotia farms and farm processing. This capital was used to buy farmland, construct farm buildings, plant new crop varieties, purchase new efficient equipment, adopt new agricultural technology, purchase marketing quotas and provide working capital.

Board staff are well versed in the agriculture and agri-processing industries, understanding various business cycles. With staff regularly visiting clients throughout the province, providing advice and connecting with industry, clients can be confident when they finance with the Board, that their loan has been fully analyzed and structured to meet their individual needs.

PROGRESS ON GOALS

Our operational plan includes five goals that have internal operational benefits and external lending and customer satisfaction outcomes.

■ Growing the Rural Economy

This goal considers both how we communicate with clients across Nova Scotia as well as the development and utilization of programs designed to support growth. We are committed to growing rural and coastal communities through responsible lending with a focus on growing our lending portfolio and enhancing our product line. We continue to provide long-term fixed rate loans to support established farmers and new entrants in the development stage of their businesses.

The Board extended 76 loans supporting capital purchases, food production, process improvements and quality improvements with a value of \$30.1 million.

Provincial investments through Board loans make Nova Scotia a better and more productive place to harvest, grow and process agricultural products. We partner with other funding agencies, when it makes good business sense, to maximize client benefits, whether it is with a funding partner (Atlantic Canada Opportunities Agency) or another lender.

■ Quality Lending

The Board has a legacy of excellent client relationships. To maintain our success, we are committed to continuous monitoring of our portfolio's risk, client profiles and client satisfaction. It is also important to the Board to maintain balanced portfolios, with a range of risk scores from limited risk to more risky loans. Not only does this help the Board remain cost-neutral, it ensures that our resource commodities are sustainable in market downturns.

The Board continues to fund projects which go beyond commodity markets and which generally represent greater profit margins, for developing industries including juice/craft beer and wine production.

In 2018-19, we heavily invested in growing industries such as apple and wine/grape production and supported innovative farmers and processors in the development of new crops and agri-products. The Board also supported the adoption of new technologies such as blueberry pickers, robotic milkers and strawberry runners.

The Board is proud to have supported the agriculture industry with an investment of \$24.4 million in new projects and a total investment of \$180.5 million in 2018-19.

■ Continuous Improvement

Streamlining processes between the provincial Farm Loan Board and the Fisheries and Aquaculture Loan Board is critical to meeting our goal of reducing loan processing times and making it easier for clients to apply for loans. We pride ourselves on excellent client relationships through the delivery of valuable advisory and customer services.

In 2018-19, the Board began streamlining procedures through LEAN to result in faster and more effective processing of loans. We are

working towards making it easier to apply for a loan, obtain information on loans, reduce turn-around times, build new applications and provide efficient website tools. As well, the Board is looking forward to refreshing its online presence too.

■ Positioned for Success

This goal aims to ensure continued success through effective systems and responsiveness to industry changes.

The Micro-Loans Program, Group Life Insurance and Risk Adjusted Rates are a few of our programming examples to help us meet this goal. This year, we had 4 new Micro-Loans of almost \$108 thousand to support small businesses.

The Board continued to support businesses seeking new markets internationally and overseas by investing in apple, blueberry and wine farm businesses (13 clients, 13 loans) in the amounts of \$6.5 million, \$608 thousand and \$359 thousand, respectively, comprising 31% of the 2018-19 total lending portfolio.

■ Accountability

The Board's reputation of quality and timely work has contributed to its reputation in industry as a trusted partner. To meet this goal, we began reviewing our current systems to determine gaps in client service and satisfaction. These include our financial reporting and loans management systems.



REGULATORY REVIEW —

MODERNIZING LENDING SERVICE AND EXCELLING IN CUSTOMER SERVICE

The Board began a review of the *Nova Scotia Farm Loan Regulations* to modernize and align with those of the *Nova Scotia Fisheries and Aquaculture Loan Board* to reflect current operations. Regulatory changes enhanced the Board's ability to streamline services, improve lending capabilities, address risk issues and allow for sustainable funding options. For example, these new regulations resulted in

increased approval limits of \$5 million at the Board level. Improved efficiencies will also be achieved by integrating the administrative and operational functions of the staff that support both the Fisheries and Aquaculture Loan Board and the Farm Loan Board. The two Boards will continue to operate separately to maintain their unique sector supports.



LENDING

HIGH- LIGHTS



The FLB approved 76 new applications with total funds approved of over \$30 million. While total funds advanced this year declined (\$24.4 million), the number of new loans increased compared to last year.

TRENDS IN APPLE AND WINERY/GRAPE LOANS

Year	# of Apple loans	# of Winery/Grape Loans
2015-16	51	14
2016-17	56	9
2017-18	57	11
2018-19	64	16

In 2018-19, the request and approval for loans to grapes and wines, apple and greenhouse producers were up compared to 2017-18:

- Greenhouse produce accounted for 1.6% of total farm cash receipts in 2018, a small increase from the previous year.

Other 2018-19 highlights:

- The Board invested in the further expansion of wine and high-density orchards
- 103 clients in arrears, compared to 108 in 2017-18
- All clients received financial guidance through loans processing as part of the Board's regular services and 78 clients received additional special credit counselling.

“The Farm Loan Board understood my profile from day one which made it easy for me to work with them.”

- Derek MacNeil
Barraville Holsteins, Antigonish
Dairy



REPORT AND
AUDITED
FINANCIAL STATEMENTS



Nova Scotia Farm Loan Board

**Financial Statements
March 31, 2019**

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. 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 its Board of Directors and meet when required.

On behalf of the Nova Scotia Farm Loan Board


Jennifer Thompson, Director of Crown Lending Agencies


Andrew Vermeulen, Chairman

July 18, 2019



Independent auditor's report

To the Members of the Legislative Assembly; and To the Minister of Agriculture of Nova Scotia Farm Loan Board

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Nova Scotia Farm Loan Board (the Board) as at March 31, 2019 and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

What we have audited

The Board's financial statements comprise:

- the statement of financial position as at March 31, 2019;
- the statement of changes in net debt for the year then ended;
- the statement of operations and accumulated surplus for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

PricewaterhouseCoopers LLP
Cogswell Tower, 2000 Barrington Street, Suite 1101, Halifax, Nova Scotia, Canada B3J 3K1
T: +1 902 491 7400, F: +1 902 422 1166

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



In preparing the financial statements, management is responsible for assessing the Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Halifax, Nova Scotia
July 19, 2019

Nova Scotia Farm Loan Board

Statement of Financial Position

As at March 31, 2019

(in thousands of dollars)

	2019	2018
	\$	\$
Financial assets		
Accounts receivable	31	32
Interest and other receivables, net (note 4)	1,891	1,760
Loans receivable, net (note 5)	160,397	163,664
Real estate held for resale (note 6)	246	246
	<u>162,565</u>	<u>165,702</u>
Liabilities		
Due to the Province of Nova Scotia	31	32
Advances from the Province of Nova Scotia, net (note 7)	165,626	169,065
	<u>165,657</u>	<u>169,097</u>
Net debt	(3,092)	(3,395)
Non-financial assets		
Real estate (note 8)	3,092	3,395
Accumulated surplus	<u>-</u>	<u>-</u>
Commitments (note 15)		

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, 2019

(in thousands of dollars)

	2019 \$	2018 \$
Net surplus	-	-
Acquisition of real estate through foreclosure of loans	-	(736)
Impairment of real estate	303	-
	<hr/> 303	<hr/> (736)
Net debt – Beginning of year	<hr/> (3,395)	<hr/> (2,659)
Net debt – End of year	<hr/> (3,092)	<hr/> (3,395)

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, 2019

(in thousands of dollars)

	(Unaudited) Budget 2019 \$	Actual 2019 \$	Actual 2018 \$
Revenue			
Interest on loans	5,800	6,311	5,867
Loan processing and other fees	209	97	211
Life insurance program revenue, net	22	21	23
	<u>6,031</u>	<u>6,429</u>	<u>6,101</u>
Expenses			
Lending expenses (note 9)	<u>6,228</u>	<u>6,131</u>	<u>10,827</u>
Annual surplus (deficit) before distributions from the Province of Nova Scotia	(197)	298	(4,726)
Distributions from (to) the Province of Nova Scotia	<u>197</u>	<u>(298)</u>	<u>4,726</u>
Annual surplus for the year and Accumulated surplus – Beginning and End of year	<u>-</u>	<u>-</u>	<u>-</u>

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, 2019

(in thousands of dollars)

	2019 \$	2018 \$
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)	(236)	5,144
Valuation allowance for real estate	284	-
Valuation allowance for interest	75	-
	<u>123</u>	<u>5,144</u>
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable	1	(10)
Decrease (increase) in interest and other receivables	(206)	368
Increase (decrease) in due to the Province of Nova Scotia, net	(1)	10
	<u>(83)</u>	<u>5,512</u>
Financing activities		
Decrease in advances from the Province of Nova Scotia, net	<u>(3,439)</u>	<u>(3,007)</u>
Investing activities		
Decrease (increase) in loans receivable (including real estate held for resale), net	<u>3,503</u>	<u>(1,769)</u>
Capital activities		
Decrease (increase) in real estate	<u>19</u>	<u>(736)</u>
Net change in cash for the year	-	-
Cash – Beginning of year	<u>-</u>	<u>-</u>
Cash – End of year	<u>-</u>	<u>-</u>

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

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(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, 2019, maximum new advances were \$40 million, of which \$24 million was advanced. The Board received loan principal repayments of \$31 million during the year.

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 Board does not maintain its own capital. Operations are funded by capital contributions from the Province.

3 Summary of 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

3 Summary of 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 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 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.

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 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

3 Summary of significant accounting policies (continued)

Financial instruments

The 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 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 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 5b, 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

	2019 \$	2018 \$
Interest receivable	995	1,236
Accrued interest	1,337	829
Other charges	75	137
	<hr/> 2,407	<hr/> 2,202
Less: Valuation allowance for interest on impaired loans	452	359
Valuation allowance on real estate	64	83
	<hr/> 1,891	<hr/> 1,760

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(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, 2019, together with the weighted average interest rates being earned on the financial assets.

Performing loans				2019	2018
	Under 1 year \$	1 - 5 years \$	Over 5 years \$	Total \$	Total \$
Farm loans	2,824	11,153	136,188	150,165	152,633
Timber loans	4	-	-	4	14
	<u>2,828</u>	<u>11,153</u>	<u>136,188</u>	<u>150,169</u>	<u>152,647</u>
Average effective annual interest rate	3.71%	4.04%	4.03%	4.03%	3.73%
Add: Impaired loans				<u>24,843</u>	<u>27,040</u>
Total loans				<u>175,012</u>	<u>179,687</u>
Less: Valuation allowance for loan impairment				<u>(14,615)</u>	<u>(16,023)</u>
				<u>160,397</u>	<u>163,664</u>

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 Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

5 Loans receivable (continued)

b) Allowance for impaired loans (continued)

	2019		2018	
	Impaired loans \$	Allowance for impairment (principal) \$	Impaired loans \$	Allowance for impairment (principal) \$
Specific allowance	24,843	13,744	27,040	15,205
Collective allowance	-	871	-	818
	<u>24,843</u>	<u>14,615</u>	<u>27,040</u>	<u>16,023</u>

Significant judgement was exercised by management in making these estimates. As such, actual losses that occur on loans outstanding at March 31, 2019, 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

	2019 \$	2018 \$
Allowance for impaired loans – Beginning of year	16,382	12,376
Add: Valuation allowance for impaired loans	(578)	3,984
Less: Amounts written off	(687)	-
Other adjustments	(50)	22
	<u>15,067</u>	<u>16,382</u>
Valuation allowance on principal	14,615	16,023
Valuation allowance on interest	452	359
	<u>15,067</u>	<u>16,382</u>

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 \$	2019 \$	2018 \$
Farm loans	170	4,460	251	5,018	9,899	11,161

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

6 Real estate held for resale

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:

	2019 \$	2018 \$
Original funds advanced	1,369	3,711
Less: Valuation allowance for real estate	(1,123)	(4,168)
Add: Transferred to lease property	-	703
Real estate held for sale	<u>246</u>	<u>246</u>

7 Advances from the Province of Nova Scotia, net

Advances are provided by the Province of Nova Scotia to fund loans issued by the 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 1.0 % to 5.7% with terms ranging from July 1, 2019 to January 1, 2048. Interest expense is calculated in accordance with a Memorandum of Understanding with the Nova Scotia Department of Finance (note 10).

8 Real estate

	2019 \$	2018 \$
Real estate held for long-term use		
Former loan property under lease	2,991	3,289
Land bank	25	30
Property used by for community pastures	<u>76</u>	<u>76</u>
	<u>3,092</u>	<u>3,395</u>

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. The Board has recognized an impairment of \$284 in 2018-19 against this real estate.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

9 Lending expenses

	2019	2018
	\$	\$
Interest (note 10)	4,252	4,067
Payroll	1,419	1,326
Bad debt (note 11)	123	5,144
Supplies and services	107	115
Travel	34	41
Professional services/special services	135	96
Training and development	29	6
Equipment and other	32	32
	<u>6,131</u>	<u>10,827</u>

10 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.

11 Bad debt expense

	2019	2018
	\$	\$
Bad debt expense (recovery) includes:		
Allowance for (recovery of) impaired loans	(673)	3,984
Capitalization of suspended interest	-	(1,748)
Impairment of real estate held for resale	437	2,908
Impairment of real estate	284	-
Allowance for interest	75	-
	<u>123</u>	<u>5,144</u>

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

12 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.

(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, 2019 is \$175,012 (2018 - \$179,687). 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.

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 \$900 (2018 - \$1,450) was issued in refinanced loans during 2018 - 2019 to clients with significant arrears.

Liquidity risk

The Province of Nova Scotia provides funding and cash management services to the 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.

Nova Scotia Farm Loan Board

Notes to Financial Statements

For the year ended March 31, 2019

(in thousands of dollars)

12 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. A 1% change in interest rates would have a \$1,700 impact on interest income and on interest expense.

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 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 \$2,433 (2018 - \$1,521) and interest revenue includes \$77 (2018 - \$47) 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.

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 of \$100 (2018 - \$96) 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.

15 Commitments

The Board will hold interest rates for ninety days for any client from the date of loan approval. As of March 31, 2019, the Board has authorized loans of \$18.4 million (2018 - \$12.4 million) which had not been disbursed.



Nova Scotia
Farm Loan Board

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