

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
FINANCIAL STATEMENTS
MARCH 31, 2007**

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1888 Brunswick Street, Suite #302, Halifax, Nova Scotia B3J 3J8 • Telephone 902 424-5907 • Fax 902 424-4350 • www.gov.ns.ca/audg

Office of the Auditor General

AUDITOR'S REPORT

To the Members of the Legislative Assembly; and

To the Minister of Fisheries and Aquaculture

I have audited the balance sheet of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2007 and the statements of revenues, expenses and accumulated surplus, and continuity of fund for the year then ended. These financial statements are the responsibility of the Loan Board's management. My responsibility is to express an opinion on these financial statements based upon my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Nova Scotia Fisheries and Aquaculture Loan Board as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'J.R. Lapointe'.

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
May 11, 2007

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
BALANCE SHEET
MARCH 31, 2007**

	ASSETS	
	2007	2006
Loans receivable (Note 5)	\$ 83,502,860	\$ 79,992,382
Interest receivable	2,251,881	1,889,417
Due from Consolidated Fund of the Province (Note 8)	<u>52,445,558</u>	<u>55,942,372</u>
	<u>\$ 138,200,299</u>	<u>\$ 137,824,171</u>

LIABILITIES AND FUND BALANCE

Liabilities

Applicants' funds on deposit	\$ 128,149	\$ 64,485
Payable to bank (Note 9)	100,000	100,000
Due to Consolidated Fund of the Province	<u>2,251,881</u>	<u>1,889,417</u>
	2,480,030	2,053,902
Fisheries and Aquaculture Development Fund	<u>135,720,269</u>	<u>135,770,269</u>
	<u>\$ 138,200,299</u>	<u>\$ 137,824,171</u>

Commitments (Note 9)

The accompanying notes are an integral part of these financial statements

APPROVED ON BEHALF OF THE BOARD

Chair

Member

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
STATEMENT OF REVENUES, EXPENSES AND
ACCUMULATED SURPLUS
FOR THE YEAR ENDED MARCH 31, 2007**

	Budget 2007	Actual 2007	Actual 2006
Revenues			
Interest income	\$ 5,900,000	\$ 6,040,668	\$ 5,887,202
Loan fees	106,700	<u>111,901</u>	<u>102,215</u>
		<u>6,152,569</u>	<u>5,989,417</u>
Expenses			
Interest expense (Note 10)	-	3,818,963	3,796,642
Salaries and benefits (net of recoveries)	511,500	459,872	535,503
Board honoraria	7,600	4,000	4,450
Travel	52,300	59,762	48,039
Office expense	17,200	39,931	40,149
Bad debt expense (net of recoveries)	50,000	<u>49,911</u>	<u>44,974</u>
		<u>4,432,439</u>	<u>4,469,757</u>
Operating Surplus before Government contributions		1,720,130	1,519,660
Government contributions (Note 11)		<u>4,432,439</u>	<u>4,469,757</u>
Surplus		6,152,569	5,989,417
Distribution to Consolidated Fund of the Province		<u>6,152,569</u>	<u>5,989,417</u>
Accumulated Surplus , end of year		<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
STATEMENT OF CONTINUITY OF FUND
FOR THE YEAR ENDED MARCH 31, 2007**

	2007	2006
Fisheries and Aquaculture Development Fund, beginning of year	\$ 135,770,269	\$ 135,820,269
Deduct: Bad debt expense (Note 2b)	<u>50,000</u>	<u>50,000</u>
Fisheries and Aquaculture Development Fund, end of year	<u>\$ 135,720,269</u>	<u>\$ 135,770,269</u>
Comprising:		
Loans receivable (Note 5)	\$ 83,502,860	\$ 79,992,382
Loans authorized but unadvanced (Note 8)	2,236,809	3,366,091
Funds available for additional loans (Note 8)	50,080,600	52,511,796
Payable to bank (Note 9)	<u>(100,000)</u>	<u>(100,000)</u>
	<u>\$ 135,720,269</u>	<u>\$ 135,770,269</u>

The accompanying notes are an integral part of these financial statements

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

1. Authority

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

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

Principal in loans outstanding is limited by Order-in-Council to \$150 million, less \$14.3 million in bad debts since the inception of the fund. Maximum advances disbursed in any given year are established through the annual budgeting process, which requires approval of government. For the year ended March 31, 2007, maximum new advances were \$20 million (2006 - \$25 million).

Loans in excess of \$.5 million, and any loan write-offs, require approval by Governor-in-Council.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies used in the preparation of these financial statements.

(a) Revenues

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

(b) Expenses

Expenses are recorded on the accrual basis. Net expenses include recoveries which are directly related to the expenses and are not normally considered to be revenues.

Provisions are made for probable losses on certain loans and loan guarantees, and recorded in the statement of revenues, expenses and accumulated surplus as bad debt expense. Bad debt expense also reduces the balance of the

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

2. Significant Accounting Policies (continued)

Fisheries and Aquaculture Development Fund. Recoveries of bad debts do not increase the Fund balance.

(c) Loans Receivable

Loans receivable are recorded at the principal amount of loans outstanding less an allowance for loan impairment. Loans are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. The allowance for loan impairment represents management's best estimate of losses due to impaired loans in the Board's portfolio. It is determined based on management's review of individual loan accounts and identification of problem accounts.

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

Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

(d) Statement of Cash Flow

No statement of cash flow is included in these financial statements because the Board has no cash accounts and the statement would not provide useful information.

3. Measurement Uncertainty

Preparation of the Board's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported. Significant assumptions are required in the determination of the allowance for impaired loans. Actual results may differ from the amounts recorded in the financial statements and these differences may be material.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

4. Credit and Interest Rate Risk

Credit Risk

The risk that clients may not pay amounts owing on loans, resulting in a loss to the Board, is managed through an initial assessment of the client's ability to pay, and by review and follow-up of delinquent accounts by loan officers. In cases in which the client is unable to make payments due to a cyclical industry, or other temporary difficulties, it is the Board's policy to work with clients on an individual basis to provide time for recovery. See Note 5 for additional loan information.

Interest Rate Risk

In order to mitigate the risk that future changes in interest rates may affect net interest revenue, the Board attempts to match terms of loans offered with those of funds drawn through the Province.

5. Loans Receivable

	2007	2006
Principal due on fishery loans:		
Performing loans	\$ 82,127,028	\$ 78,903,438
Impaired loans	223,842	237,415
Allowance for impaired fishery loans	(147,114)	(172,918)
Principal due on aquaculture loans:		
Performing loans	1,299,104	1,024,447
Impaired loans	281,875	1,200,459
Allowance for impaired aquaculture loans	<u>(281,875)</u>	<u>(1,200,459)</u>
Net loans receivable	<u>\$ 83,502,860</u>	<u>\$ 79,992,382</u>

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

5. Loans Receivable (continued)

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

	2007			
	Year 1	Years 2-5	Beyond 5 Years	Total
Total performing loans	\$ 9,556,923	\$ 30,498,642	\$ 43,370,567	\$ 83,426,132
Weighted average interest rate	7.22%	7.19%	6.98%	
Add: principal receivable on impaired loans				<u>505,717</u>
Total principal				83,931,849
Less: allowance for loan impairment				<u>428,989</u>
Net loans receivable				<u>\$ 83,502,860</u>
	2006			
	Year 1	Years 2-5	Beyond 5 Years	Total
Total performing loans	\$ 8,773,387	\$ 28,737,754	\$ 42,416,744	\$ 79,927,885
Weighted average interest rate	7.40%	7.33%	7.11%	
Add: principal receivable on impaired loans				<u>1,437,874</u>
Total principal				81,365,759
Less: allowance for loan impairment				<u>1,373,377</u>
Net loans receivable				<u>\$ 79,992,382</u>

**NOVA SCOTIA
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6. Allowance for Loan Impairment

Continuity 2007	Fisheries Loans	Aquaculture Loans	Total Loans
Allowance , beginning of year	\$ 172,918	\$ 1,200,459	\$ 1,373,377
Write-offs	(75,804)	(918,584)	(994,388)
Current year adjustment	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Allowance , end of year	<u>\$ 147,114</u>	<u>\$ 281,875</u>	<u>\$ 428,989</u>

Continuity 2006	Fisheries Loans	Aquaculture Loans	Total Loans
Allowance , beginning of year	\$ 122,918	\$ 1,200,459	\$ 1,323,377
Current year adjustment	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Allowance , end of year	<u>\$ 172,918</u>	<u>\$ 1,200,459</u>	<u>\$ 1,373,377</u>

7. Write Offs, Recoveries and Repossessions

Loans of \$994,388 were written off during the year ended March 31, 2007. Order in Council 2006-138 approved \$743,611 in loan write offs and Order in Council 2007-188 approved a further \$250,777. During the year the Board recovered \$89 related to loans that were previously written off. The Board repossessed security held against one loan during the year that did not cover 100% of the value of the loan. The remaining value of the loan at March 31, 2007 was \$105,518 and there was an allowance of \$83,674 against it.

**NOVA SCOTIA
FISHERIES AND AQUACULTURE LOAN BOARD
NOTES TO FINANCIAL STATEMENTS
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8. Due from Consolidated Fund of the Province

The portion of the Fisheries and Aquaculture Development Fund that has not been advanced as loans is maintained in the Consolidated Fund of the Province. The maximum amount disbursed in any given year is established through the annual budgeting process, which requires approval by government (Note 1). Deposits provided to the Board by loan applicants are also maintained in the Consolidated Fund. Financial commitments made by the Board reduce the amount of this account which is available for additional loans.

	2007	2006
Board commitments (Note 9)		
Loans authorized but unadvanced	\$ 2,236,809	\$ 3,366,091
Applicants' funds on deposit	128,149	64,485
Funds available for additional loans (Note 1)	<u>50,080,600</u>	<u>52,511,796</u>
	<u>\$ 52,445,558</u>	<u>\$ 55,942,372</u>

9. Commitments

Commitments include loans of \$2,236,809 (2006 - \$3,366,091) which were approved by the Board but not advanced by year end.

On August 30, 1995 the government's Priorities and Planning Committee approved the Nova Scotia Aquaculture Development Strategy. On April 1, 1996 the aquaculture loan and guarantee program was transferred from the former Nova Scotia Economic Renewal Agency to the Board, along with \$1 million of existing loan guarantees. The strategy provided approval for capital advances and guarantees of \$2.0 million per year, until March 31, 2001. For the year ended March 31, 2007, one guarantee valued at \$100,000 remains payable to the bank.

**NOVA SCOTIA
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10. Interest Expense

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

11. Contributions and Surplus

Administration expenses of the Board totalling \$613,476 for the year ended March 31, 2007 were paid by the Department of Fisheries and Aquaculture on behalf of the Board. Interest expense on funds borrowed to make loans is an expense of the Department of Finance. Accordingly these expenses are included in Government Contributions in the Statement of Revenues, Expenses and Accumulated Surplus.

12. Pension and Post-Retirement Benefits

All full-time employees of the Board are entitled to receive pension benefits pursuant to the provisions of a pension plan established under the Public Service Superannuation Act. The plan is funded by equal employee and employer contributions. The employer's contributions are included in the Board's operating expenses. The Public Service Superannuation Fund is administered by the Government of Nova Scotia and any unfunded liability, as well as other obligations related to post-retirement benefits, are the responsibility of the Province.

13. Related Party Transactions

The Board provided a loan in the amount of \$350,000 to a company of which a board member is the president. The loan was provided on terms and conditions that would be similar to those of non-related parties and was approved by the Minister of Fisheries and Aquaculture.

The Board is related to all other departments, agencies, boards, and commissions of the Province of Nova Scotia. The Consolidated Fund of the Province is the sole source of funding for loans (see Note 8). Transactions with Provincial entities were entered into in the normal course of business.