

13/14
annual
report

Business
Investment
Corporation



Innovation, Business and Rural Development



message from the chair

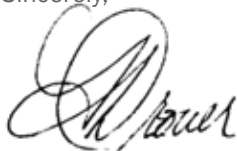
As Chair of the Board of Directors of the Business Investment Corporation (BIC), I am pleased to present the annual report of the Business Investment Corporation for the fiscal year ending March 31, 2014. The annual report is submitted in accordance with the entity's obligation as a category three entity under the *Transparency and Accountability Act*. It is prepared under the direction of the board which is accountable for the actual results reported herein.

BIC directs the management of the investment portfolio of the Department of Innovation, Business and Rural Development (IBRD) and administers new repayable investments and grants aimed at business development. The corporation also administers the Fisheries Loan Guarantee program (FLGP), in partnership with the Department of Finance and the Department of Fisheries and Aquaculture. The board also directs the management of the remaining assets of the former Shellfish Aquaculture Working Capital Fund, the former Fisheries Loan Board, the former Farm Development Loan Board and the former Enterprise Newfoundland and Labrador Corporation.

During 2013-14, the corporation continued to make solid contributions to small business development in the province. Repayable loan and equity investments of \$4.0 million (M) were approved for 25 businesses and grants totaling \$2.8 M were approved for 250 businesses. The board managed the collection of \$2.8 M was reinvested in the revolving fund. The FLGP reviewed and approved 31 loan guarantees for approximately \$28.8 M.

I would like to acknowledge and thank the board members for their dedication and commitment to the corporation in 2013-14. As well, the board greatly appreciates the dedicated officials from IBRD who work diligently to support the board to fulfill its mandate. Their expertise and talents are greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fred Drover', written in a cursive style.

Fred Drover
Chair



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overview

Background:

BIC was established under the authority of the *Business Investment Corporation Act* on April 1, 2002. The corporation is the successor to three former crown corporations, which include Enterprise Newfoundland and Labrador, the Fisheries Loan Board and the Farm Development Loan Board. BIC operates as a crown agency reporting to the Minister of Innovation, Business and Rural Development.

Legislation:

Legislative authority for BIC resides in the *Business Investment Corporation Act*. The corporation, as provided for in the Act, is responsible for:

‘... making available and managing investments in small to medium-sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the province.’

Mandate:

The board supports the mandate of BIC. The corporation’s mandate is to direct the management of the investment portfolio of IBRD and to administer new investments made by virtue of four funding programs: the Business Investment

Program (former Small and Medium-sized Enterprise Fund), the Business and Development Support Program (former Business Market Development program), the Fisheries Loan Guarantee program (in partnership with the Department of Finance and the Department of Fisheries and Aquaculture) and the Shellfish Aquaculture Working Capital Fund.

Mission:

Through the corporation, the board contributes to IBRD’s mission of stimulating economic and business development by providing funding toward the start-up and growth of small and medium-sized businesses and by providing sound financial oversight for the four funding programs under the corporation’s mandate.

The mission of IBRD is as follows:

“By March 31, 2017, the Department of Innovation, Business and Rural Development will have stimulated economic and business development to foster regional and provincial prosperity.”

Vision:

The board supports the vision of IBRD which is a vibrant, diverse and sustainable economy with productive and prosperous regions throughout the province.





board of directors

An independent board of directors, appointed by the Lieutenant-Governor in Council, manages the affairs of the corporation. At the end of this reporting period, March 31, 2014, the board consisted of the following members:

- Chairperson Fred Drover, St. John's
- Vice-Chairperson - vacant
- Deputy Minister, Department of Finance
- Deputy Minister, Department of Innovation, Business and Rural Development
- Robert Marche, Corner Brook
- William Abbott, Bonavista
- Jerry Dean, Botwood
- Director, Business Analysis, IBRD (Secretary)

administration:

The corporation is responsible for the ongoing management and recovery of loans and investments made by the corporation and its predecessor organizations. The corporation does not have dedicated staff, therefore IBRD provides administrative support to it. The estimated administrative costs incurred by the department in support of the corporation

include a portion of regional and office staff salaries recorded as an expense in the corporation's financial statements and the government support which is recognized as a revenue item in the operating statement.

Departmental staff manages the accounting, billing and accountability activities that support investment disbursement and recovery. They manage and monitor revenue collections and maintain accounting records for the province-wide portfolio of loans, equity and grants.

The investment fund for BIC operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2013-14 the investment fund committed \$4.0 M for 25 enterprises. At year end the board had unused cash of \$18.2 M available for future investment.

During 2013-14 approved grant funding was \$2.8 M to 250 enterprises. Grants up to \$50,000 per project are approved by delegated authorities in the regional and headquarters offices; grant applications over \$50,000 are subject to review and approval by a sub-committee of the board.





programs:

The corporation provides funding to help start-up, revitalize and grow small and medium-sized businesses. It is responsible for the administration of the following programs:

Business Investment Program (former SME Fund)

The investment program provides loans and equity investments, up to \$500,000 per project to a maximum of \$1,000,000 per company to small and medium-sized businesses, targeting specific growth sectors with particular emphasis on those businesses that have export potential and need assistance to enter or expand into external markets. The investment assets of this fund includes the investment portfolios of the former Fisheries Loan Board, the former Farm Development Loan Board and the former Enterprise Newfoundland and Labrador Corporation along with new money invested by the Provincial Government since 2005. The portfolio investments were \$35.1 M prior to the allowance for bad debt; seventy per cent of the investments from predecessor entities to BIC.

The investment program for BIC operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2013-14 the investment fund committed \$4.0 M for 25 enterprises. At year end the board had unused cash of \$18.2 M of cash available for future investment.

Business Development Support Program (former Business and Market Development Fund)

This program provides contributions of up to \$100,000 on a matching basis to new entrepreneurs and expanding small businesses to help them acquire the necessary expertise to pursue new business ideas and markets in new growth

areas of the economy. Funding for the Business Development Support Program (BDS) was increased during the past year when the department combined former grant programs within IBRD under the BDS grant program. The allocation to this program was \$3.6 M for 2013-14. The grant program also uses funding from previous years that was cancelled subsequent to approval. These cancellations are generally beyond the control of the department. At year end the funds available for future grant programs was \$3.6 M.

Fisheries Loan Guarantee Program (FLGP)

This program supports the development of the province's independent fish harvesting sector by providing Provincial Government guarantees, to a maximum of \$3 M, on loans through financial institutions for fishing vessels purchase, construction and refit, combining of enterprises and license acquisition. The program is designed to help the independent fish harvesting sector take advantage of ongoing and emerging new opportunities in the fishery. These investments are reviewed by the BIC board with guarantees issued by the province and the liability is shown in the provincial accounts.

Shellfish Aquaculture Working Capital Fund (AWCF)

This program commenced in 2001 and provided working capital loans to commercial mussel and other shellfish growers and processors, complementary to funding available through commercial credit sources and other established Federal and Provincial Government programs. The \$1.5 M fund was established through two federal/provincial cost-shared economic development agreements and operates as a revolving fund.

corporation's objectives and activities

In consideration of the Provincial Government's strategic directions, as well as the mandate and financial resources of BIC, the activities below were undertaken for the fiscal year 2013-14.

Two objectives have been identified in the corporation's 2011-14 Activity Plan and these are reported on herein along with the 2013-14 results of operations. These objectives were reported for each fiscal year of the Activity Plan of the corporation (2011-12, 2012-13 and 2013-14). This is the final year of 2011-14 planning cycle.

administration of new investments:

objective 1	The corporation will have provided funding toward the start-up and growth of small and medium sized business.
measure	Provision of funding to approved applicants
indicators	Number of applications reviewed for program assistance Number and value of applications approved for each program
activities	<p>Business Investment Program—The corporation reviewed and approved 25 applications for funding in 2013-14 and approved \$4.0 M in term and equity funding. This funding helped lever additional funding from private and public business financing to help start or grow these small businesses.</p> <p>Business Development Support Program—The corporation reviewed 277 applications for funding through this program and approved 250 with a value of \$2.8 M. These grants assisted entrepreneurs and small businesses pursue new business ideas and new markets for their products and services.</p> <p>Shellfish Aquaculture Working Capital Fund—The corporation continued to manage the Shellfish Aquaculture Working Capital Fund which had \$749,000 invested in 10 enterprises. This fund is fully committed and there was no new money available for investment in 2013-14.</p> <p>Fisheries Loan Guarantees Program—In 2013-14, the corporation reviewed and recommended 31 applications on behalf of the financial institutions, under the Fisheries Loan Guarantee Program for \$28.8 M. These guarantees are issued by the Department of Finance and appear as liabilities in the provincial accounts.</p> <p>Investment Portfolio—At March 31, 2014, the investment portfolio of BIC consisted of 571 accounts with loans of \$22.5 M and equity of \$12.6 M, for a total of \$35.1 M (principal and interest as detailed in note four of the attached financial statements).</p> <p>Approximately 70 per cent of the corporation's portfolio originated from predecessor lending agencies—Enterprise Newfoundland and Labrador, Fisheries Loan Board, and the Farm Development Loan Board. While the allowance for doubtful accounts under General Accepted Accounting Principles is \$26.5 M, BIC does not consider all doubtful accounts as being uncollectible as clients are contacted on a regular basis to recover investments or, where possible, to identify means to return accounts to good standing. A policy and procedure manual ensures that the investment approach balances the client's access to investment capital while minimizing risk to the provincial treasury.</p>

investment portfolio management:

objective 2

The corporation will have continued to successfully manage its investment portfolio.

measure

Successful management of investment portfolio

indicator

Percentage of projected revenues collected

activities

The corporation's successful management of the investment portfolio resulted in the collection of 140 per cent of projected collection revenue. In 2013-14, collections totaling \$2.8 M were retained in the revolving fund for future investments and therefore no funds were returned to the provincial treasury. For the three years covered by the 2011-14 BIC Activity Plan, the corporation's collection on accounts has been \$9.0 M on a forecast of \$6.3 M.



financial statements

BUSINESS INVESTMENT CORPORATION
FINANCIAL STATEMENTS
MARCH 31, 2014

Management's Report

Management's Responsibility for the Business Investment Corporation 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 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 transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information on a quarterly basis and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Business Investment Corporation.

On behalf of the Business Investment Corporation.



Mr. Guy Edwards, CMA, MBA
Director of Portfolio Management

June 27, 2014



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Business Investment Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Business Investment Corporation which comprise the statement of financial position as at March 31, 2014, and the statements of operations, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independent Auditor's Report (cont.)

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Business Investment Corporation as at March 31, 2014, and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'T. Paddon', with a stylized flourish at the end.

TERRY PADDON, CA
Auditor General

June 27, 2014
St. John's, Newfoundland and Labrador

BUSINESS INVESTMENT CORPORATION
STATEMENT OF FINANCIAL POSITION
As at March 31

2014

2013

FINANCIAL ASSETS

Cash (Note 3)	\$ 24,430,225	\$ 23,765,689
Due from the Province	24,188	24,884
Bank interest receivable	20,521	20,473
HST receivable	912	426
<u>Loans receivable and equity investments (Note 4)</u>	<u>9,843,434</u>	<u>8,176,346</u>
	34,319,280	31,987,818

LIABILITIES

<u>Accounts payable and accrued liabilities (Note 5)</u>	<u>52,713</u>	<u>25,876</u>
	52,713	25,876
<u>Net financial assets</u>	<u>34,266,567</u>	<u>31,961,942</u>

NON-FINANCIAL ASSETS

<u>Accumulated surplus</u>	<u>\$ 34,266,567</u>	<u>\$ 31,961,942</u>
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Contingent liabilities (Note 6)
Contractual obligations (Note 7)

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

Signed on behalf of the Board:



Chairperson



Board Member

BUSINESS INVESTMENT CORPORATION
STATEMENT OF OPERATIONS
For the Year Ended March 31

	2014 Budget (Note 11)	2014 Actual	2013 Actual
REVENUES			
Contributions from Province			
Business Development Support Program (Note 10)	\$ 3,400,000	\$ 3,456,135	\$ 1,000,000
Other Provincial contributions (Note 10)	1,136,400	1,125,420	1,153,923
Due to the Province - forgiveness (Note 10)	-	-	41,390,455
Interest on loans	500,000	514,755	573,862
Other investment income	230,000	245,892	230,096
Recovery in value of loans receivable and equity investments (Note 4)	2,100,000	190,500	801,374
Gain on sale of portfolio investments	-	-	8,376
	<u>7,366,400</u>	<u>5,532,702</u>	<u>45,158,086</u>
EXPENSES (Note 9)			
Administration (Note 10)	1,115,100	1,125,420	1,153,923
Allowance for decline in value of loans receivable and equity investments	400,000	-	-
Bank charges	1,300	2,278	1,112
Business Development Support Program	3,200,000	2,100,379	806,853
	<u>4,716,400</u>	<u>3,228,077</u>	<u>1,961,888</u>
Annual surplus	2,650,000	2,304,625	43,196,198
Accumulated surplus (deficit), beginning of year	31,961,942	31,961,942	(11,234,256)
Accumulated surplus, end of year	\$ 34,611,942	\$ 34,266,567	\$ 31,961,942

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

BUSINESS INVESTMENT CORPORATION
STATEMENT OF REMEASUREMENT GAINS AND LOSSES
For the Year Ended March 31

2014

2013

Accumulated remeasurement gains, beginning of year	\$ -	\$ 6,508
Unrealized gains attributable to:		
Portfolio investments	-	1,868
Amounts reclassified to statement of operations:		
Portfolio investments	-	(8,376)
Net remeasurement (losses) for the year	-	(6,508)
Accumulated remeasurement gains, end of year	\$ -	\$ -

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

BUSINESS INVESTMENT CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31

2014

2013

Operating transactions

Annual surplus	\$ 2,304,625	\$ 43,196,198
Adjustment for non-cash items		
Gain on sale of portfolio investments	-	(8,376)
Recovery in value of loans receivable and equity investments	(190,500)	(801,374)
Due to the Province - forgiveness	-	(41,390,455)
	2,114,125	995,993
Change in non-cash working capital		
Due from the Province	696	(11,884)
Bank interest receivable	(48)	(2,610)
HST receivable	(486)	1,702
Accounts payable and accrued liabilities	26,837	12,876
Cash provided from operating transactions	2,141,124	996,077

Investing transactions

Increase in loans and equity investments	(4,326,962)	(1,427,796)
Collection of loans and equity investments	2,850,374	3,242,482
Proceeds from portfolio investments	-	17,798
Cash provided from (applied to) investing transactions	(1,476,588)	1,832,484
Increase in cash	664,536	2,828,561
Cash, beginning of year	23,765,689	20,937,128
Cash, end of year	\$ 24,430,225	\$ 23,765,689

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

BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

1. Nature of operations

The Business Investment Corporation (the Corporation) was established under the authority of the *Business Investment Corporation Act*. The Corporation is funded by the Province of Newfoundland and Labrador (the Province) and is responsible for making available and managing investments in small to medium sized private businesses, co-operatives, community development corporations and other enterprises for the purpose of creating employment opportunities for the people of the Province. The Corporation administers three funding programs: the Business Investment Program, the Business Development Support Program and the Aquaculture Working Capital Fund. The affairs of the Corporation are managed by a Board of Directors appointed by the Lieutenant-Governor in Council.

The *Business Investment Corporation Act* came into force effective April 1, 2002. Under this *Act*, the Corporation was incorporated and became the successor to Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board.

The Business Investment Corporation is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Public Sector Accounting Board. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized in the statement of financial position consist of cash, due from the Province, bank interest receivable, HST receivable, loans receivable and equity investments, and accounts payable and accrued liabilities. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, due from the Province, bank interest receivable and HST receivable. Loans receivable and equity investments are measured at amortized cost as disclosed in notes 2(d), 2(e) and 4. Financial liabilities measured at cost include accounts payable and accrued liabilities.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, due from the Province, bank interest receivable, HST receivable, and accounts payable and accrued liabilities approximate current fair value due to their nature and the short-term maturity associated with these instruments. The carrying value of loans receivable and equity investments are considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Loans receivable

The Corporation records loans receivable at amortized cost. Loans receivable are tested annually for impairment. A loan is classified as impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of a portion of principal or interest, or when payment is contractually past due 90 days. When loans are identified as impaired, the Corporation records an allowance to reduce their carrying values to their estimated realizable amounts. Estimated realizable amounts are measured at discounted cash flows when the cash flows can be estimated with reasonable reliability. Changes in the allowance are recognized in the statement of operations.

(e) Equity investments

The Corporation records equity investments at amortized cost. The Corporation's equity investments for all companies are accounted for on the amortized cost basis with an allowance being made for any decline in their value considered to be other than temporary. Equity investments are tested annually for impairment and changes in the allowance for impaired investments are recognized in the statement of operations.

BUSINESS INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 2014

2. Summary of significant accounting policies (cont.)

(f) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for on the accrual basis for bank interest and all loans other than the impaired portion of loans. Recognition of interest in accordance with the terms of the original loan agreement ceases when a loan becomes impaired. The impaired portion of loans may revert to accrual status only when principal and interest payments have become fully current again, at which time any interest will be recognized in that fiscal year.

Government transfers (contributions from the Province) are recognized as revenues when the transfer is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability. Transfers are recognized as deferred revenue when transfer stipulations give rise to a liability. Transfer revenue is recognized in the statement of operations as the stipulation liabilities are settled.

(g) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered as a division of the Department of Innovation, Business and Rural Development. Expenses related to salaries, accommodations and administration are paid directly by the Department and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province.

Transfers (grants under the Business Development Support Program) are recorded as expenses when the grant is authorized, eligibility criteria have been met by the recipient and a reasonable estimate of the amount can be made.

(h) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability of the loans and equity investments.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

2. Summary of significant accounting policies (cont.)

(h) Measurement uncertainty (cont.)

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Cash

	<u>2014</u>	<u>2013</u>
Aquaculture Working Capital Fund	\$ 783,922	\$ 762,311
Business Investment Program	18,225,097	18,999,802
Business Development Support Program	5,420,999	4,002,874
Other	207	702
	<u>\$ 24,430,225</u>	<u>\$ 23,765,689</u>

4. Loans receivable and equity investments

	<u>2014</u>	<u>2013</u>
Loans receivable		
Principal due and unpaid	\$ 10,307,113	\$ 13,753,619
Principal not yet due	12,150,040	12,087,541
Interest due and unpaid	1,206,004	1,615,657
	<u>23,663,157</u>	<u>27,456,817</u>
Less: allowance for decline in value	<u>(13,998,812)</u>	<u>(19,445,346)</u>
	<u>9,664,345</u>	<u>8,011,471</u>
Equity investments		
Equity investments, at cost	12,675,731	13,463,190
Less: allowance for decline in value	<u>(12,496,642)</u>	<u>(13,298,315)</u>
	<u>179,089</u>	<u>164,875</u>
Loans receivable and equity investments	<u>\$ 9,843,434</u>	<u>\$ 8,176,346</u>

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

4. Loans receivable and equity investments (cont.)

Generally, for loans, the loan terms are 3 years for working capital loans, 10 years for loans for equipment purchases and leasehold improvements and 15 years for loans for the purchase or renovation of land and buildings. The interest rate on loans is fixed and ranges from 0% to 12%. The Corporation obtains security against its loans which generally consists of demand promissory notes, general security agreements, collateral mortgages and personal guarantees.

Generally, for equity investments, redemption will be the earlier of 20% of annual after tax cash flows or 7 years. There is no interest or dividend rate charged on equity investments but in some cases a return on investment is expected from declared dividends or growth of shares. The Corporation obtains security against its equity investments which generally consists of share certificates and shareholder subordination agreements.

The determination of whether a loan is impaired and the appropriate carrying value of equity investments involve significant judgment. The estimation of an appropriate allowance for decline in value of loans receivable and equity investments necessarily involves the use of estimates. These financial statements represent management's best estimates based on available information.

The allowance for decline in value represents the Corporation's best estimate of future probable losses with respect to the loans receivable and equity investments. The Corporation recognizes that future economic and industry conditions are not predictable and therefore, their impact on the future cash flows anticipated is uncertain. Consequently, adjustments to the allowance are possible depending on the impact of these future events and management's best estimate of them.

The allowance for decline in value of loans receivable and equity investments consists of the following:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 32,743,661	\$ 37,167,790
Principal written off, net of recoveries	(5,624,131)	(1,992,722)
Interest written off, net of recoveries	(433,576)	(1,630,033)
Recovery in value of loans receivable and equity investments	(190,500)	(801,374)
Balance, end of year	\$ 26,495,454	\$ 32,743,661

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

5. Accounts payable and accrued liabilities

	<u>2014</u>	<u>2013</u>
Accrued salaries	\$ 10,188	\$ 10,885
Accounts payable	14,000	14,991
Business Development Support Program	23,835	-
<u>Business Investment Program</u>	<u>4,690</u>	<u>-</u>
	<u>\$ 52,713</u>	<u>\$ 25,876</u>

6. Contingent liabilities

A client of the Corporation has taken legal action as a result of certain alleged technical problems that the client claims to have experienced with a vessel that was financed through the former Fisheries Loan Board. The amount of this potential claim is in the range of \$900,000 to \$1,100,000. No provision has been made for this claim as the likelihood of loss is not determinable at this time.

7. Contractual obligations

The Corporation has contractual obligations in respect of approved but not yet disbursed loans, equity investments and grants in the amount of \$2,791,805 (2013 - \$2,885,344).

8. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The Corporation is exposed to credit risk, liquidity risk and market risk through its financial instruments. There was no significant change in the Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, due from the Province, bank interest receivable, HST receivable, loans receivable and equity investments. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with due from the Province, bank interest receivable and HST receivable because of their nature.

BUSINESS INVESTMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2014

8. Financial risk management (cont.)

The Corporation is exposed to credit risk related to its loans receivable and equity investments. The Corporation has policies and procedures for the monitoring and collection of its loans receivable and equity investments, including security being held, so as to mitigate potential credit losses. The Corporation classifies its loan receivables and equity investments as impaired in accordance with note 2(d), 2(e) and note 4. Any estimated impairment of loans receivable and equity investments has been provided for through an allowance for decline in value as disclosed in note 4. Loans receivable and equity investments which are not impaired or past due are considered collectible by the Corporation.

As disclosed in note 4, the Corporation reported loans receivable totaling \$23,663,157 as at March 31, 2014 (2013 - \$27,456,817). Principal due and unpaid of \$10,307,113 (2013 - \$13,753,619) was overdue by portfolio as follows.

Loan Portfolio	Days Overdue				
	1-30	31-60	61-90	>90	Total
Aquaculture Working Capital Fund	\$ -	\$ -	\$ -	\$ 592,734	\$ 592,734
Business Investment Corporation	38,712	10,813	8,379	865,616	923,520
Former Enterprise Newfoundland and Labrador	4,398	4,337	4,422	7,375,543	7,388,700
Former Farm Loan Board	-	-	-	710,309	710,309
Former Fisheries Loan Board	-	-	-	691,850	691,850
Total Principal Past Due	\$ 43,110	\$ 15,150	\$ 12,801	\$10,236,052	\$ 10,307,113

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities and its ability to meet its contractual obligations for approved but not yet disbursed loans, equity investments and grants as outlined in Note 7. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities and contractual obligations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange or other price risk. In addition, the Corporation is not exposed to significant interest rate risk as its loans and equity investments are provided at fixed interest rates.

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9. Expenses by Object

The following is a summary of expenses by object:

	<u>2014</u>	<u>2013</u>
Bank charges	\$ 2,278	\$ 1,112
Grants and subsidies	2,100,379	808,255
Professional services	14,000	14,400
Property, furnishings and equipment	163	3,002
Purchased services	82,677	72,793
Salaries and benefits	1,000,819	1,040,848
Supplies	9,373	6,485
Transportation and communication	18,388	14,993
	<u>\$ 3,228,077</u>	<u>\$ 1,961,888</u>

10. Related party transactions

The Corporation had the following transactions with the Province:

	<u>2014</u>	<u>2013</u>
Business Development Support Program	\$ 3,456,135	\$ 1,000,000
Other Provincial contributions	1,125,420	1,153,923
Due to the Province - forgiveness	-	41,390,455
	<u>\$ 4,581,555</u>	<u>\$ 43,544,378</u>

The Corporation is administered as a division of the Department of Innovation, Business and Rural Development. Administration expenses \$1,125,420 (2013 - \$1,153,923) are paid directly by the Province and are reflected in these financial statements as expenses of the Corporation and as revenue from the Province. Included in this total is \$107,183 (2013 - \$110,933) related to the employer's share of employee benefits, paid by the Department of Finance on behalf of the Corporation.

11. Budget

The Corporation's budget has been provided for comparison purposes and has been derived from the estimates approved by the management of the Corporation.



Innovation, Business and Rural Development

Business Investment Corporation 2013-2014 Annual Report

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