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2012-2013 annual report

Business Investment Corporation

Newfoundland  
Labrador

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 BIC for the fiscal year ending March 31, 2013. The annual report is submitted in accordance with the entity's obligation as a category three entity under the *Transparency and Accountability Act*, prepared under the direction of the board, which is accountable for the results reported herein.

The Business Investment Corporation directs the management of the investment portfolio of the Department of Innovation, Business and Rural Development (IBRD) and administers new investments made through the Small and Medium-sized Enterprise (SME) fund and the Business and Market Development program (BMD). The corporation also administers the Fisheries Loan Guarantee Program (FLGP), in partnership with the Department of Finance, the Department of Fisheries and Aquaculture and the Shellfish Aquaculture Working Capital fund.

In 2012-13, the corporation continued to make solid contributions to small business development in the province. Approved investments under the SME fund and the BMD program totaled \$3.3 M, leveraging \$2.0 M from private and public sources. In addition, the board managed the collection of \$3.2 M, which was reinvested in the SME revolving fund. The FLGP approved 18 loan guarantees for approximately \$14 M. The Shellfish Aquaculture Working Capital fund had invested in 11 enterprises for \$763,000.

I would like to acknowledge and thank the board members for their dedication and commitment to the corporation in 2012-13. As well, the board greatly appreciates the dedicated officials from IBRD who work diligently to support the board to discharge 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:

The Business Investment Corporation was established under the authority of the *Business Investment Corporation Act* on April 1, 2002. The Business Investment Corporation is the successor to three former crown corporations, which include Enterprise Newfoundland and Labrador Corporation, the Fisheries Loan Board and the Farm Development Loan Board. The 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 the Department and to administer new investments made by virtue of

four funding programs: the Small and Medium-sized Enterprise fund, the Business and 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 the Department’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, 2013 the board consisted of the following members:

- Fred Drover, St. John's, Chairperson
- Mene Conley, Happy Valley-Goose Bay, Vice-Chairperson
- Deputy Minister, Department of Finance
- Deputy Minister, IBRD
- Robert Marche, Corner Brook
- William Abbott, Bonavista
- Jerry Dean, Botwood
- Director, Business Analysis, IBRD (Secretary)

The board met eleven times in 2012-13 in order to fulfill its mandate. In addition, a sub-committee of the board, the Corporate Transaction Committee, met bi-weekly or at the call of the Chair.

## 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 its own staff, therefore IBRD provides administrative support to it. Administrative costs incurred by the Department in support of the corporation are recorded as an expense in the corporation's financial statements.

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.

## management discussion

The SME fund operates with advances from the province which are carried forward from previous years and cash collections from the portfolio investments. During fiscal 2012-13 the SME fund committed \$1.9 M for 13 enterprises.

Funding for the BMD program continued at \$1 M in 2012-13; in addition, funding leftover from cancelled commitments from previous years is available for investment. During 2012-13 the BMD funding was also used to fund Craft Industry development initiatives and Youth Innovation activities. As a result, the fund committed \$1.4 M during 2012-13, of which \$460,000 had been spent at year end.

The Small and Medium-size Enterprise fund was part of the departmental review in 2012-13. As a result the Corporate Transactions Committee (CTC) was reconstituted and renamed the Business Investment Management Committee (BIMC). Its membership was changed to include the Departmental Assistant Deputy Ministers and the Chair of the Business Investment Corporation. The BIMC has regularly scheduled meetings to handle ongoing business proposals. Other changes emanating from the review will be implemented by the BIC Board in early 2013-14. The proponents of the fund will continue to work with other funding partners to develop worthwhile investments using the SME funding as an integral part of business expansion.







## programs

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

### **Small and Medium-sized Enterprise Fund (SME)**

The SME fund 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 SME fund combined the former investment portfolio of

### **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. The program is was reviewed and enhanced in 2012-13 to provide more flexibility for investment and meeting harvesters needs for easier access to capital.



the 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. Collections from the former entities investments are reinvested in the newly formatted fund. This fund is now a revolving fund providing loans and equity investments to eligible businesses within Newfoundland and Labrador.

### **Business and Market Development Program (BMD)**

This program provides contributions of up to \$25,000 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.

### **Shellfish Aquaculture Working Capital Fund (AWCF)**

This program provides 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 in 2001 through two federal/provincial cost-shared economic development agreements and operates on a revolving fund basis. This fund is fully expended and discussions are ongoing with federal partners about its future. If the fund is wound up BIC will refund the federal portion of the investment and maintain the current AWCF investments as part of its portfolio.

## corporation's objectives and activities

In consideration of the Provincial Government's strategic directions, as well as the mandate and financial resources of the Business Investment Corporation, the activities below were undertaken for the fiscal year 2012-13. The strategic direction that the Business Investment Corporation is working towards achieving is "Small and Medium Enterprise Business Supports".

Two objectives were identified in the corporation's 2011-14 Activity Plan and these are reported on herein along with the 2012-13 results of operations. These objectives will be reported for each fiscal year of the Activity Plan of the corporation (2011-12, 2012-13 and 2013-14) through its annual report.

## Administration of new investments

objective	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><b>Small and Medium Enterprise Fund</b> - The corporation reviewed 22 applications for funding in 2012-13 and approved investment value of \$1.9 M in term and equity funding. This funding attracted \$800,000 in additional funding from private and public business financing, to help start or grow 13 small businesses.</p> <p><b>Business and Marketing Development Program</b> - The corporation reviewed 157 applications for funding through this program and approved 121 applications with an approved investment value of \$1.42 M. These grants attracted an additional \$1.22 M in other business financing to help entrepreneurs and small businesses pursue new business ideas and new markets for their products and services. Twenty four percent of these businesses were craft related while 19 percent were youth enterprises.</p> <p><b>Shellfish Aquaculture Working Capital Fund</b> - The corporation continued to manage the Shellfish Aquaculture Working Capital fund which had \$763,000 invested in 11 enterprises. This fund is fully committed and there was no new money available for investment in 2012-13.</p> <p><b>Fisheries Loan Guarantee Program</b> - In 2012-13, the corporation reviewed and approved 18 applications on behalf of the financial institutions, under the Fisheries Loan Guarantee Program for \$14.0 M. This program assisted with the purchase, construction and refit of fishing vessels and provided support with combining of enterprises and license acquisitions. Loan guarantees are provided to assist recipients to take advantage of ongoing and emerging new business opportunities in the fishery. These loan guarantees are issued by the Department of Finance.</p> <p><b>Investment Portfolio</b> - At March 31, 2013, the investment portfolio of the BIC consisted of 639 accounts with loans of \$27.5 M and equity of \$13.4 M, for a total of \$40.9 M (principal and interest as detailed in note four of the attached financial statements.)</p> <p>Approximately 72 percent of the corporation's portfolio originated from predecessor lending agencies - Enterprise Newfoundland and Labrador, Fisheries Loan Board, and the Farm Loan Board. While the allowance for doubtful accounts is \$32.7 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.</p> <p>Since 2005, the Provincial Government has established a new loan program, established new policies and procedures to balance access to capital requirements while minimizing risk to the provincial treasury.</p> <p>This is the second year of the new 2011-14 BIC Activity Plan. Investments by the BIC totaled \$3.3 M through the SME fund and the BMD program. This investment has levered an additional \$2.0 M from other sources of investment and has created 19 new jobs and stabilized an additional 115 positions in all industrial sectors in the province.</p>

## Investment Portfolio Management

objective

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

measure

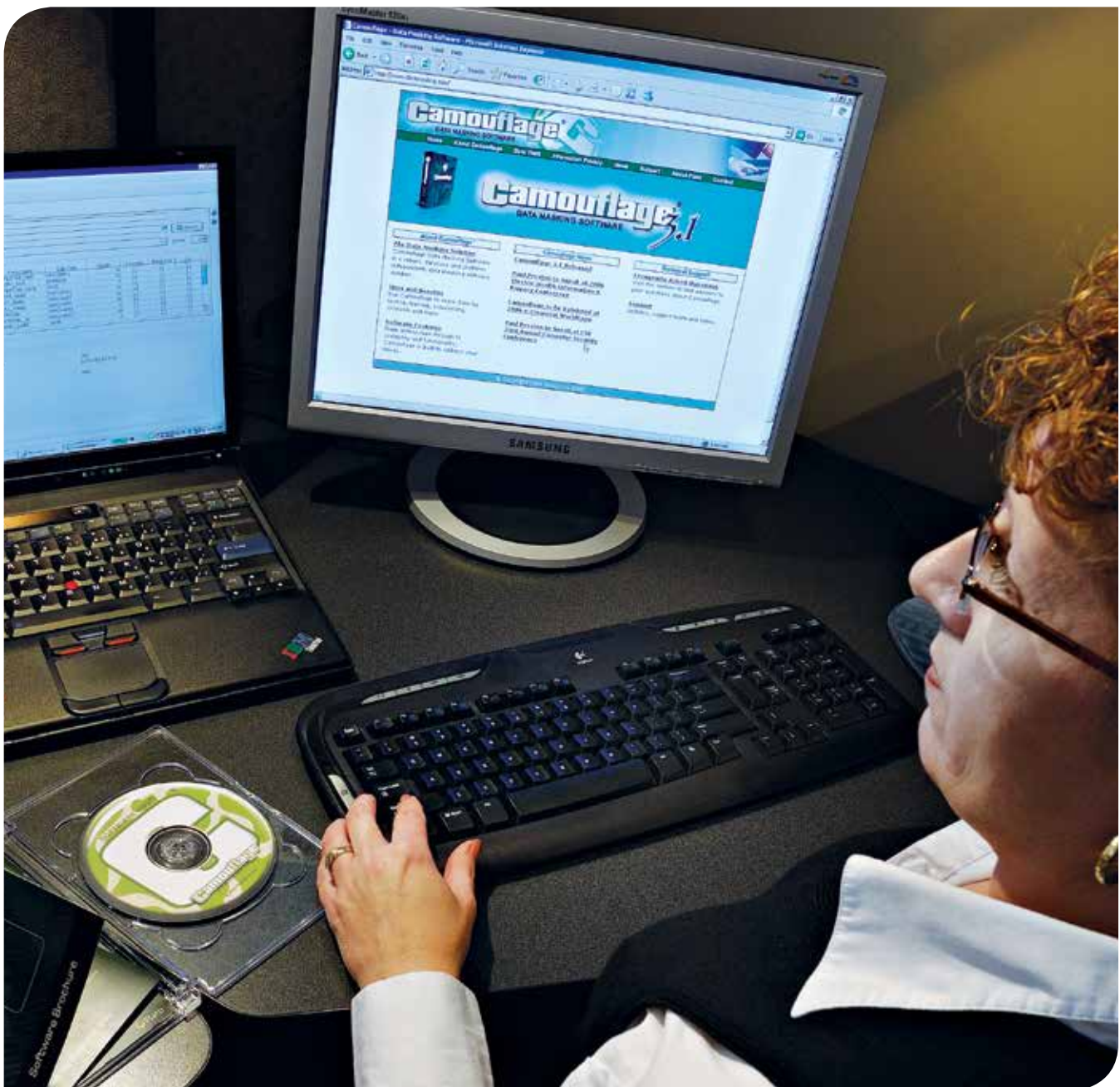
Successful management of investment portfolio

indicators

Percentage of projected annual revenues collected

activities

The corporation's successful management of the investment portfolio resulted in the collection of 148 percent of projected receipts. In 2012-13 collections totaling to \$3.2 M were retained in the SME revolving fund for future investments and therefore no new funds were returned to the provincial treasury from payments relating to investments. For the first 2 years covered by the 2011-14 BIC Activity Plan the corporation's revenues have been \$6.2 M on a forecast of \$4.3 M.



## financial statements

The audited financial statements for the corporation are in Appendix A. They will be tabled in the House of Assembly in Financial Statements of Crown Corporations, Boards and Authorities for the year ending March 31, 2013.

**BUSINESS INVESTMENT CORPORATION**

**FINANCIAL STATEMENTS**

**MARCH 31, 2013**

## 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.

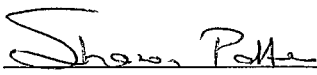
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial information on a quarterly basis and external audited financial statements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

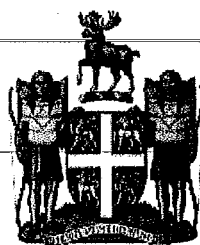


Mr. Guy Edwards, CMA, MBA  
Director of Portfolio Management



Ms. Sharon Patten, CGA  
Financial Operations Manager

July 3, 2013



OFFICE OF THE AUDITOR GENERAL  
St. John's, 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, 2013, and the statements of operations, remeasurement gains and losses, change in net debt, and cash flows for the year ended March 31, 2013, 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.

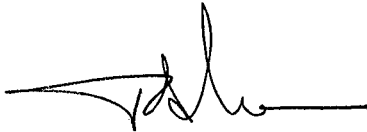
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



## 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, 2013, and its financial performance and its cash flows for the years ended March 31, 2013, in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a horizontal line extending to the right.

**TERRY PADDON, CA**  
**Auditor General**

July 3, 2013  
St. John's, Newfoundland and Labrador

**BUSINESS INVESTMENT CORPORATION****STATEMENT OF FINANCIAL POSITION**

As at March 31

2013

2012

**FINANCIAL ASSETS**

Cash (Note 3)	\$ 23,765,689	\$ 20,937,128
Due from the Province	24,884	13,000
Bank interest receivable	20,473	17,863
HST receivable	426	2,128
Loans receivable and equity investments (Note 4)	8,176,346	9,189,658
Portfolio investments (Note 5)	-	15,930
	<b>31,987,818</b>	<b>30,175,707</b>

**LIABILITIES**

Accounts payable and accrued liabilities (Note 6)	25,876	13,000
Due to the Province (Note 7)	-	41,390,455
	<b>25,876</b>	<b>41,403,455</b>

**Net assets (debt)** **31,961,942** **(11,227,748)**

**NON-FINANCIAL ASSETS**

**Accumulated surplus (deficit)** **\$ 31,961,942** **\$ (11,227,748)**

Accumulated surplus (deficit) is comprised of:

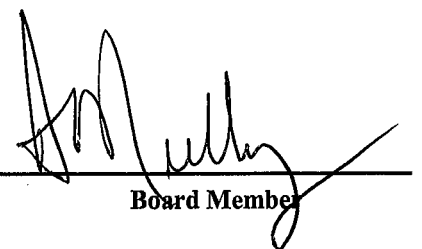
Accumulated operating surplus (deficit)	\$ 31,961,942	\$ (11,234,256)
Accumulated rereasurement gains	-	6,508
	<b>\$ 31,961,942</b>	<b>\$ (11,227,748)</b>

**Contingent liabilities (Note 8)****Contractual obligations (Note 9)**

*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

	2013 Budget	2013 Actual	2012 Actual
	(Note 14)		
<b>REVENUES</b>			
Contributions from Province			
Business Marketing and Development Program (Note 12)	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Due to the Province - forgiveness (Note 7 and Note 12)	-	41,390,455	3,010,835
Other Provincial contributions (Note 12)	880,000	1,153,923	804,793
Recovery in value of loans receivable and equity investments (Note 4)	-	801,374	496,588
Interest on loans	2,300,000	573,862	524,913
Other investment income	190,000	230,096	215,981
Gain on sale of portfolio investments (Note 5)	-	8,376	-
	<u>4,370,000</u>	<u>45,158,086</u>	<u>6,053,110</u>
<b>EXPENSES (Note 11)</b>			
Business Marketing and Development Program	1,000,000	806,853	753,072
Allowance for decline in value of loans receivable and equity investments	1,500,000	-	-
Administration (Note 12)	880,000	1,153,923	804,793
Bank charges	-	1,112	2,614
Miscellaneous expense	-	-	1,338
	<u>3,380,000</u>	<u>1,961,888</u>	<u>1,561,817</u>
Annual operating surplus	990,000	43,196,198	4,491,293
Accumulated operating deficit, beginning of year	(11,234,256)	(11,234,256)	(15,725,549)
Accumulated operating surplus (deficit), end of year	\$ (10,244,256)	\$ 31,961,942	\$ (11,234,256)

*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**

**2013**

**2012**

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

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

**BUSINESS INVESTMENT CORPORATION****STATEMENT OF CHANGE IN NET DEBT**

For the Year Ended March 31

	<b>2013 Budget</b>	<b>2013 Actual</b>	<b>2012 Actual</b>
	<b>(Note 14)</b>		
<b>Annual operating surplus</b>	<b>\$ 990,000</b>	<b>\$ 43,196,198</b>	<b>\$ 4,491,293</b>
<b>Net remeasurement gains (losses)</b>	<b>-</b>	<b>(6,508)</b>	<b>6,508</b>
<b>Decrease in net debt</b>	<b>990,000</b>	<b>43,189,690</b>	<b>4,497,801</b>
<b>Net debt, beginning of year</b>	<b>(11,227,748)</b>	<b>(11,227,748)</b>	<b>(15,725,549)</b>
<b>Net assets (debt), end of year</b>	<b>\$ (10,237,748)</b>	<b>\$ 31,961,942</b>	<b>\$ (11,227,748)</b>

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

**BUSINESS INVESTMENT CORPORATION****STATEMENT OF CASH FLOWS**

For the Year Ended March 31

2013

2012

**Operating transactions**

Annual operating surplus	\$ 43,196,198	\$ 4,491,293
Adjustment for non-cash items		
Gain on sale of portfolio investments	(8,376)	-
Recovery in value of loans receivable and equity investments	(801,374)	(496,588)
Due to the Province - forgiveness	(41,390,455)	(3,010,835)
	<b>995,993</b>	<b>983,870</b>
Change in non-cash working capital		
Due from the Province	(11,884)	-
Bank interest receivable	(2,610)	(210)
HST receivable	1,702	(2,128)
Accounts payable and accrued liabilities	12,876	(9,558)
	<b>996,077</b>	<b>971,974</b>
<b>Cash provided from operating transactions</b>	<b>996,077</b>	<b>971,974</b>
<b>Investing transactions</b>		
Increase in loans and equity investments	(1,427,796)	(3,429,594)
Collection of loans and equity investments	3,242,482	2,984,260
Proceeds from portfolio investments	17,798	-
	<b>1,832,484</b>	<b>(445,334)</b>
<b>Cash provided from (applied to) investing transactions</b>	<b>1,832,484</b>	<b>(445,334)</b>
<b>Increase in cash</b>	<b>2,828,561</b>	<b>526,640</b>
<b>Cash, beginning of year</b>	<b>20,937,128</b>	<b>20,410,488</b>
<b>Cash, end of year</b>	<b>\$ 23,765,689</b>	<b>\$ 20,937,128</b>

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

# BUSINESS INVESTMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

March 31, 2013

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### 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 Small and Medium Enterprise Fund, the Business Marketing and Development Fund 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.

#### (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.

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.

# **BUSINESS INVESTMENT CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2013**

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### **2. Summary of significant accounting policies (cont.)**

#### **(b) Financial instruments (cont.)**

The Corporation uses the quoted market price as at the fiscal year end to measure the fair value of its portfolio investments. Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations.

Interest and dividends attributable to financial instruments are 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, or alternatively, at the estimated net realizable value of the underlying security. Changes in the allowance are recognized in the statement of operations.

#### **(e) Equity investments**

The Corporation records equity investments at amortized cost. Equity investments are tested annually for impairment. In certain circumstances, the Corporation may have acquired the right to appoint representatives to an equity investee's board of directors or it may have a significant influence on the strategic operating, investing and financing policies of the investee. However, because of the nature of the Corporation's investment process and the manner in which these positions were acquired, such control or significant influence may not in fact be exercised or the Corporation may not intend to maintain such positions. Accordingly, the Corporation's equity investments for all companies in which the Corporation holds voting rights 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. Changes in the allowance are recognized in the statement of operations.



# **BUSINESS INVESTMENT CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2013**

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### **2. Summary of significant accounting policies (cont.)**

#### **(f) Due to the Province**

Prior to March 31, 2005, the Province provided funding to the Corporation to finance the loans and equity investments. The funding was to be repaid to the Province as the loans and equity investments were repaid to the Corporation. The amount due to the Province was also reduced by any write-off of the related loans receivable and equity investments in the Corporation. Since March 31, 2005, the Corporation has been permitted to retain all repayments of its loans receivable and equity investments; however, the amount due to the Province was reduced by the amount of any write-off of the related loans receivable and equity investments. In September 2012, the Province approved the write-off of the full amount of the due to the Province owed by the Corporation. This write-off was recorded as Due to the Province - forgiveness revenue of the Corporation.

#### **(g) 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.

**BUSINESS INVESTMENT CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

**March 31, 2013**

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**2. Summary of significant accounting policies (cont.)**

**(h) 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.

Grants under the Business Marketing and Development 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.

**(i) 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 for the loans and equity investments.

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>2013</u>	<u>2012</u>
Aquaculture Working Capital Fund	\$ 762,311	\$ 630,286
Small and Medium Enterprise Fund	18,999,802	16,532,950
Business Marketing and Development Fund	4,002,874	3,773,626
Other	702	266
	<u>\$ 23,765,689</u>	<u>\$ 20,937,128</u>

**BUSINESS INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS**March 31, 2013

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**4. Loans receivable and equity investments**

	<u>2013</u>	<u>2012</u>
<b>Loans receivable</b>		
Principal due and unpaid	\$ 13,753,619	\$ 15,568,826
Principal not yet due	12,087,541	13,072,106
Interest due and unpaid	1,615,657	3,227,428
	<u>27,456,817</u>	<u>31,868,360</u>
Less: allowance for decline in value	<u>(19,445,346)</u>	<u>(22,839,593)</u>
	<u>8,011,471</u>	<u>9,028,767</u>
<b>Equity investments</b>		
Equity investments, at cost	13,463,190	14,489,088
Less: allowance for decline in value	<u>(13,298,315)</u>	<u>(14,328,197)</u>
	<u>164,875</u>	<u>160,891</u>
<b>Loans receivable and equity investments</b>	<b>\$ 8,176,346</b>	<b>\$ 9,189,658</b>

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 involves 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.

**BUSINESS INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS****March 31, 2013**

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**4. Loans receivable and equity investments (cont.)**

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

	<u>2013</u>	<u>2012</u>
<b>Balance, beginning of year</b>	<b>\$ 37,167,790</b>	<b>\$ 40,904,654</b>
Principal written off, net of recoveries	(1,992,722)	(3,010,835)
Interest written off, net of recoveries	(1,630,033)	(229,441)
Allowance for decline (recovery) in value of loans receivable and equity investments	(801,374)	(496,588)
<b>Balance, end of year</b>	<b>\$ 32,743,661</b>	<b>\$ 37,167,790</b>

**5. Portfolio investments**

Portfolio investments consisted of 673 shares of Sun Life Financial Services of Canada Incorporated which were given to the Corporation as a result of the demutualization of Sun Life Assurance Company of Canada. The carrying value of the shares was recognized at the fair market value of \$9,422 as determined by the share price at the time of the transfer of shares to the Corporation. These shares were sold during the year at the fair market value at the time of sale of \$17,798, resulting in a gain of \$8,376.

**6. Accounts payable and accrued liabilities**

	<u>2013</u>	<u>2012</u>
Accrued salaries	\$ 10,885	\$ -
Accounts payable	14,991	13,000
	<b>\$ 25,876</b>	<b>\$ 13,000</b>

**7. Due to the Province**

In September 2012, the Province approved the write-off of the outstanding receivable owed by the Corporation. As a result, the Corporation extinguished its liability to the Province of \$41,390,455 as at March 31, 2012 and recorded the amount as Due to the Province - forgiveness.

# **BUSINESS INVESTMENT CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**March 31, 2013**

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### **8. 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 Program. The amount of this potential claim is in the \$900,000 to \$1,100,000 range. In a matter related to this legal action, another party has been awarded a claim of \$1,800,000. The Province will not appeal this decision.

### **9. Contractual obligations**

The Corporation has contractual obligations in respect of approved but not yet disbursed loans, equity investments and grants in the amount of \$2,885,344 (2012 - \$2,026,795).

### **10. 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 risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk.

#### 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.

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) 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.

# BUSINESS INVESTMENT CORPORATION

## NOTES TO FINANCIAL STATEMENTS

March 31, 2013

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### 10. Financial risk management (cont.)

#### 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. 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 of expected 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 risk. The Corporation is not exposed to significant foreign exchange or other 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.

### 11. Expenses by Object

The following is a summary of expenses by object:

	<u>2013</u>	<u>2012</u>
Bank charges	\$ 1,112	\$ 2,614
Grants and subsidies	808,255	755,808
Miscellaneous	-	1,338
Professional services	14,400	14,400
Property, furnishings and equipment	3,002	1,115
Purchased services	72,793	46,746
Salaries and benefits	1,040,848	710,908
Supplies	6,485	8,399
<u>Transportation and communication</u>	<u>14,993</u>	<u>20,489</u>
	<u>\$ 1,961,888</u>	<u>\$ 1,561,817</u>

**BUSINESS INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS**March 31, 2013

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**12. Related party transactions**

The Corporation had the following transactions with the Province:

	<u>2013</u>	<u>2012</u>
Business Marketing and Development Program	\$ 1,000,000	\$ 1,000,000
Due to the Province - forgiveness	41,390,455	3,010,835
Other Provincial contributions	1,153,923	804,793
	<u>\$ 43,544,378</u>	<u>\$ 4,815,628</u>

The Corporation is administered as a division of the Department of Innovation, Business and Rural Development. Administration expenses \$1,153,923 (2012 - \$804,793) 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 \$110,933 related to the employer's share of employee benefits, paid by the Department of Finance on behalf of the Corporation.

**13. Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**14. 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  
2012-2013 Annual Report

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