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**BLUE WATER BUSINESS DEVELOPMENT  
CORPORATION LIMITED**

**FINANCIAL STATEMENTS**

**March 31, 2013**

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**FINANCIAL STATEMENTS**  
**March 31, 2013**

**CONTENTS**

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	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF OPERATIONS	4
STATEMENT OF CHANGES IN NET ASSETS	5
STATEMENT OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7-16
SCHEDULE 1 - SCHEDULE OF ALLOWANCE FOR LOAN IMPAIRMENT	17
SCHEDULE 2 - SCHEDULE OF OPERATIONS	18
SCHEDULE 3 - SCHEDULE OF SUNDRY REVENUE	19

## INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Board of Directors of the  
**Blue Water Business Development Corporation Limited:**

I have audited the accompanying financial statements of the Blue Water Business Development Corporation Limited, which comprise of the statement of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 the statement of operations, statement of changes in net assets and statement of cash flows for the year ended, and March 31, 2013 and March 31, 2012 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 accounting standards for not-for-profit organizations, and for such internal control as 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 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

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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.

### **Basis for qualified opinion**

The Blue Water Business Development Corporation Limited has not identified and classified all its financial instruments, and recorded its financial instruments at fair value. Rather, all financial instruments are recorded at historical cost. The Corporation has not specifically disclosed information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance, including exposure to risks, methods of determining fair value and other relevant information. This basis of accounting in these financial statements differs from Canadian accounting standards for not-for-profit organizations.

### **Opinion**

In my opinion, except for the effect of matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Blue Water Business Development Corporation Limited as at March 31, 2013, March 31, 2012 and April 1, 2011 the results of operations and its financial performance and its cash flows for the years March 31, 2013 and March 31, 2012 ended in accordance with Canadian accounting standards for not-for-profit organizations.

June , 2013  
Bedford, NS

Certified General Accountant

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF FINANCIAL POSITION**  
**March 31, 2013**

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> March 31, 2013	<u>Total</u> March 31, 2012	<u>Total</u> April, 1 2011
	\$	\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and term deposits	260,933	1,434,061	1,694,994	1,802,423	2,018,014
Receivables (Note 5)	10,045	30,176	40,221	56,243	31,700
HST refundable	13,891	-	13,891	13,548	8,022
Prepaid expense	2,000	-	2,000	2,000	-
Due from operating fund	-	30,515	30,515	-	-
Due from investment fund	-	-	-	15,745	-
Due from SEED fund	-	-	-	-	254,364
	<b>286,869</b>	<b>1,494,752</b>	<b>1,781,621</b>	1,889,959	2,312,100
<b>Investments</b> (Note 6)	-	<b>6,028,719</b>	<b>6,028,719</b>	5,783,498	6,226,165
<b>Capital assets</b> (Note 7)	<b>8,868</b>	-	<b>8,868</b>	4,368	4,534
	<b>295,737</b>	<b>7,523,471</b>	<b>7,819,208</b>	<b>7,677,825</b>	<b>8,542,799</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Due to operating fund	-	-	-	15,745	254,364
Due to investment fund	30,515	-	30,515	-	-
Due to ACOA - SEED	-	-	-	-	355,621
Payables and accrued liabilities	2,719	-	2,719	22,780	1,245
Funds collected and held in trust (Note 8)	-	6,181	6,181	13,515	-
Current portion of long term debt	-	-	-	-	360,000
	<b>33,234</b>	<b>6,181</b>	<b>39,415</b>	52,040	971,230
<b>Long term debt</b>					
Due to related parties (Note 9)	-	82,462	82,462	136,881	459,983
<b>Total liabilities</b>	<b>33,234</b>	<b>88,643</b>	<b>121,877</b>	188,921	1,431,213
<b>NET ASSETS</b>					
<b>Fund balances</b>					
Net assets invested in capital assets	8,868	-	8,868	4,368	4,534
Externally restricted net assets	-	7,262,828	7,262,828	7,049,358	6,802,040
Internally restricted net assets	100,000	172,000	272,000	305,000	175,000
Unrestricted net assets	153,635	-	153,635	130,178	130,012
	<b>262,503</b>	<b>7,434,828</b>	<b>7,697,331</b>	7,488,904	7,111,586
	<b>295,737</b>	<b>7,523,471</b>	<b>7,819,208</b>	<b>7,677,825</b>	<b>8,542,799</b>
<b>On behalf of the Board</b>					

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF OPERATIONS**  
**Year ended March 31, 2013**

(Schedule 2)

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> 2013	<u>Total</u> 2012
	\$	\$	\$	\$
<b>Revenue</b>				
ACOA contribution - Community Futures	375,000	-	375,000	375,000
Investment income - loan portfolio	-	478,201	478,201	545,976
Sundry revenue (Schedule 3)	144,750	33,887	178,637	208,703
	<u>519,750</u>	<u>512,088</u>	<u>1,031,838</u>	<u>1,129,679</u>
<b>Expenditures</b>				
Advertising	9,722	-	9,722	12,310
Amortization	2,597	-	2,597	3,000
Bank charges	1,622	1,900	3,522	3,517
Credit checking	1,389	-	1,389	1,379
Equipment rental	5,768	-	5,768	5,226
Insurance	3,495	-	3,495	3,273
Interest expense - ACCBIFF	-	-	-	8,111
Loan write-off provision and bad debts	-	271,453	271,453	144,049
Meeting expenses	7,246	-	7,246	8,523
Memberships, dues and fees	2,782	-	2,782	2,884
Miscellaneous	1,200	-	1,200	299
Office supplies	5,784	-	5,784	7,888
Postage and courier	1,884	-	1,884	2,321
Professional fees - audit and accounting	16,238	-	16,238	16,690
Professional fees - legal and consulting	9,628	-	9,628	11,455
Rent and utilities	34,999	-	34,999	33,335
Repairs and maintenance	4,261	-	4,261	8,183
Salaries, wages and benefits	301,543	-	301,543	346,545
Students in Business	46,301	-	46,301	46,920
Self Employment Benefits	5,660	-	5,660	-
Telecommunications	14,054	-	14,054	18,071
Training and development	5,619	21,038	26,657	22,061
Travel	47,228	-	47,228	46,321
	<u>529,020</u>	<u>294,391</u>	<u>823,411</u>	<u>752,361</u>
<b>Excess of revenue over expenditures</b> <b>(expenditures over revenue)</b>	<u>(9,270)</u>	<u>217,697</u>	<u>208,427</u>	<u>377,318</u>

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF CHANGES IN NET ASSETS**  
Year ended March 31, 2013

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> 2013	<u>Total</u> 2012
	\$	\$	\$	\$
<b>Balance,</b> <b>beginning of year</b>	<b>234,546</b>	<b>7,254,358</b>	<b>7,488,904</b>	<b>7,111,586</b>
<b>Transfers between funds</b>	<b>27,957</b>	<b>(27,957)</b>	-	-
<b>Transfers between funds</b>	<b>52,155</b>	<b>(52,155)</b>	-	-
<b>Transfers between funds</b>	<b>(42,885)</b>	<b>42,885</b>	-	-
<b>Excess of revenue over</b> <b>expenditures</b> (expenditures over revenue)	<b>(9,270)</b>	<b>217,697</b>	<b>208,427</b>	<b>377,318</b>
<b>Balance, end of year</b>	<b>262,503</b>	<b>7,434,828</b>	<b>7,697,331</b>	<b>7,488,904</b>

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

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**STATEMENT OF CASH FLOWS**  
Year ended March 31, 2013

	<u>Operating</u> Fund	<u>Investment</u> Fund	<u>Total</u> 2013	<u>Total</u> 2012
	\$	\$	\$	\$
Net (outflow) inflow of cash related to the following activities:				
<b>Operations</b>				
Excess of revenue over expenditures (expenditures over revenue)	(9,270)	217,697	208,427	377,318
Items which do not involve cash				
Amortization	2,597	-	2,597	3,000
Loan guarantees	-	172,000	172,000	205,000
Loans written off	-	324,152	324,152	205,766
Loan loss provision	-	(20,291)	(20,291)	(30,951)
Changes in non-cash working capital				
Receivables	(7,295)	23,317	16,022	(24,543)
HST receivable	(343)	-	(343)	(5,526)
Prepaid expense	-	-	-	(2,000)
Inter fund receivables	15,745	-	15,745	238,619
Payable to ACOA	-	-	-	(355,621)
Interfund payables	-	(15,745)	(15,745)	(238,619)
Payables and accruals	(9,775)	(10,287)	(20,062)	20,936
	<u>(8,341)</u>	<u>690,843</u>	<u>682,502</u>	<u>393,379</u>
<b>Investing</b>				
Purchase of capital assets	(7,097)	-	(7,097)	(2,834)
Loan repayment and written off	-	2,033,575	2,033,575	2,518,795
Loans and guarantees to clients	-	(2,754,656)	(2,754,656)	(2,455,344)
	<u>(7,097)</u>	<u>(721,081)</u>	<u>(728,178)</u>	<u>60,617</u>
<b>Financing</b>				
Due to related parties (net)	-	(54,419)	(54,419)	(683,102)
Funds collected and held in trust	-	6,181	6,181	13,515
Repayment of funds held in trust	-	(13,515)	(13,515)	-
Interfund transfers	67,742	(67,742)	-	-
	<u>67,742</u>	<u>(129,495)</u>	<u>(61,753)</u>	<u>(669,587)</u>
<b>Net cash inflow (outflow)</b>	<b>52,304</b>	<b>(159,733)</b>	<b>(107,429)</b>	<b>(215,591)</b>
Cash and equivalents, beginning of year	<u>208,629</u>	<u>1,593,794</u>	<u>1,802,423</u>	<u>2,018,014</u>
<b>Cash and equivalents, end of year</b>	<b><u>260,933</u></b>	<b><u>1,434,061</u></b>	<b><u>1,694,994</u></b>	<b><u>1,802,423</u></b>
Represented by:				
Cash and term deposits	<u>260,933</u>	<u>1,434,061</u>	<u>1,694,994</u>	<u>1,802,423</u>
<b>Supplemental information:</b>				
Interest paid to ACCBIFF	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,111</u>

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

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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## **1. NATURE OF ORGANIZATION**

The Corporation was incorporated January 20, 1989 under the Companies Act of the Province of Nova Scotia as Blue Water Business Developments Corporation Limited and operates under the name Blue Water Business Development Corporation Limited. The Corporation is a community Business Development Corporation, a not-for-profit community-based and community controlled corporation, working in cooperation with all levels of government and the private sector. It covers those in the rural areas of Halifax Regional Municipality which excludes the former cities of Halifax, Dartmouth and Bedford.

The **Mission Statement** is:

The organization is dedicated to assisting in community economic development by providing advisory and investment services to those involved in business in the rural Halifax Regional Municipality.

The **Vision Statement** is:

The organization will play the central role in the development of entrepreneurship. It will continue to develop and enhance its investment and advisory services by working collaboratively with partnered community economic development groups. It will provide innovative strategies and direction to entrepreneurs in the rural communities.

The Corporation is a non-profit organization under paragraph 149(1)(l) of the Income Tax Act and, as such, is not subject to federal or provincial income taxes.

Any accumulated net assets are to be used in promoting the Corporation's objectives and at no time will any dividends be paid. Should the corporation be dissolved the remaining assets would be transferred to another Community Business Development Corporation or to some other organization serving the community with similar objectives.

## **2. DEPARTURE FROM ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS**

The Corporation's financial statements have not adopted the CICA Handbook Section 3855 - *Financial Instruments - Recognition and Measurement* and Section 3861 - *Financial Instruments - Disclosure and Presentation*, and as a result depart from Canadian accounting standards for not-for profit organizations. The effects of these sections have not been recorded or disclosed in these financial statements.

The Atlantic Canada Opportunities Agency has confirmed, within the 2011 CF agreement to all Atlantic CBDCs, it will accept qualified financial statements from CBDCs when not prepared in full compliance with the CICA Handbook Section 3855 - *Financial Instruments - Recognition and Measurement* and Section 3861 - *Financial Instruments - Disclosure and Presentation* inclusively.

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations with the exception of financial instruments as explained in note 2 and include the following significant accounting policies:

#### **(a) Fund accounting**

The Corporation follows the restricted fund method of accounting for contributions.

#### **(b) Operating Fund**

The Corporation has established an operating fund for the organization's program delivery and administrative activities. This fund reports unrestricted resources and operating contributions. Expenses of the operating fund are limited to those agreed upon in the contribution agreement with the Atlantic Canada Opportunities Agency (ACOA) under the Community Futures dated March 17, 2011 and extensions thereto. The most recent contract dated May 2, 2013 Contract # 198908 Amendment # 2 provides for an for the period April 1, 2011 to March 31, 2014.

#### **(c) Investment Fund**

The Corporation has established an investment fund to hold and administer the loan portfolio of the Organization. These funds are restricted to investments meeting the mandate of the Organization and all investments are approved and monitored by the Board of Directors. All investment income earned must be reinvested in the fund. These funds cannot be used to cover administrative expenses unless authorized in writing by the Atlantic Canada Opportunities Agency (ACOA), except where the conditions as outlined in the Statement of Work of the Community Futures/CBDC agreement are met.

#### **(d) Investments - Loans Receivable**

Investments are recorded at the lower of cost and estimated realizable value.

Provision for loan impairment and collection costs related thereto are reported in the Investment fund.

#### **(e) Allowance for Loan Impairment**

Loans are classified for loan impairment into four categories. Category 'A' loans are loans which are deemed satisfactory as to credit risk and performance. An amount equal to of 2% of the balance of these loans is used as an allowance. Category 'B' loans are loans that are experiencing undesirable developments that are expected to be temporary in nature. The allowance for these loans is 20% or as determined on a loan by loan basis. Category 'C' loans are loans where serious adverse developments have

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) Allowance for Loan Impairment** (continued)

occurred and are unlikely to be overcome, or there is little or no chance of the loan being repaid from earnings. The allowance for these loans is determined on a loan by loan basis. Category 'D' loans are loans where the owners of the business have lost control due to bankruptcy, appointment of a receiver or bailiff, judgment pursuant to a mortgage bond held by another secured mortgagee, seizure of any assets, or where assets have been abandoned or deemed missing. The allowance for these loans is determined on a loan by loan basis.

**(f) Capital Assets**

Capital assets are stated at cost. Amortization is provided on the straight line basis using the following annual rates:

Furniture and equipment	20%
Computers	33%
Software	100%

One-half year's amortization is taken in the year of acquisition.

**(g) Externally restricted net assets**

ACOA and other organizations have agreements in place that restrict the use of funds such that they can only be used for the purpose for which they were provided.

**(h) Internally restricted net assets**

The Board of Directors has restricted an amount to serve as a contingency for the organization. The intention is to restrict funds annually until it accumulates to an amount equivalent to three months operations. These amounts can not be used without prior approval of the Board of Directors.

Net assets have been restricted by the amount of loan guarantees in effect at the year end date.

**(i) Use of Estimates**

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(j) Inter fund balances**

The inter fund advances are not-interest bearing, with no set terms of repayment.

**4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING**

The entity has adopted Canadian accounting standards for not-for-profit organizations for the year beginning April 1, 2011.

These financial statements are the first financial statements for which the entity has applied the Canadian accounting standards for not-for-profit organizations under PART III of the CICA Handbook, hereafter referred to as "ASNPO."

The financial statements for the year ended March 31, 2013 were prepared in accordance with the Canadian accounting standards for not-for-profit organizations and provisions set out in FIRST-TIME ADOPTION, Section 1501, for first-time adopters of this basis of accounting.

The impact of adopting these standards was accounted for in net assets at the date of transition, i.e. April 1, 2011 (beginning of the first fiscal period for comparison purposes). No changes in opening net assets resulted from a change from Canadian generally accepted accounting principles to Canadian accounting standards for not-for-profit

<b>Statement of Financial Position</b>	Based		Based
As at April 1, 2011	on previous	Changes	on
	financial		ASNPO
	statements	\$	\$
	\$	\$	\$
<b>ASSETS</b>			
Current assets			
Cash and term deposits	2,018,014	-	2,018,014
Receivables	31,700	-	31,700
HST refundable	8,022	-	8,022
Due from SEED fund	254,364	-	254,364
	<u>2,312,100</u>	-	<u>2,312,100</u>
Investments	6,226,165	-	6,226,165
Capital assets	4,534	-	4,534
	<u>8,542,799</u>	-	<u>8,542,799</u>

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

**4. IMPACT OF THE CHANGE IN THE BASIS OF ACCOUNTING** (continued)

Statement of Financial Position As at April 1, 2011	Based on previous financial statements \$	Changes \$	Based on ASNPO \$
<b>LIAIBILITIES</b>			
<b>Current liabilities</b>			
Due to operating fund	254,364	-	254,364
Due to ACOA - SEED	355,621	-	355,621
Payables and accrued liabilities	1,245	-	1,245
Current portion of long term debt	360,000	-	360,000
	971,230	-	971,230
Due to related parties	459,983	-	459,983
	1,431,213	-	1,431,213
<b>NET ASSETS</b>			
<b>Fund balances</b>			
Net assets invested in capital assets	4,534	-	4,534
Externally restricted net assets	6,802,040	-	6,802,040
Internally restricted net assets	175,000	-	175,000
Unrestricted net assets	130,012	-	130,012
	7,111,586	-	7,111,586
	8,542,799	-	8,542,799

**5. RECEIVABLES**

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
AACBDC	6,339	8,381
Due from employee	7,500	-
NSACBCDs	17,891	34,826
Other	7,241	10,286
Students In Business	1,250	2,750
	40,221	56,243

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended March 31, 2013

**6. INVESTMENTS - Loans receivable and equity investments**

	Loans to Business	Loan Guarantees	Loan Loss Reserve Fund	Loans to Students in Business	2013	2012
	\$	\$	\$	\$	\$	\$
<b>Loans and guarantees</b>	<b>6,042,771</b>	<b>172,000</b>	<b>386,429</b>	<b>98,284</b>	<b>6,699,484</b>	6,507,554
<b>Promissory note - ACCBIF Fund</b>	<b>37,500</b>	-	-	-	<b>37,500</b>	37,500
Less: Loan guarantees	-	(172,000)	-	-	(172,000)	(205,000)
<b>Total loan portfolio</b>	<b>6,080,271</b>	-	<b>386,429</b>	<b>98,284</b>	<b>6,564,984</b>	6,340,054
<b>Allowance for loan impairment</b> (Schedule 1)	<b>(518,067)</b>	-	<b>(18,198)</b>	-	<b>(536,265)</b>	(556,556)
<b>Total investments</b>	<b>5,562,204</b>	-	<b>368,231</b>	<b>98,284</b>	<b>6,028,719</b>	5,783,498

**Continuity of loans and investments**

	Loans to Business	Loan Guarantees	Loan Loss Reserve Fund	Loans to Students in Business	2013	2012
	\$	\$	\$	\$	\$	\$
<b>Loans and guarantees</b>						
<b>Balance, beginning of year</b>	<b>5,681,962</b>	-	<b>500,260</b>	<b>157,833</b>	<b>6,340,055</b>	7,018,673
Additions during the year	2,432,517	172,000	81	150,058	2,754,656	2,250,343
Loans repaid during the year	(1,731,314)	-	(113,912)	(188,349)	(2,033,575)	(2,466,196)
Loans written off during the year	(302,894)	-	-	(21,258)	(324,152)	(205,766)
Loan guarantees	-	(172,000)	-	-	(172,000)	(205,000)
Reduction in loan guarantees	-	-	-	-	-	(52,000)
<b>Balance, end of year</b>	<b>6,080,271</b>	-	<b>386,429</b>	<b>98,284</b>	<b>6,564,984</b>	6,340,054
<b>Allowance for loan impairment</b>						
<b>Balance, beginning of year</b>	<b>543,767</b>	-	<b>12,789</b>	-	<b>556,556</b>	587,507
Current year loss provision	(25,700)	-	5,409	-	(20,291)	(30,951)
<b>Balance, end of year</b>	<b>518,067</b>	-	<b>18,198</b>	-	<b>536,265</b>	556,556
<b>Total investments</b>	<b>5,562,204</b>	-	<b>368,231</b>	<b>98,284</b>	<b>6,028,719</b>	5,783,498

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
Year ended March 31, 2013

<b>7. CAPITAL ASSETS</b>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2013 \$ Net Book Value</u>	<u>2012 \$ Net Book Value</u>
Furniture and equipment	59,195	55,863	3,332	942
Computers	26,967	21,431	5,536	3,356
Software	5,154	5,154	-	70
	<u>91,316</u>	<u>82,448</u>	<u>8,868</u>	<u>4,368</u>

**8. FUNDS COLLECTED AND HELD IN TRUST**

The Corporation has been engaged to collect and administer 11 CEED loans in the amount of \$40,285 on behalf of NSACBDCs. The balance at March 31, 2013 is \$26,770 (2012 - \$20,589). The amounts collected on these loans are being held in trust.

	<u>2013 \$</u>	<u>2012 \$</u>
Balance, beginning of the year	13,515	-
Repaid to NSACBDC during the year	(13,515)	-
Funds collected during the year	<u>6,181</u>	<u>13,515</u>
Balance, end of the year	<u>6,181</u>	<u>13,515</u>

**9. DUE TO RELATED PARTIES**

The Corporation borrowed funds from the Atlantic Association of Community Business Development Corporations - Technology Fund. These loans bear no interest and are unsecured. The amount of principal collected is repayable monthly.

	<u>2013 \$</u>	<u>2012 \$</u>
	<u>82,462</u>	<u>136,881</u>
	<u>82,462</u>	<u>136,881</u>

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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**10. CREDIT FACILITY**

The organization has a Royal Bank Visa credit card with a \$5,000 credit limit.

**11. LEASE COMMITMENTS**

The organization has lease commitments for office rent and equipment as follows:

March 31, 2014	\$41,300
2015	\$34,800
2016	\$34,800
2017	3,700
2018	-

**12. FINANCIAL INSTRUMENTS**

The Corporation's financial instruments consist of cash and term deposits, receivables, investments, payables and accrued liabilities, payroll deductions payable, HST refundable and amounts due to related parties. Except as noted below, it is our opinion that the Corporation is not exposed to significant credit, interest rate, liquidity, or market risks arising from these financial instruments. Market risks result from changes in interest rates, exchange rates of foreign currencies and market prices of financial instruments.

The Corporation is exposed to financial risk that arises from the fluctuation in interest rates, and in the credit quality of its clients.

**Credit risk**

The organization by its very nature is subject to a much higher credit risk on its loan portfolio than are other lending organizations.

Our credit risk consists principally of cash and term deposits, receivables and investments.

We maintain cash and cash equivalents with reputable and major financial institutions. We consider the risk of non-performance of these instruments to be remote.

No client comprises more than 10% of the receivables and investments. There is no particular concentration of credit risk. We perform an ongoing credit review of all our clients and establish an allowance for loan impairment to estimate amounts that may not be collectible as set out in note 2(e).

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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## **12. FINANCIAL INSTRUMENTS (continued)**

### **Credit risk (continued)**

Atlantic Canada Opportunities Agency (ACOA) and the Atlantic Association of Community Business Development Corporations (AACBDC) have entered into an agreement dated June 28, 2012, to establish a Risk Mitigation Fund (RMF) under the auspices of the Business Development Program (BDP). This fund is to be used to fund 35% of the losses on qualified loan products. Loans granted after March 31, 2018 shall not qualify for coverage by the RMF. The amount covered is based upon the declining balance of the loan. Qualified loans products are (a) Youth Loan Products, (b) First-Time Entrepreneur Loan Products and (c) AACBDC pre-approved CBDC Innovation Loan Products.

### **Currency risk**

We are not exposed to currency risk as no sales or purchases are incurred in a foreign currency.

### **Interest rate risk**

We are exposed to interest rate risk with respect to the following financial instruments:

- Cash and cash equivalents
- Investments
- Amounts due to related parties

### **Liquidity risk**

We are exposed to liquidity risk in meeting our obligations associated with financial liabilities, which is dependent on receipt of funds from operations.

## **13. ECONOMIC DEPENDENCE**

The Corporation receives an annual contribution from the Atlantic Canada Opportunities Agency (ACOA) to cover operating expenses of the organization. The operations of the organization would be significantly affected by the loss of these contributions.

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**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year ended March 31, 2013**

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#### **14. CONTINGENCIES**

(a) Contingent liabilities

- (i) The organization as part of its mandate has provided loan guarantees to qualified businesses. In the event these businesses default on their loans, the organization may be required to pay on these loans up to the amount of the guarantee.

The amount of these loan guarantees as at March 31, 2013 was \$172,000 (2012 -\$30,000).

- (ii) On or about June 21, 2011, Blue Water received \$48,813 from the sale of the assets of Monster Pizza Inc. These funds were applied against the respective CORE loan (secured) and the balance against the SEED loan (unsecured) and legal fees relating to both.

Two letters, dated December 14, 2011, were received from the Canada Revenue Agency. One seeking to recover GST/HST in the amount of \$94,719 pursuant to subsections 222 (1) and/or 222 (3) of the Excise Tax Act on the proceeds from the sale of a business. The other seeking to recover \$38,051 under the Income Tax Act, Unemployment Insurance Act and the Canada Pension Plan. CRA contends that the Crown has a beneficial right in all the property of the employer and any proceeds arising from the property, to the extent of the total amount with a priority over any security interest, other than a prescribed security interest in such property.

According to our legal counsel, the main issue is priority among Blue Water as a secured creditor of Monster Pizza Inc. and whether CRA's claim against the property in priority to our secured interest is valid.

Our position is that, after legal costs of \$2,000, we received \$40,204 in satisfaction of the CORE loan and \$6,608 in satisfaction of the SEED loan and as such would only be subject to return \$6,608 as being subject to the deemed trust. This amount has been remitted.

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF ALLOWANCE FOR LOAN IMPAIRMENT**  
Year ended March 31, 2013

	<u>2013</u> \$	<u>2013</u> \$	<u>2013</u> \$	<u>2013</u> \$	<u>2013</u> \$
	Category A	Category B	Category C	Category D	Total
<b><u>Investment Fund</u></b>	5,378,111	556,994	578,298	87,797	6,601,200
Less: loan guarantees	(172,000)	-	-	-	(172,000)
	5,206,111	556,994	578,298	87,797	6,429,200
Student in Business	98,284	-	-	-	98,284
	5,304,395	556,994	578,298	87,797	6,527,484
ACCBIF Fund Investment	37,500	-	-	-	37,500
	<u>5,341,895</u>	<u>556,994</u>	<u>578,298</u>	<u>87,797</u>	<u>6,564,984</u>
<b>Allowance for loan impairment</b>	<u>104,122</u>	<u>122,850</u>	<u>224,980</u>	<u>84,313</u>	<u>536,265</u>

**Allowance as a percentage of the total loan portfolio**

8.2%

	<u>2012</u> \$	<u>2012</u> \$	<u>2012</u> \$	<u>2012</u> \$	<u>2012</u> \$
	Category A	Category B	Category C	Category D	Total
<b><u>Investment Fund</u></b>	4,822,495	526,386	736,982	88,858	6,174,721
Less: loan guarantees	(30,000)	-	-	-	(30,000)
	4,792,495	526,386	736,982	88,858	6,144,721
Student in Business	157,833	-	-	-	157,833
ACCBIF Fund Investment	37,500	-	-	-	37,500
	<u>4,987,828</u>	<u>526,386</u>	<u>736,982</u>	<u>88,858</u>	<u>6,340,054</u>
<b>Allowance for loan impairment</b>	<u>97,546</u>	<u>88,825</u>	<u>310,209</u>	<u>59,976</u>	<u>556,556</u>

**Allowance as a percentage of the total loan portfolio**

8.8%

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF OPERATIONS**  
Year ended March 31, 2013

	Operating Fund		
	Budget 2013	Actual 2013	Actual 2012
	\$	\$	\$
<b>Revenue</b>			
ACOA contribution - Community Futures	375,000	<b>375,000</b>	375,000
Sundry revenue (Schedule 3)	123,506	<b>144,750</b>	182,159
	<u>498,506</u>	<u><b>519,750</b></u>	<u>557,159</u>
<b>Expenditures</b>			
Advertising	4,550	<b>9,722</b>	12,310
Amortization	2,000	<b>2,597</b>	3,000
Bank charges	600	<b>1,622</b>	554
Credit checking	2,400	<b>1,389</b>	1,379
Equipment rental	5,080	<b>5,768</b>	5,226
Insurance	3,390	<b>3,495</b>	3,273
Meeting expenses	6,700	<b>7,246</b>	8,523
Memberships, dues and fees	3,280	<b>2,782</b>	2,884
Miscellaneous	2,800	<b>1,200</b>	299
Office supplies	7,500	<b>5,784</b>	7,888
Postage and courier	3,510	<b>1,884</b>	2,321
Professional fees - audit and accounting	14,650	<b>16,238</b>	16,690
Professional fees - legal and consulting	3,750	<b>9,628</b>	11,455
Rent and utilities	34,056	<b>34,999</b>	33,335
Repairs and maintenance	5,346	<b>4,261</b>	8,183
Salaries and wages	319,949	<b>275,622</b>	272,981
Salaries and wages - Youth Improvement Program	-	-	20,308
Salaries and wages - Co-op Student	-	-	10,154
Salaries and wages - statutory and group benefits	32,474	<b>24,386</b>	26,441
Salaries and wages - employee benefits - RRSP	-	<b>1,535</b>	16,661
Students in Business	-	<b>46,301</b>	46,920
Self Employment Benefits	7,960	<b>5,660</b>	-
Telecommunications	14,650	<b>14,054</b>	18,071
Training and development	16,416	<b>5,619</b>	6,831
Travel	59,600	<b>47,228</b>	46,321
	<u>550,661</u>	<u><b>529,020</b></u>	<u>582,008</u>
<b>Excess of revenue over expenditures (expenditures over revenue)</b>	<b>(52,155)</b>	<b>(9,270)</b>	<b>(24,849)</b>
Amounts transferred from Investment fund	52,155	<b>9,270</b>	24,849
<b>Excess of revenue over expenditures</b>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

**BLUE WATER BUSINESS DEVELOPMENT CORPORATION LIMITED**  
**SCHEDULE OF SUNDRY REVENUE**  
Year ended March 31, 2013

	Operating Fund		Investment	Total	Total
	Budget	Actual	Fund	2013	2012
	2013	2013	2013	2013	2012
	\$	\$	\$	\$	\$
<b>Sundry revenue</b>					
Student in Business Program	32,000	<b>48,000</b>	-	<b>48,000</b>	74,500
NSACBCD support services	-	<b>1,010</b>	-	<b>1,010</b>	28,290
Self Employment Benefit	49,906	<b>51,572</b>	-	<b>51,572</b>	25,794
Loan setup fees	-	-	<b>150</b>	<b>150</b>	16,379
Interest income	-	<b>2,846</b>	<b>16,103</b>	<b>18,949</b>	20,285
Co-op student	6,200	<b>4,387</b>	-	<b>4,387</b>	4,950
Loan application fees	30,000	<b>27,266</b>	-	<b>27,266</b>	5,710
Other	5,400	<b>9,669</b>	<b>17,634</b>	<b>27,303</b>	32,795
	<u>123,506</u>	<u><b>144,750</b></u>	<u><b>33,887</b></u>	<u><b>178,637</b></u>	<u>208,703</u>