

Blue Sea Philanthropy Inc.
Financial Statements
For the year ended December 31, 2017

Contents

| | |
|--|--------|
| Independent Auditor's Report | 2-3 |
| Financial Statements | |
| Balance Sheet | 4 |
| Statement of Operations and Net Assets | 5 |
| Statement of Cash Flows | 6 |
| Notes to the Financial Statements | 7 - 11 |
| Schedule of Program Costs | 12 |



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Independent Auditor's Report

To the Board of Directors of Blue Sea Philanthropy Inc.

We have audited the accompanying financial statements of Blue Sea Philanthropy Inc. which is comprised of the balance sheet as at December 31, 2017 and the statements of operations and net 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 accounting standards for not-for-profit organizations, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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.

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



Basis for Qualified Opinion

In common with many charitable organizations, the organization derives revenue from donations and fundraising, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the organization. Therefore, we were unable to determine whether any adjustments might be necessary to revenues, excess of revenue over expenses, assets and net assets.

The notes to the financial statements do not include the financial results of the controlled not-for-profit Blue Sea USA as we were not able to obtain satisfactory audit evidence for the years ended December 31, 2015, 2016 and 2017.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Waterloo, Ontario
June 22, 2018

**Blue Sea Philanthropy Inc.
Balance Sheet**

December 31 **2017** **2016**

Assets

Current

| | | | | |
|---------------------|----|---------|----|---------|
| Cash (Note 2) | \$ | 176,792 | \$ | 316,275 |
| Accounts receivable | | 27,797 | | 7,522 |
| HST receivable | | 31,663 | | 23,326 |
| Prepaid expenses | | 29,943 | | 45,346 |

266,195 **392,469**

Due from related party (Note 3) **6,281** **52,513**

Tangible capital assets (Note 4) **29,389** **30,108**

Trademarks (Note 5) **2** **2**

\$ 301,867 **\$ 475,092**

Liabilities and Net Assets

Current

| | | | | |
|--|----|---------|----|---------|
| Accounts payable and accrued liabilities | \$ | 139,160 | \$ | 348,397 |
| Deferred contributions (Note 6) | | 147,639 | | 66,000 |

286,799 **414,397**

Net assets

| | | |
|-----------------------|----------|--------|
| Internally restricted | 29,389 | 30,108 |
| Unrestricted | (14,321) | 30,587 |

15,068 **60,695**

\$ 301,867 **\$ 475,092**

On behalf of the Board:

_____ Director

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

Blue Sea Philanthropy Inc.
Statement of Operations and Net Assets

| For the year ended December 31 | 2017 | 2016 |
|---|---------------------|---------------------|
| Revenue | \$ 6,886,034 | \$ 6,168,311 |
| Direct Costs | | |
| Grant disbursements | 5,024,474 | 4,545,105 |
| Program costs (Schedule) | 1,509,019 | 1,310,345 |
| | 6,533,493 | 5,855,450 |
| | 352,541 | 312,861 |
| Expenses | | |
| Amortization | 9,194 | 6,827 |
| Insurance | 1,045 | 5,251 |
| Office supplies and miscellaneous | 39,437 | 46,142 |
| Professional fees | 55,002 | 25,644 |
| Rent | 35,596 | 36,462 |
| Staff training and development | 8,342 | 18,117 |
| Staffing | 150,420 | 269,799 |
| Telephone and communications | 22,127 | 20,284 |
| Travel and networking | 20,419 | 14,598 |
| Writedown of amount due from related party (Note 3) | 56,586 | - |
| | 398,168 | 443,124 |
| Deficiency of revenue over expenses for the year | (45,627) | (130,263) |
| Net assets, beginning of the year | 60,695 | 190,958 |
| Net assets, end of the year | \$ 15,068 | \$ 60,695 |

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

Blue Sea Philanthropy Inc. Statement of Cash Flows

| For the year ended December 31 | 2017 | 2016 |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Deficiency of revenue over expenses for the year | \$ (45,627) | \$ (130,263) |
| Item not involving cash | | |
| Amortization | 9,194 | 6,827 |
| Writedown of amount due from related party | 56,586 | - |
| Unrealized foreign exchange | (10,182) | - |
| | <u>9,971</u> | <u>(123,436)</u> |
| | | |
| Changes in non-cash working capital balances | | |
| Accounts receivable | (20,275) | 29,645 |
| HST receivable | (8,337) | (8,437) |
| Prepaid expenses | 15,403 | (145) |
| Accounts payable and accrued liabilities | (209,237) | 307,715 |
| Deferred contributions | 81,639 | (105,700) |
| | <u>(140,807)</u> | <u>223,078</u> |
| | (130,836) | 99,642 |
| Cash flows from investing activities | | |
| Purchase of tangible capital assets | (8,475) | (7,707) |
| Cash flows from financing activities | | |
| Advances to related parties | (172) | (52,513) |
| Increase (decrease) in cash during the year | (139,483) | 39,422 |
| Cash, beginning of year | 316,275 | 276,853 |
| Cash, end of year | \$ 176,792 | \$ 316,275 |

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

Blue Sea Philanthropy Inc. Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies

Nature of Operations The organization is incorporated without share capital under the laws of Canada and is engaged in the operation of running fundraising events for registered charities.

Basis of Accounting The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations (ASNPO).

Financial Instruments Financial instruments are recorded at fair value when acquired or issued. Subsequently, they are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

Tangible Capital Assets Tangible capital assets are stated at cost less accumulated amortization. Amortization is based on the estimated useful life of the asset and is calculated as follows:

Leasehold improvements - over the term of the lease
Office furniture and equipment - 20% diminishing balance
Computer equipment - 55% diminishing balance

When tangible capital assets no longer have any long-term service potential to the organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the tangible capital asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

Income Taxes The organization is a non-profit organization and, as such, is not subject to income taxes on its earnings.

Intangible Assets Purchased intangible assets are initially recorded at cost. Contributed intangible assets are recorded at fair value at the date of contribution.

Intangible assets with an indefinite life are not amortized.

Blue Sea Philanthropy Inc. Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies (continued)

| | |
|---|--|
| Revenue Recognition | <p>The organization follows the deferral method of accounting for contributions.</p> <p>All contributions received for current year events are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Contributions received for a future event are classified as deferred contributions and are recognized into revenue when the event takes place.</p> |
| Foreign Currency Translation | <p>Foreign currency accounts are translated to Canadian dollars as follows:</p> <p>At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current year.</p> |
| Contributed Materials and Services | <p>Volunteers contribute many hours per year to assist the organization in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements. Contributed materials are not recognized in the financial statements unless they would normally be purchased by the organization and their fair market value can be ascertained.</p> |
| Use of Estimates | <p>The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.</p> |

Blue Sea Philanthropy Inc. Notes to the Financial Statements

December 31, 2017

1. Summary of Significant Accounting Policies (continued)

| | |
|-----------------------------|---|
| Harmonized Sales Tax | The organization receives the public service bodies' rebate of 50% of the federal portion of the HST paid and 82% of the provincial portion of HST paid in Ontario. |
| Controlled Entities | Controlled not-for-profit organizations are not consolidated in the organization's financial statements. |

2. Cash

The organization's bank accounts are held at one chartered bank. The bank accounts earns interest at a nominal rate.

The cash balances includes \$33,007 denominated in U.S. dollars (2016 - \$32,879), converted to \$41,407 Canadian (2016 - \$44,146).

3. Due from Related Party

The amount due from related party balance represents the balance owed from Blue Sea USA, a controlled organization. The organization appoints the majority of Blue Sea USA's Board of Directors and, according to the bylaws, a decision cannot be passed without Blue Sea Philanthropy's Board of Director approval. Blue Sea USA is incorporated in the United States as a not-for-profit entity. The organization is engaged in the operation of running fundraising events for registered charities.

During the year, the balance was written down to the cash balance on hand (\$5,007 USD converted to \$6,281 Canadian).

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|-----------------|------------------|
| Opening | \$ 52,513 | \$ 7,497 |
| Advances | 172 | 45,016 |
| Unrealized foreign exchange | 10,182 | - |
| Allowance for uncollectible balance | (56,586) | - |
| | <u>\$ 6,281</u> | <u>\$ 52,513</u> |

Blue Sea Philanthropy Inc.
Notes to the Financial Statements

December 31, 2017

4. Tangible Capital Assets

| | 2017 | | 2016 | |
|-----------------------------------|------------------|-----------------------------|------------------|-----------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Leasehold improvements | \$ 16,847 | \$ 9,828 | \$ 16,847 | \$ 7,020 |
| Office furniture and equipment | 28,757 | 12,531 | 28,757 | 8,476 |
| Computer equipment | 8,475 | 2,331 | - | - |
| | \$ 54,079 | \$ 24,690 | \$ 45,604 | \$ 15,496 |
| Net book value | | \$ 29,389 | | \$ 30,108 |

5. Trademarks

The registered trademarks represent the rights to the names Coldest Night of the Year and Ride for Refuge and any goods and services associated with these events.

6. Deferred Contributions

| | 2017 | 2016 |
|--|-------------------|------------------|
| Balance, beginning of the year | \$ 66,000 | \$ 171,700 |
| Less amounts recognized as revenue in the current year | (66,000) | (171,700) |
| Add amounts received related to the next year | 147,639 | 66,000 |
| Balance, end of the year | \$ 147,639 | \$ 66,000 |

7. Commitment

Subsequent to year-end, the organization entered into an operating lease for additional office space. The lease expires in May 2021. The minimum annual lease payments for the term of the lease total \$33,930, plus the organizations portion of operating costs.

Blue Sea Philanthropy Inc.
Notes to the Financial Statements

December 31, 2017

8. Financial Instrument Risks

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. Financial instruments which potentially subject the organization to concentrations of credit risk consist of cash and accounts receivable. The organization has deposited its cash with a reputable financial institution, from which management believes the risk of loss to be remote. The credit risk on accounts receivable arises from donors and sponsors.

Liquidity Risk

Liquidity risk is the risk that the organization encounters difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from accounts payable and accrued liabilities.

Currency Risk

The organization undertakes revenue and purchase transactions in the normal course of business in foreign currencies and, therefore, is subject to gains and losses due to fluctuations in foreign currency exchange rates. Amounts denominated in foreign currencies have been disclosed in the financial statements.

The organization's exposure to the above risks is unchanged from the prior year.

**Blue Sea Philanthropy Inc.
Schedule of Program Costs**

| For the year ended December 31 | 2017 | 2016 |
|--------------------------------|---------------------|---------------------|
| Accommodation | \$ 8,164 | \$ 10,808 |
| Consulting fees | 10,914 | - |
| Courier and postage | 68,620 | 56,916 |
| Event clothing | 202,061 | 211,430 |
| Event portal | 95,536 | 107,172 |
| Facility and other rentals | 14,028 | 7,990 |
| Flights | 4,810 | 5,680 |
| Gas and mileage | 9,133 | 12,313 |
| Insurance | 37,426 | 43,470 |
| Meals and sundry | 20,900 | 24,561 |
| Merchant and bank charges | 120,053 | 105,413 |
| Partner development | 19,246 | 2,500 |
| Printed materials | 30,284 | 30,868 |
| Salaries and wages | 802,836 | 629,532 |
| Signage | 26,269 | 32,093 |
| Software and licenses | 13,579 | - |
| Staff training and development | 175 | - |
| Supplies and other | 13,200 | 9,549 |
| Telephone, office and other | 3,112 | - |
| Vehicle rental | 8,673 | 20,050 |
| | \$ 1,509,019 | \$ 1,310,345 |
