

COMMUNITY FUTURES HIGHWOOD

FINANCIAL STATEMENTS

MARCH 31, 2017

INDEPENDENT AUDITOR'S REPORT

**To: The Shareholders of
Community Futures Highwood**

We have audited the accompanying financial statements of Community Futures Highwood, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and changes in fund balances 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 Corporation'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 Corporation'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 audit opinion.

INDEPENDENT AUDITOR'S REPORT, continued

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Highwood as at March 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.

**CALGARY, ALBERTA
JULY 8, 2017**

Catalyst LLP
**CHARTERED PROFESSIONAL
ACCOUNTANTS**

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2017

	General Fund 2017	Restricted Loan Funds			Total 2017	Total 2016
		General 2017	Disabled 2017	Youth 2017		
Current assets						
Cash	\$ 156,536	\$ 442,627	\$ -	\$ -	\$ 108,915	\$ 708,078
Marketable securities	-	552,838	206,182	-	-	759,020
Accounts receivable	10,022	-	-	-	-	10,022
Prepaid expenditures	4,790	-	-	-	-	4,790
Interfund balances	-	-	535	53,489	-	54,024
Current portion of loans receivable (Note 3)	-	1,505,917	1,827	33,964	49,881	1,591,589
	<u>171,348</u>	<u>2,501,382</u>	<u>208,544</u>	<u>87,453</u>	<u>158,796</u>	<u>3,127,523</u>
Loans receivable (Note 3)	-	1,640,294	-	13,011	40,589	1,693,894
Capital assets (Note 4)	<u>37,919</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,919</u>
	<u>\$ 209,267</u>	<u>\$ 4,141,676</u>	<u>\$ 208,544</u>	<u>\$ 100,464</u>	<u>\$ 199,385</u>	<u>\$ 4,859,336</u>
Current liabilities						
Accounts payable and accrued liabilities	\$ 12,977	\$ -	\$ -	\$ -	\$ 180,985	\$ 193,962
Deferred revenue	24,580	-	-	-	-	24,580
Loan payable (Note 5)	-	882,884	-	-	-	882,884
Current portion of syndicated loans payable (Note 6)	-	6,913	-	-	-	6,913
Interfund balances	-	54,024	-	-	-	54,024
	<u>37,557</u>	<u>943,821</u>	<u>-</u>	<u>-</u>	<u>180,985</u>	<u>1,162,363</u>
Syndicated loans payable (Note 6)	-	-	-	-	-	6,991
Share capital (Note 7)	10	-	-	-	-	10
Fund balances						
Invested in capital assets	37,919	-	-	-	-	37,919
Externally restricted (Note 8)	-	3,197,855	208,544	100,464	18,400	3,519,177
Internally restricted (Note 9)	23,485	-	-	-	-	23,485
Unrestricted	110,296	-	-	-	-	110,296
	<u>171,700</u>	<u>3,197,855</u>	<u>208,544</u>	<u>100,464</u>	<u>18,400</u>	<u>3,696,963</u>
	<u>\$ 209,267</u>	<u>\$ 4,141,676</u>	<u>\$ 208,544</u>	<u>\$ 100,464</u>	<u>\$ 199,385</u>	<u>\$ 4,859,336</u>
Subsequent event (Note 10)						
Commitments (Note 11)						

Approved on behalf of the Board
Signature _____

The accompanying notes are an integral part of the financial statements

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF OPERATIONS
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2017

	General Fund		Restricted Loan Funds					
	2017	2016	General 2017	Disabled 2017	Youth 2017	Rotary 2017	Total 2017	Total 2016
Revenues								
Federal contracts	\$ 294,963	\$ 294,963	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Provincial contracts	-	100,558	-	-	-	-	-	-
Other	41,239	36,690	2,737	-	395	340	3,472	3,055
Rental (net)	37,513	28,578	-	-	-	-	-	-
Other interest	1,552	2,000	3,640	-	-	-	3,640	6,174
Interest on loans receivable	-	-	204,846	1,976	4,572	4,750	216,144	210,141
Unrealized gain on marketable securities	-	-	25,521	9,518	-	-	35,039	8,763
	<u>375,267</u>	<u>462,789</u>	<u>236,744</u>	<u>11,494</u>	<u>4,967</u>	<u>5,090</u>	<u>258,295</u>	<u>228,133</u>
Expenditures								
Salaries and benefits	245,841	227,033	-	-	-	-	-	-
Interest	-	-	21,662	-	-	-	21,662	18,713
Administrative costs (Schedule 1)	154,456	271,054	824	-	-	90	914	1,442
Allowance for loan impairment	-	-	180,224	-	46	-	180,270	48,868
Amortization of capital assets	15,334	19,285	-	-	-	-	-	-
	<u>415,631</u>	<u>517,372</u>	<u>202,710</u>	<u>-</u>	<u>46</u>	<u>90</u>	<u>202,846</u>	<u>69,023</u>
Excess (deficiency) of revenues over expenditures	(40,364)	(54,583)	34,034	11,494	4,921	5,000	55,449	159,110
Fund balances, beginning of year	162,701	183,843	3,213,184	197,050	95,543	13,400	3,519,177	3,393,508
Interfund transfers (Note 12)	49,363	33,441	(49,363)	-	-	-	(49,363)	(33,441)
Fund balances, end of year	\$ 171,700	\$ 162,701	\$ 3,197,855	\$ 208,544	\$ 100,464	\$ 18,400	\$ 3,525,263	\$ 3,519,177

The accompanying notes are an integral part of the financial statements

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2017

	Operating Activities		Financing and Investing Activities				Total 2017	Total 2016
	General Fund	General Fund	Restricted Loan Funds					
			General	Disabled	Youth	Rotary		
Sources of cash								
Federal contracts	\$ 294,963	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 294,963	\$ 319,543
Investment income	1,552	-	3,640	-	-	-	5,192	8,174
Other income	81,576	-	-	-	-	-	81,576	62,319
Rotary International	-	-	-	-	-	60,000	60,000	125,478
Loan advance	-	-	300,000	-	-	-	300,000	-
Loan repayments	-	-	881,183	92,362	58,714	44,405	1,076,664	1,924,505
	<u>378,091</u>	<u>-</u>	<u>1,184,823</u>	<u>92,362</u>	<u>58,714</u>	<u>104,405</u>	<u>1,818,395</u>	<u>2,440,019</u>
Uses of cash								
Operating costs	402,017	-	22,486	-	-	90	424,593	521,249
Purchase of capital assets	-	5,870	-	-	-	-	5,870	14,410
CFLIP loan	-	-	73,338	-	-	-	73,338	41,287
Syndicated loan repayment	-	-	28,800	-	-	-	28,800	330,137
Loan advances	-	-	1,181,773	51,827	8,000	15,000	1,256,600	1,253,341
Marketable securities	-	-	-	-	-	-	-	500,000
	<u>402,017</u>	<u>5,870</u>	<u>1,306,397</u>	<u>51,827</u>	<u>8,000</u>	<u>15,090</u>	<u>1,789,201</u>	<u>2,660,424</u>
Net increase (decrease) in cash	(23,926)	(5,870)	(121,574)	40,535	50,714	89,315	29,194	(220,405)
Cash, beginning of year	136,969	-	541,915	-	-	-	678,884	899,289
Inter-fund adjustments	43,493	5,870	22,286	(40,535)	(50,714)	19,600	-	-
Cash, end of year	<u>\$ 156,536</u>	<u>\$ -</u>	<u>\$ 442,627</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,915</u>	<u>\$ 708,078</u>	<u>\$ 678,884</u>

The accompanying notes are an integral part of the financial statements

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

1. Nature of operations

Community Futures Highwood (the 'Corporation') is a community based not-for-profit organization incorporated under the laws of Alberta. The Government of Canada, through the Department of Western Economic Diversification, provides financial assistance to the Corporation pursuant to an Agreement effective April 1, 2008. The purpose of the Corporation is to support community economic development, diversify the economy, support the creation and expansion of small and medium sized enterprises, maintain and create new employment and maintain the Minister's capacity to deliver business services to rural communities in Western Canada. The Corporation is exempt from federal or provincial income taxes under paragraph 149(1)(e) of the Income Tax Act.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

(a) Financial instruments

(i) Measurement of financial instruments

The Corporation initially measures its financial assets and liabilities at fair value, except for certain non arm's length transactions that are measured at the carrying amount or exchange amount, as appropriate.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at amortized cost on a straight line basis include cash, accounts receivable and loans receivable.

Financial liabilities measured at amortized cost on a straight-line basis include accounts payable and accrued liabilities, loan payable, syndicated loans payable, and operating lease commitments.

Financial assets measured at fair value include marketable securities.

(ii) Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

2. Significant accounting policies, continued

(a) Financial instruments, continued

(iii) Transaction costs

The Corporation recognizes its transaction costs in operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

(b) Measurement uncertainty

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures during the reporting period. The significant areas requiring the use of estimates includes allowance for loan impairment and useful lives for capital assets. These estimates are reviewed periodically, and as adjustments become necessary they are reported in operations in the period in which they become known.

(c) Loans receivable

Loans receivable are stated net of an allowance for loan impairment and net of any unearned interest. Loans receivable are considered to be impaired when, in management's opinion, there is a reasonable doubt as to the ultimate collectability of some portion of the principal or interest. Impaired loans are recorded at their estimated realizable amounts.

(d) Allowance for loan impairment

The allowance for loan impairment is maintained in an amount considered adequate to absorb anticipated credit related losses. This account is increased by the provision for impaired loans charged to operations in the case of non-repayable investment fund loans, and reduced by write-offs, net of recoveries.

Specific provisions are established on a loan by loan basis to absorb losses on all doubtful accounts that have been identified as a result of the Corporation's regular review of its loan portfolio.

Write-offs are recorded after all restructuring or collection activities have taken place and possibility of further recovery is considered to be remote.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

2. Significant accounting policies, continued

(e) Capital assets

Capital assets are recorded at cost. Amortization of capital assets is provided using the declining balance method at the following annual rates:

Furniture and office equipment	20% - 30%
Leasehold improvements	5 years straight line

Amortization is recorded at half of the annual rate in the year of acquisition of an asset and no amortization is recorded in the year of disposal. Amortization expense is reported in the General Fund.

(f) Impairment of long-lived assets

The Corporation tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

(g) Contributions

The Corporation's financial statements are prepared using the restricted fund method of accounting for contributions.

i. The General Fund accounts for the Corporation's program delivery and administrative activities. This fund reports unrestricted resources and restricted operating grants.

ii. The Restricted Loan Funds account for restricted resources that are to be used for assistance to small businesses and entrepreneurs in the form of loans, loan guarantees or equity participation. Loans from the Loan Investment Fund for the Disabled are limited to businesses owned and operated by disabled entrepreneurs. Youth loans are limited to businesses owned and operated by entrepreneurs between the ages of 18 and 29 at the time of application. The Rotary loans are available to High River businesses that meet specific financing criteria.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

2. Significant accounting policies, continued

(h) Revenue recognition

Restricted contributions related to general operations are recognized as revenue of the General Fund in the year in which the related expenditures are incurred.

Unrestricted contributions are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Rental revenue is recognized as revenue of the General Fund in the year received once the agreement has been made to rent space.

Interest on loans receivable and other interest income earned on the General, Disabled, Youth and Rotary Restricted Funds is recognized as revenue in the respective fund when earned.

Deferred revenue includes restricted contributions received in the year to be used for related expenditures in the next fiscal year's general operations.

3. Loans receivable

	2017	2016
Loans receivable	\$ 3,499,785	\$ 3,153,598
Allowance for impairment	(214,302)	(54,473)
	3,285,483	3,099,125
Less current portion	1,591,589	1,213,609
	\$ 1,693,894	\$ 1,885,516

In most cases a chattel mortgage, personal guarantees, or a second mortgage secures the loans. As the valuation of the underlying security cannot be ascertained with any degree of accuracy, a measurement of uncertainty exists in the valuation of loans and the allowance for loan impairment.

As at March 31, 2017, the Corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$214,302 (2016 - \$54,473) for loan impairment based on this review.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

3. Loans receivable, continued

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 3.00% to 8.25% with monthly blended principal and interest repayments for terms between 12 and 180 months.

Included in loans receivable are approved operating loans totalling \$1,522,982 (2016 - \$1,475,982). All operating loans are approved for a 12 month period and bear interest at rates varying from 5.00% to 8.25%. As at March 31, 2017, borrowers had drawn a combined total of \$1,296,173 (2016 - \$985,240) on these operating loans.

4. Capital assets

	2017		2016	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and office equipment	\$ 171,041	\$ 135,128	\$ 35,913	\$ 44,708
Leasehold improvements	8,345	6,339	2,006	2,675
	\$ 179,386	\$ 141,467	\$ 37,919	\$ 47,383

5. Bank financing arrangements

The Corporation has available a \$25,000 authorized overdraft line of credit for the operating fund bearing interest at bank prime plus 1% and secured by a borrowing resolution. The effective interest rate as at March 31, 2017 was 3.70%. The Corporation has a line of credit on a credit card of \$12,000 bearing interest at 19.99%. As at March 31, 2017, there was no balance outstanding on either line of credit. The Corporation also has available a \$1,500,000 operating loan with the Alberta Community Futures Association's CFLIP Program for the operating fund bearing interest at bank prime and secured by a borrowing resolution. The balance drawn on this loan was \$882,884 (2016 - \$656,222) as at March 31, 2017.

6. Syndicated loans payable

	2017		2016	
Syndicated loans payable	\$ 6,913	\$ 34,148		
Less current portion			6,913	27,157
	\$ -	\$ 6,991		

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

6. Syndicated loans payable, continued

The syndicated loan payable is due to other Community Futures organizations who are partners in certain syndicated loans. The loan is interest bearing at a fixed rate of 7.00% with monthly blended principal and interest repayments for a term of 5 years. The loan matures August 2017.

7. Share capital

	2017	2016
Issued		
10 Common voting shares	\$ 10	\$ 10

8. Externally restricted fund balances

Major categories of externally imposed restrictions on fund balances are as follows:

	2017	2016
Restricted loans and equity investments to entrepreneurs		
General	\$ 3,197,855	\$ 3,213,184
Disabled	208,544	197,050
Youth	100,464	95,543
Rotary	18,400	13,400
	\$ 3,525,263	\$ 3,519,177

During a prior year, the Department of Western Economic Diversification amended the terms and conditions of its contribution agreement with the Corporation. Under the revised terms and conditions the Conditionally Repayable Loan Funds are repayable if any of the specified conditions occur. No such conditions were present during the year ended March 31, 2017.

9. Internally restricted funds

Reserves were established to set aside surpluses for future operating and capital expenditures. Future use of these reserves is at the discretion of the Board of Directors.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

10. Subsequent event

Subsequent to the year end, the Corporation finalized a foreclosure on a building held as security for one of its loans receivable. The appraised value of the building is \$85,500, and the property is listed for sale at \$95,000. In addition to the building, the Corporation also holds a second mortgage on a personal residence as security for the loan receivable. The loan receivable balance outstanding as at March 31, 2017 was \$131,443 net of allowance for impairment. At the time of foreclosure, the loan receivable will be adjusted to buildings held for sale with any difference in the carrying amount of the loan receivable prior to foreclosure and fair value of the building less costs to sell being adjusted to operations.

11. Commitments

The Corporation's annual obligation under various operating leases is as follows:

2018	\$ 28,358
2019	28,358
2020	28,358
2021	<u>28,358</u>
	<u>\$ 113,432</u>

12. Interfund transfers

The General Restricted Fund transferred \$49,363 to the General Fund for salaries and benefits per the terms in the Contribution Agreement.

13. Economic dependence

The Corporation receives over 90% of its operating revenue from federal government contracts and is therefore economically dependent on the Government of Canada.

14. Financial instruments

The Corporation is exposed to various financial risks through transactions in financial instruments. The following provides helpful information in assessing the extent of the Company's exposure to these risks.

(a) 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 its accounts receivable and loans receivable.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

14. Financial instruments, continued

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, loan payable, syndicated loans payable, and operating lease commitments.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate financial instruments subject the Corporation to a fair value risk, while the floating-rate financial instruments subject the Corporation to a cash flow risk.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant currency risk or other price risks arising from these financial instruments.

COMMUNITY FUTURES HIGHWOOD
SCHEDULE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2017

Schedule of administrative costs

Schedule 1

		<u>2017</u>		<u>2016</u>
Professional fees	\$	41,415	\$	35,471
Rent		25,186		25,000
Sundry		23,738		11,468
Repairs and maintenance		15,620		17,766
Meetings and conventions		14,289		15,142
Office		11,445		15,318
Telephone		6,016		5,891
Advertising and promotion		5,228		2,648
Travel		3,530		6,963
Insurance		3,380		3,215
Non-refundable GST		2,569		3,524
Professional development		2,040		4,005
Special projects		-		124,644
		<u>154,456</u>		<u>271,055</u>
	\$	154,456	\$	271,055