

COMMUNITY FUTURES HIGHWOOD

FINANCIAL STATEMENTS

MARCH 31, 2016

COMMUNITY FUTURES HIGHWOOD
TABLE OF CONTENTS
MARCH 31, 2016

	Page
Independent Auditor's Report on Compliance	3
Independent Auditor's Report	4
Financial Statements	
Statement of Financial Position	6
Statement of Operations and Changes in Fund Balances	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Schedule of Administrative Costs	16

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To: Western Economic Diversification Canada

We have audited the Community Futures Highwood's compliance as at March 31, 2016 with the criteria established in the Contribution Agreement effective April 1, 2008 with Western Economic Diversification Canada and the interpretation of such agreement as set out in Note 1 to the financial statements. Compliance with the criteria established by the provisions of the agreement is the responsibility of the management of Community Futures Highwood. Our responsibility is to express an opinion on this compliance based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether Community Futures Highwood complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with these criteria, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2016, Community Futures Highwood is in compliance, in all material respects, with the criteria established in the Contribution Agreement.

Emphasis of Matter

Without modifying our opinion, we draw attention to the fact the audit report is prepared specifically for Community Futures Highwood and Western Economic Diversification and should not be distributed to parties other than these.

**CALGARY, ALBERTA
JULY 9, 2016**

**CHARTERED PROFESSIONAL
ACCOUNTANTS**

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, 2016 and the statements of operations and changes in fund balances and cash flows for the year ended March 31, 2016, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Highwood as at March 31, 2016, and the results of its operations, changes in fund balance and its cash flows for the year ended March 31, 2016 in accordance with Canadian accounting standards for not-for-profit organizations.

**CALGARY, ALBERTA
JULY 9, 2016**

**CHARTERED PROFESSIONAL
ACCOUNTANTS**

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2016

	General Fund 2016	Restricted Loan Funds			Total 2016	Total 2015
		General 2016	Disabled 2016	Youth 2016		
Current assets						
Cash	\$ 136,969	\$ 541,915	\$ -	\$ -	\$ -	\$ 678,884
Marketable securities	-	527,318	196,664	-	-	723,982
Accounts receivable	12,846	-	-	-	-	12,846
Prepaid expenditures	5,243	-	-	-	-	5,243
Interfund balances	-	51,883	-	2,775	-	54,658
Current portion of loans receivable (Note 3)	-	1,024,674	40,386	54,601	93,948	1,213,609
	<u>155,058</u>	<u>2,145,790</u>	<u>237,050</u>	<u>57,376</u>	<u>93,948</u>	<u>2,689,222</u>
Loans receivable (Note 3)	-	1,757,764	-	38,167	89,588	1,885,519
Capital assets (Note 4)	<u>47,383</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,383</u>
	<u>\$ 202,441</u>	<u>\$ 3,903,554</u>	<u>\$ 237,050</u>	<u>\$ 95,543</u>	<u>\$ 183,536</u>	<u>\$ 4,622,124</u>
Current liabilities						
Accounts payable and accrued liabilities	\$ 15,150	\$ -	\$ -	\$ -	\$ 155,478	\$ 170,628
Deferred revenue	24,580	-	-	-	-	24,580
Loan payable (Note 5)	-	656,222	-	-	-	656,222
Current portion of syndicated loans payable (Note 6)	-	27,157	-	-	-	27,157
Interfund balances	-	-	40,000	-	14,658	54,658
	<u>39,730</u>	<u>683,379</u>	<u>40,000</u>	<u>-</u>	<u>170,136</u>	<u>933,245</u>
Syndicated loans payable (Note 6)	-	6,991	-	-	-	6,991
Share capital (Note 7)	10	-	-	-	-	10
Fund balances						
Invested in capital assets	47,383	-	-	-	-	47,383
Externally restricted (Note 8)	-	3,213,184	197,050	95,543	13,400	3,519,177
Internally restricted (Note 9)	23,485	-	-	-	-	23,485
Unrestricted	91,833	-	-	-	-	91,833
	<u>162,701</u>	<u>3,213,184</u>	<u>197,050</u>	<u>95,543</u>	<u>13,400</u>	<u>3,681,878</u>
	<u>\$ 202,441</u>	<u>\$ 3,903,554</u>	<u>\$ 237,050</u>	<u>\$ 95,543</u>	<u>\$ 183,536</u>	<u>\$ 4,622,124</u>

Commitments (Note 10)

Approved on behalf of Board
Signature _____

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF OPERATIONS
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2016

	General Fund		Restricted Loan Funds					
	2016	2015	General 2016	Disabled 2016	Youth 2016	Rotary 2016	Total 2016	Total 2015
Revenues								
Federal contracts	\$ 294,963	\$ 294,963	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Provincial contracts	100,558	48,392	-	-	-	-	-	-
Other	36,690	52,068	2,695	-	270	90	3,055	6,342
Rental (net)	28,578	19,341	-	-	-	-	-	-
Other interest	2,000	2,904	6,174	-	-	-	6,174	12,557
Interest on loans receivable	-	-	192,179	386	5,298	12,278	210,141	209,851
Unrealized gain on marketable securities	-	-	4,838	3,925	-	-	8,763	6,879
	<u>462,789</u>	<u>417,668</u>	<u>205,886</u>	<u>4,311</u>	<u>5,568</u>	<u>12,368</u>	<u>228,133</u>	<u>235,629</u>
Expenditures								
Salaries and benefits	227,033	202,770	-	-	-	-	-	-
Interest	-	-	18,713	-	-	-	18,713	21,378
Administrative costs (Schedule 1)	271,054	230,072	1,442	-	-	-	1,442	689
Allowance for loan impairment	-	-	47,302	-	1,566	-	48,868	32,082
Amortization of capital assets	19,285	11,935	-	-	-	-	-	-
	<u>517,372</u>	<u>444,777</u>	<u>67,457</u>	<u>-</u>	<u>1,566</u>	<u>-</u>	<u>69,023</u>	<u>54,149</u>
Excess (deficiency) of revenues over expenditures	(54,583)	(27,109)	138,429	4,311	4,002	12,368	159,110	181,480
Fund balances, beginning of year	183,843	181,952	3,108,196	192,739	91,541	1,032	3,393,508	3,241,028
Interfund transfers (Note 11)	33,441	29,000	(33,441)	-	-	-	(33,441)	(29,000)
Fund balances, end of year	<u>\$ 162,701</u>	<u>\$ 183,843</u>	<u>\$ 3,213,184</u>	<u>\$ 197,050</u>	<u>\$ 95,543</u>	<u>\$ 13,400</u>	<u>\$ 3,519,177</u>	<u>\$ 3,393,508</u>

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2016

	Operating Activities		Financing and Investing Activities				Total 2016	Total 2015
	General	General	Restricted Loan Funds					
	Fund	Fund	General	Disabled	Youth	Rotary		
Sources of cash								
Federal contracts	\$ 319,543	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 319,543	\$ 294,963
Investment income	2,000	-	6,174	-	-	-	8,174	10,084
Other income	62,319	-	-	-	-	-	62,319	112,120
Rotary International	-	-	-	-	-	125,478	125,478	30,000
Loan repayments	-	-	1,854,297	-	24,715	45,493	1,924,505	1,483,811
	<u>383,862</u>	<u>-</u>	<u>1,860,471</u>	<u>-</u>	<u>24,715</u>	<u>170,971</u>	<u>2,440,019</u>	<u>1,930,978</u>
Uses of cash								
Operating costs	500,994	-	20,255	-	-	-	521,249	470,028
Purchase of capital assets	-	14,410	-	-	-	-	14,410	27,121
CFLIP loan	-	-	41,287	-	-	-	41,287	34,622
Syndicated loan repayment	-	-	330,137	-	-	-	330,137	60,787
Loan advances	-	-	1,142,976	40,000	10,275	60,090	1,253,341	1,360,546
Marketable securities	-	-	500,000	-	-	-	500,000	-
	<u>500,994</u>	<u>14,410</u>	<u>2,034,655</u>	<u>40,000</u>	<u>10,275</u>	<u>60,090</u>	<u>2,660,424</u>	<u>1,953,104</u>
Net increase (decrease) in cash	(117,132)	(14,410)	(174,184)	(40,000)	14,440	110,881	(220,405)	(22,126)
Cash, beginning of year	235,070	-	664,219	-	-	-	899,289	921,415
Inter-fund adjustments	19,031	14,410	51,880	40,000	(14,440)	(110,881)	-	-
Cash, end of year	<u>\$ 136,969</u>	<u>\$ -</u>	<u>\$ 541,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 678,884</u>	<u>\$ 899,289</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

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 net income.

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

The Corporation's 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, 2016

2. Significant accounting policies (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 area 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, 2016

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. 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.

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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

2. Significant accounting policies (continued)

h) Revenue recognition (continued)

Interest income 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

	<u>2016</u>	<u>2015</u>
Loans receivable	\$ 3,153,601	\$ 3,694,083
Allowance for impairment	<u>54,473</u>	<u>95,052</u>
	3,099,128	3,599,031
Current portion	<u>1,213,609</u>	<u>1,346,388</u>
Long-term portion	<u>\$ 1,885,519</u>	<u>\$ 2,252,643</u>

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, 2016, the Corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$54,473 (2015 - \$95,052) for loan impairment based on this review.

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 \$1,475,982 (2015 - \$1,712,582). 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, 2016, borrowers had drawn a combined total of \$985,240 (2015 - \$1,075,912) on these operating loans.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

4. Capital assets

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and office equipment	\$ 165,171	\$ 120,463	\$ 44,708	\$ 52,258
Leasehold improvements	<u>8,345</u>	<u>5,670</u>	<u>2,675</u>	<u>-</u>
	<u>\$ 173,516</u>	<u>\$ 126,133</u>	<u>\$ 47,383</u>	<u>\$ 52,258</u>

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, 2016 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, 2016, 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 \$656,222 (2015 – \$697,509) as at March 31, 2016.

6. Syndicated loans payable

	<u>2016</u>	<u>2015</u>
Syndicated loans payable	\$ 34,148	\$ 355,509
Current portion	<u>27,157</u>	<u>37,253</u>
Long term portion	<u>\$ 6,991</u>	<u>\$ 318,256</u>

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 June 2017.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

7. Share capital

	<u>2016</u>	<u>2015</u>
Issued:		
10 Common voting shares	<u>\$ 10</u>	<u>\$ 10</u>

8. Externally restricted fund balances

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

	<u>2016</u>	<u>2015</u>
Restricted to loans and equity investments to entrepreneurs		
General	\$ 3,213,184	\$ 3,108,196
Disabled	197,050	192,739
Youth	95,543	91,541
Rotary	<u>13,400</u>	<u>1,032</u>
	<u>\$ 3,519,177</u>	<u>\$ 3,393,508</u>

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, 2016.

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.

10. Commitments

The Corporation's annual obligation under an operating lease for office equipment is as follows:

2017	\$ 3,358
2018	\$ 3,358
2019	\$ 3,358
2020	\$ 3,358

11. Interfund transfers

The General Restricted Fund transferred \$33,441 to the General Fund for salaries and benefits per the terms in the Contribution Agreement.

12. 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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016

13. Comparative figures

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

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 Corporation'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 relate to its accounts receivable and loans receivable.

(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 OF ADMINISTRATIVE COSTS
FOR THE YEAR ENDED MARCH 31, 2016

Schedule 1

	<u>2016</u>	<u>2015</u>
Special projects	\$124,644	\$ 82,715
Professional fees	35,471	34,100
Rent	25,000	25,000
Repairs and maintenance	17,766	16,343
Office	15,318	11,731
Meetings and conventions	15,142	14,244
Sundry	11,468	13,358
Travel	6,963	4,367
Telephone	5,891	7,964
Professional development	4,005	5,595
Non-refundable GST	3,524	3,471
Insurance	3,215	3,827
Advertising and promotion	<u>2,648</u>	<u>7,357</u>
	<u>\$271,055</u>	<u>\$230,072</u>