

Draft - For management only

**Community Futures
Northwest Alberta
Financial Statements**
March 31, 2015

Auditors' Report

To the Board of Directors of
Community Futures Northwest Alberta

Report on the Financial Statements

We have audited the accompanying financial statements of Community Futures Northwest Alberta, which comprise the balance sheet as at March 31, 2015, and the statements of earnings and changes in unrestricted and internally restricted net assets, earnings and changes in restricted 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 consolidated 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 auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Northwest Alberta as at March 31, 2015, the results of its operations, change in unrestricted and restricted net assets and its cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

Peace River, Alberta
August 12, 2014

MNP LLP
Chartered Accountants

Community Futures Northwest Alberta

Balance Sheet

As at March 31, 2015

	<u>Loan Investment Funds</u>				2015	2014
	General Fund	Repayable	Non-Repay	Disabled		
						(Restated) Note 14
Assets						
Current						
Cash in bank	103,527	2,592	381,171	18,033	505,323	497,807
Accounts receivable	5,565	24,336	64,315	553	94,769	88,881
Prepaid expenses	3,834	-	1,628	-	5,462	4,936
Assets held for resale	-	115,000	110,000	-	225,000	160,000
Current portion of loans (Note 5)	-	38,186	748,082	29,627	815,895	848,696
	112,926	180,114	1,305,196	48,213	1,646,449	1,600,320
Property and equipment (Note 3)	221,504	-	-	-	221,504	230,557
Investment loan receivable (Note 5)	-	114,557	2,244,245	88,881	2,447,683	2,546,085
Total assets	334,430	294,671	3,549,441	137,094	4,315,636	4,376,962
Liabilities and fund balances						
Current						
Bank indebtedness	-	-	-	-	-	-
Short-term debt (Note 7)	-	-	300,000	-	300,000	500,000
Accounts payable	51,497	-	2,528	-	54,025	30,632
Deferred revenue (Note 8)	47,276	-	-	-	47,276	92,513
Current portion of long-term debt (Note 9)	8,287	-	-	-	8,287	8,149
	107,060	-	302,528	-	409,588	631,294
Long-term debt (Note 9)	120,992	-	-	-	120,992	129,019
	228,052	-	302,528	-	530,580	760,313
Net Assets						
Invested in property and equipment (Note 10)	92,225	-	-	-	92,225	93,390
Externally restricted (Note 6)	-	294,671	3,246,913	137,094	3,678,678	3,516,682
Internally restricted	50,000	-	-	-	50,000	-
Unrestricted	(35,847)	-	-	-	(35,847)	6,577
	106,378	294,671	3,246,913	137,094	3,785,056	3,616,649
Total liabilities and fund balances	334,430	294,671	3,549,441	137,094	4,315,636	4,376,962

Approved on behalf of the Board

Director

Director

See accompanying notes to the financial statements

Community Futures Northwest Alberta
Statement of Earnings and Changes in Unrestricted and Internally Restricted Net Assets

Year Ended March 31, 2015

	2015	2014
		(Restated) Note 14
Revenue		
WD contribution	319,963	319,963
Residence	3,252	10,375
Other	148,909	188,414
	472,124	518,752
Operating expenses		
Accounting and audit	14,145	9,617
Advertising and promotion	8,281	14,484
Amortization	9,053	9,053
Bank charges	1,315	450
Board members expenses	5,193	3,798
Business development expenses	4,500	625
Wages and contract services	216,910	211,920
General manager - expenses	12,539	16,040
Insurance	8,112	5,234
Interest on long-term debt	5,322	5,312
Meeting and travel expenses	4,974	5,014
Office manager expenses	89	1,756
Office expenses	21,565	26,486
Programming	-	2,004
Property tax	2,470	664
Rent	30,000	36,889
Repairs and maintenance	8,048	9,496
Residence	5,883	10,698
Small equipment purchases	2,610	4,808
Special projects	79,651	97,162
Subscriptions and memberships	1,368	6,302
Telephone and facsimile	17,107	20,296
Utilities	6,577	2,173
	465,712	500,281
Net earnings for the year	6,412	18,471
Unrestricted and internally restricted net assets, beginning of year as previously stated	(13,191)	(14,566)
Prior period adjustment (Note 14)	19,768	-
Unrestricted and internally restricted net assets, beginning of year as restated	6,577	(14,566)
Transfer from restricted funds	-	10,000
Transfer to (from) investment in property and equipment	1,164	(7,328)
Unrestricted and internally restricted net assets, end of year	14,153	6,577

See accompanying notes to the financial statements

Community Futures Northwest Alberta
Statement of Earnings and Changes in Restricted Net Assets
Year Ended March 31, 2015

	<i>Loan Investment Funds</i>			2015	2014
	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Revenue					
Interest on bank deposits	332	1,050	124	1,506	1,302
Interest on loans	23,891	262,171	12,940	299,002	258,843
Recovery of expenses	1,550	-	-	1,550	650
	25,773	263,221	13,064	302,058	260,795
Expenses					
Bad debts expense (recovery)	80,361	27,000	-	107,361	45,500
Bank charges and interest on debt	13,723	718	-	15,441	18,588
Client support	-	9,716	-	9,716	14,770
Collection costs	-	7,544	-	7,544	15,411
	94,084	45,978	-	140,062	94,269
Net earnings for the year	(68,311)	217,243	13,064	161,996	166,526
Interfund transfers	(201,027)	255,371	(54,344)	-	-
Transfers to operating fund	-	-	-	-	(10,000)
Earned fund balance, beginning of year	189,009	1,484,876	(21,626)	1,602,259	1,445,733
Earned fund balance, end of year	(130,329)	1,957,490	(62,906)	1,764,255	1,602,259
Original contributions	425,000	1,289,423	200,000	1,914,423	1,914,423
Total fund balance, end of year (Note 6)	294,671	3,246,913	137,094	3,678,678	3,516,682

See accompanying notes to the financial statements

Community Futures Northwest Alberta
Statement of Cash Flows
Year Ended March 31, 2015

	Operating Activities	Financing and Investing Activities			2015	2014
	General Fund	Loan Investment Funds				
		Repayable	Non-Repay	Disabled		
Sources of Cash						
WD Contribution	319,963	-	-	-	319,963	319,963
Investment income	-	34,080	244,919	12,795	291,794	298,531
Other revenue	154,987	1,550	-	-	156,537	163,949
Inter-fund transfers	-	-	255,371	-	255,371	170,748
Transfer from restricted funds	-	-	-	-	-	99,205
Investment loan repayments	-	129,157	1,068,167	27,463	1,224,787	1,405,162
	474,950	164,787	1,568,457	40,258	2,248,452	2,457,558
Uses of Cash						
Contracted services and wages	216,912	-	-	-	216,912	194,187
Materials and services	264,729	13,723	16,368	-	294,820	352,727
Repayment of short-term debt	-	-	200,000	-	200,000	450,000
Purchase of property and equipment	-	-	-	-	-	8,531
Mortgage repayment	7,888	-	-	-	7,888	7,850
Investment loan advances	-	10,259	1,255,686	-	1,265,945	1,354,141
Transfer to operating fund	-	-	-	-	-	10,000
Inter-fund transfers	-	201,027	-	54,344	255,371	259,953
	489,529	225,009	1,472,054	54,344	2,240,936	2,637,389
Net increase (decrease) in cash	(14,579)	(60,222)	96,403	(14,086)	7,516	(179,831)
Cash, beginning of year	118,106	62,814	284,768	32,119	497,807	677,638
Cash, end of year	103,527	2,592	381,171	18,033	505,323	497,807
Cash consists of:						
Cash in bank	103,527	2,592	381,171	18,033	505,323	497,807

See accompanying notes to the financial statements

Community Futures Northwest Alberta
Notes to the Financial Statements
March 31, 2015

1. Purpose of the organization

Community Futures Northwest Alberta is a community-based organization that provides loans and financial services to small businesses that are otherwise unable to obtain financing. The corporation is incorporated under the Alberta Companies Act as a non-profit organization. It is exempt from income taxes under the Income Tax Act as a non-profit organization.

The Community Futures Northwest Alberta (CFNA) was incorporated under the Business Corporations Act of the Province of Alberta on December 19, 1988 and commenced operational procedures under the auspices of the Ministry of Employment and Immigration Canada as part of the program for Canadian Job Strategy on April 18, 1989. On November 1, 1994, Northwest Community Futures Business Development Corporation assumed the operations of Northwest Economic Initiative Committee, and changed their name to MacKenzie Economic Development Corporation. Effective April 1, 2007, its name changed to Community Futures Northwest Alberta.

2. Significant accounting policies

Revenue Recognition — Restricted Fund Method

Community Futures Northwest Alberta follows the restricted method of accounting for contributions.

The General Fund accounts for the organization's operating costs and general revenues. This fund reports unrestricted resources and restricted operating grants.

The Investment Fund reports 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 Investment Fund for the Disabled are limited to businesses owned and operated by disabled entrepreneurs. The organization is restricted in the types of loans that can be made according to its agreement with the federal government.

Property and equipment

Property and equipment over \$2,500 are recorded at cost and are amortized over their estimated useful lives on a straight line basis as follows:

Furniture	5 years
Office equipment	5 years
Vehicles	6 years
Buildings	25 years

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Measurement Uncertainty

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 revenues and expenses during the reporting period.

Accounts receivable and loans receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of Property and Equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Community Futures Northwest Alberta
Notes to the Financial Statements
March 31, 2014

2. Significant accounting policies (continued)

Financial Instruments

Held for trading

The organization has classified the following financial assets as held for trading: cash and short term deposits. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in excess of revenues over expenses.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in excess of revenues over expenses.

Loans and receivables

The organization has classified the following financial assets as loans and receivables: trade accounts receivable and long term loans receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in excess of revenues over expenses.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate method, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and less any reduction for impairment or uncollectibility. Gains or losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

Other financial liabilities

The organization has classified the following financial liabilities as other financial liabilities: trade accounts payable and long term debt. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Transactions to purchase or sell these items are recorded on the settlement date and transaction costs are immediately recognized in excess of revenues over expenses.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the amount at which the financial liabilities expected life, or other appropriate period, to its net carrying value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method or any difference between that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in excess of revenues over expenses upon derecognition or impairment.

Long-lived assets and discontinued operations

Long-lived assets consist of property, plant and equipment with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The organization performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in earnings for the year.

Long-lived assets are classified as held for sale when all of the following criteria are met:

- The Board of Directors, having the authority to approve the action, commits the organization to a plan to sell the assets;
- The asset is available for immediate sale in its present condition;
- The organization has initiated an active program to locate a buyer;
- The sale is probable, and is expected to qualify for recognition as a completed sale within one year;
- The asset is being actively marketed for sale at a reasonable price relative to its fair value; and
- It is unlikely that the plan to sell the asset will be withdrawn or that significant changes will be made to the plan.

Long-lived assets classified as held for sale are initially measured at the lower of the carrying amount and fair value less costs to sell, and are not amortized. Subsequent increases in fair value not in excess of the cumulative loss previously recorded are recognized as gains.

Community Futures Northwest Alberta
Notes to the Financial Statements
 March 31, 2015

3. Property and equipment

	Cost	Accumulated Depreciation	2015 Net Book Value	2014 Net Book Value
Land	76,800	-	76,800	76,800
Furniture	9,976	9,976	-	-
Buildings	183,666	44,080	139,586	146,933
Office equipment	103,573	98,455	5,118	6,824
	374,015	152,511	221,504	230,557

4. Allowance for Credit Loss

An allowance for losses on investment loans is made based on expected loan default rates, potential loss ratios and review of loan portfolios, as determined by management, as follows:

	2014 Ending Balance	Written Off	Deemed Collectible/ Collected	Provision for Credit Losses	2015 Ending Balance
Loan Investment Fund - Repayable	150,000	(80,187)	-	145,187	115,000
Loan Investment Fund - Non - Repayable	118,404	(2,000)	-	27,000	143,404
	268,404	(82,187)	-	172,187	258,404

Actual write-offs, net of recoveries, will be deducted from the allowance for credit losses. The provision for credit losses in the statement of income and changes in fund balances is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

5. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 8.25% to 10% with monthly principal and interest repayments amortized for terms between 12 and 60 months. Security is taken on these loans as appropriate to the situation, and includes personal guarantees, general security agreements covering business assets and mortgages on land and building. This security is usually subordinated to those of a primary lender.

	Repayable	Non-Repay	Disability	2015 Total	2014 Total
Investment loans receivable	267,743	3,135,731	118,508	3,521,982	3,563,185
Less: Allowance for credit loss	115,000	143,404	-	258,404	168,404
	152,743	2,992,327	118,508	3,263,578	3,394,781
Less: Current portion	38,186	748,082	29,627	815,895	848,696
	114,557	2,244,245	88,881	2,447,683	2,546,085

Community Futures Northwest Alberta
Notes to the Financial Statements
 March 31, 2015

6. Externally Restricted Net Assets

	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>	<i>Total</i>
Balance, beginning of year	564,009	2,774,299	178,374	3,516,682
Net earnings	(68,311)	237,243	13,064	161,996
Inter-fund Transfers	(201,027)	255,371	(54,344)	-
Balance, end of year	294,671	3,246,913	137,094	3,678,678

Restricted net assets consist of:

Contributions	225,000	1,289,423	200,000	1,914,423
Accumulated earnings and transfers	70,698	1,702,119	(8,562)	1,764,255
Inter-fund Transfers	(201,027)	255,371	(54,344)	-
Balance, end of year	294,671	3,246,913	137,094	3,678,678

Under the terms and conditions of the contribution agreement between the Corporation and the Department of Western Economic Diversification, the Conditionally Repayable Loan Funds are repayable if any of the following conditions occur:

- i. The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this Agreement; or
- ii. Based on reviews and evaluations of the operations and the Conditionally Repayable Investment Fund of the Corporation, the Conditionally Repayable Investment Fund is not providing a satisfactory level of benefits in terms of employment creation, the development of Community-owned or controlled businesses, and strengthening of the western Canadian economy; or
- iii. In the opinion of the Minister, the Conditionally Repayable Investment Fund is no longer necessary or relevant to the development of the western Canadian economy; or
- iv. The Agreement is Terminated as described in Section 16; or
- v. An event of default occurs, as described in Section 17 of the Agreement

Community Futures Northwest Alberta
Notes to the Financial Statements
 March 31, 2015

7. Short-term line of credit

The organization holds a line of credit totalling \$1,750,000 of which \$300,000 was drawn as of March 31, 2015 (2014 – \$500,000). The interest rate included on the line of credit is fixed at prime at the date of initial draw down. Funds can be drawn in increments of \$50,000. The line of credit is payable on demand and in any case not later than sixty (60) months following the date of the first loan advance. Amount is secured by a demand promissory note executed by the organization and related general security agreement securing all assets and undertakings of the borrower.

8. Deferred revenue

	2015	2014 (Restated) Note 14
Western Economic Diversification	-	29,333
RABC Funding	47,276	63,180
	47,276	92,513

9. Long term debt

	2015	2014
CIBC building mortgage with monthly payments of \$1,097 including interest at prime plus 0.8% (2014 - prime plus 0.8%), due July 2027, secured by the related building with a carrying value of \$172,886 (2014 - \$180,232)	129,279	137,168
Less: current portion	8,287	8,149
	120,992	129,019

Principal payments over the next five years are as follows:

2015	8,287
2016	8,625
2017	8,976
2018	9,342
2019	9,722

10. Investment in Property and Equipment

	2015	2014
Balance, beginning of year	93,390	86,062
Mortgage repayment	7,888	7,850
Purchase of property and equipment	-	8,531
Amortization of property and equipment	(9,053)	(9,053)
	92,225	93,390

Community Futures Northwest Alberta
Notes to the Financial Statements
March 31, 2015

11. Economic Dependence

The Corporation receives 68% (2014 - 62%) of its operating revenue from the federal government and is economically dependant upon it.

12. Financial instruments

The organization as part of its operations carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest rate, currency or credit risks arising from these financial instruments except as otherwise disclosed.

13. Commitments

As of March 31, 2015, the corporation had four loans that have been approved but not disbursed for \$250,000 (2014 – three loans for \$340,000).

14. Prior period adjustments

The organization has restated its financial statements for vacation accrual in the prior year that was not set up and to adjust deferred revenue to actual. The adjustments to correct these balances are as follows:

	2015	2014
Adjustments to opening unrestricted net assets		
As previously reported	(13,191)	(14,566)
Adjusted for vacation accrual	(17,732)	-
Adjusted for deferred revenue	37,500	-
As restated	6,577	(14,566)
		2014
Adjustments to deferred revenue:		
As previously reported		130,013
Adjustment for grant revenue previously recognized		(37,500)
		92,513
		2014
Adjustments to vacation accrual		
As previously reported		-
Adjustment for vacation accrual that was not set up in the prior year		17,732
		17,732

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