

**Community Futures
Northwest Alberta
Financial Statements**
March 31, 2014

Community Futures Northwest Alberta

Table of Contents

Year Ended March 31, 2014

	Page
Auditors' Report.....	1
Financial Statements	
Balance Sheet.....	2
Statement of Earnings and Changes in Unrestricted and Internally Restricted Net Assets.....	3
Statement of Earnings and Changes in Restricted Net Assets.....	4
Statement of Cash Flows.....	5
Notes to the Financial Statements.....	6-11

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, 2014, 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 generally accepted accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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, 2014, the results of its operations, change in unrestricted and restricted net assets and its cash flows for the year ended in accordance with Canadian generally accepted accounting principles.

Peace River, Alberta
August 12, 2014

MNP LLP
Chartered Accountants

Community Futures Northwest Alberta

Balance Sheet

As at March 31, 2014

	<u>Loan Investment Funds</u>				2014	2013
	<i>General</i>	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
	<i>Fund</i>					
Assets						
Current						
Cash in bank	118,106	62,814	284,768	32,119	497,807	677,638
Accounts receivable	8,391	34,193	46,013	284	88,881	123,367
Prepaid expenses	3,226	-	1,710	-	4,936	10,845
Assets held for resale	-	50,000	110,000	-	160,000	160,000
Inter-fund receivable	-	-	-	-	-	456
Current portion of loans (Note 5)	-	104,251	707,952	36,493	848,696	872,825
	129,723	251,258	1,150,443	68,896	1,600,320	1,845,131
Property and equipment (Note 3)	230,557	-	-	-	230,557	231,079
Investment loan receivable (Note 5)	-	312,751	2,123,856	109,478	2,546,085	2,618,477
Total assets	360,280	564,009	3,274,299	178,374	4,376,962	4,694,687
Liabilities and fund balances						
Current						
Bank indebtedness	-	-	-	-	-	-
Short-term debt (Note 7)	-	-	500,000	-	500,000	950,000
Accounts payable	12,900	-	-	-	12,900	30,834
Deferred revenue (Note 8)	130,013	-	-	-	130,013	136,728
Inter-fund payable	-	-	-	-	-	456
Current portion of long-term debt (Note 9)	8,149	-	-	-	8,149	7,850
	151,062	-	500,000	-	651,062	1,125,868
Long-term debt (Note 9)	129,019	-	-	-	129,019	137,167
	280,081	-	500,000	-	780,081	1,263,035
Net Assets						
Invested in property and equipment (Note 10)	93,390	-	-	-	93,390	86,062
Externally restricted (Note 6)	-	564,009	2,774,299	178,374	3,516,682	3,360,156
Unrestricted	(13,191)	-	-	-	(13,191)	(14,566)
	80,199	564,009	2,774,299	178,374	3,596,881	3,431,652
Total liabilities and fund balances	360,280	564,009	3,274,299	178,374	4,376,962	4,694,687

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

	2014	2013
Revenue		
WD contribution	319,963	319,963
Residence	10,375	14,600
Other	150,914	160,810
	481,252	495,373
Operating expenses		
Accounting and audit	9,617	7,795
Advertising and promotion	14,484	6,942
Amortization	9,053	7,347
Bank charges	450	496
Board members expenses	3,798	5,783
Business development expenses	625	1,533
Wages and contract services	194,188	266,997
General manager - expenses	16,040	17,003
Insurance	5,234	3,148
Interest on long-term debt	5,312	5,600
Meeting and travel expenses	5,014	7,589
Office manager expenses	1,756	927
Office expenses	26,486	25,241
Programming	2,004	5,432
Rent	36,889	26,745
Repairs and maintenance	9,496	5,485
Residence	13,535	10,293
Small equipment purchases	4,808	5,913
Special projects	97,162	22,429
Subscriptions and memberships	6,302	2,550
Telephone and facsimile	20,296	24,264
	482,549	459,512
Net (loss) earnings for the year	(1,297)	35,861
Unrestricted and internally restricted net assets, beginning of year	(14,566)	(50,212)
Transfer from restricted funds	10,000	-
Transfer from investment in property and equipment	(7,328)	(215)
Unrestricted and internally restricted net assets, end of year	(13,191)	(14,566)

See accompanying notes to the financial statements

Community Futures Northwest Alberta
Statement of Earnings and Changes in Restricted Net Assets
Year Ended March 31, 2014

	<i>Loan Investment Funds</i>			2014	2013
	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Revenue					
Interest on bank deposits	254	902	146	1,302	1,119
Interest on loans	3,999	246,792	8,052	258,843	241,798
Recovery of expenses	650	-	-	650	700
Proceeds on sale of assets held for resale	-	-	-	-	246,760
	4,903	247,694	8,198	260,795	490,377
Expenses					
Bad debts expense (recovery)	57,749	(12,249)	-	45,500	253,974
Bank charges and interest on debt	18,039	549	-	18,588	29,458
Client support	-	14,770	-	14,770	4,296
Collection costs	-	15,411	-	15,411	14,255
Cost of assets held for resale	-	-	-	-	246,760
	75,788	18,481	-	94,269	548,743
Net earnings for the year	(70,885)	229,213	8,198	166,526	(58,366)
Interfund transfers	170,748	(259,953)	89,205	-	-
Transfers to operating fund	-	(10,000)	-	(10,000)	-
Earned fund balance, beginning of year	39,146	1,525,616	(119,029)	1,445,733	1,504,099
Earned fund balance, end of year	139,009	1,484,876	(21,626)	1,602,259	1,445,733
Original contributions	425,000	1,289,423	200,000	1,914,423	1,914,423
Total fund balance, end of year (Note 6)	564,009	2,774,299	178,374	3,516,682	3,360,156

See accompanying notes to the financial statements

Community Futures Northwest Alberta Statement of Cash Flows

Year Ended March 31, 2014

	Operating Activities	Financing and Investing Activities			2014	2013
	General Fund	Loan Investment Funds				
		Repayable	Non-Repay	Disabled		
Sources of Cash						
WD Contribution	319,963	-	-	-	319,963	319,963
Investment income	-	13,423	276,792	8,316	298,531	326,562
Other revenue	161,212	650	2,087	-	163,949	367,806
Inter-fund transfers	-	170,748	-	-	170,748	140,847
Transfer from restricted funds	10,000	-	-	89,205	99,205	-
Investment loan repayments	-	9,787	1,373,344	22,031	1,405,162	1,281,059
	491,175	194,608	1,652,223	119,552	2,457,558	2,436,237
Uses of Cash						
Contracted services and wages	194,187	-	-	-	194,187	266,997
Materials and services	303,957	18,039	30,731	-	352,727	147,488
Repayment of short-term debt	-	-	450,000	-	450,000	150,000
Purchase of property and equipment	8,531	-	-	-	8,531	-
Mortgage repayment	7,850	-	-	-	7,850	7,562
Investment loan advances	-	166,141	1,076,850	111,150	1,354,141	1,217,115
Transfer to operating fund	-	-	10,000	-	10,000	-
Inter-fund transfers	-	-	259,953	-	259,953	140,847
	514,525	184,180	1,827,534	111,150	2,637,389	1,930,009
Net increase (decrease) in cash	(23,350)	10,428	(175,311)	8,402	(179,831)	506,228
Cash, beginning of year	141,456	52,386	460,079	23,717	677,638	171,410
Cash, end of year	118,106	62,814	284,768	32,119	497,807	677,638
Cash consists of:						
Cash in bank	118,106	62,814	284,768	32,119	497,807	677,638

See accompanying notes to the financial statements

Community Futures Northwest Alberta

Notes to the Financial Statements

March 31, 2014

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 generally accepted accounting principles 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, 2014

3. Property and equipment

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2014 Net Book Value</i>	<i>2013 Net Book Value</i>
Land	76,800	-	76,800	76,800
Furniture	9,976	9,976	-	-
Buildings	183,666	36,733	146,933	154,279
Office equipment	103,573	96,749	6,824	-
	<u>374,015</u>	<u>143,458</u>	<u>230,557</u>	<u>231,079</u>

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:

	<i>2013 Ending Balance</i>	<i>Written Off</i>	<i>Deemed Collectible/ Collected</i>	<i>Provision for Credit Losses</i>	<i>2014 Ending Balance</i>
Loan Investment Fund - Repayable	97,650	(105,398)	(144,555)	202,303	50,000
Loan Investment Fund - Non - Repayable	118,404	12,249	(12,249)	-	118,404
	<u>216,054</u>	<u>(93,149)</u>	<u>(156,804)</u>	<u>202,303</u>	<u>168,404</u>

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.

	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disability</i>	<i>2014 Total</i>	<i>2013 Total</i>
Investment loans receivable	467,002	2,950,212	145,971	3,563,185	3,707,356
Less: Allowance for credit loss	50,000	118,404	-	168,404	216,054
	<u>417,002</u>	<u>2,831,808</u>	<u>145,971</u>	<u>3,394,781</u>	<u>3,491,302</u>
Less: Current portion	104,251	707,952	36,493	848,696	872,825
	<u>312,751</u>	<u>2,123,856</u>	<u>109,478</u>	<u>2,546,085</u>	<u>2,618,477</u>

Community Futures Northwest Alberta
Notes to the Financial Statements

March 31, 2014

6. Externally Restricted Net Assets

	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>	<i>Total</i>
Balance, beginning of year	464,146	2,815,039	80,971	3,360,156
Net earnings	(70,885)	229,213	8,198	166,526
Transfer to unrestricted	-	(10,000)	-	(10,000)
Inter-fund Transfers	170,748	(259,953)	89,205	-
Balance, end of year	564,009	2,774,299	178,374	3,516,682
Restricted net assets consist of:				
Contributions	425,000	1,289,423	200,000	1,914,423
Accumulated earnings and transfers	(31,739)	1,744,829	(110,831)	1,602,259
Inter-fund Transfers	170,748	(259,953)	89,205	-
	564,009	2,774,299	178,374	3,516,682

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, 2014

7. Short-term line of credit

The organization holds a line of credit totalling \$1,750,000 of which \$500,000 was drawn as of March 31, 2014 (2013 – \$950,000). 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

	2014	2013
Western Economic Diversification	29,333	29,333
RABC Funding	100,680	107,395
	130,013	136,728

9. Long term debt

	2014	2013
CIBC building mortgage with monthly payments of \$1,097 including interest at prime plus 0.8%, due July 2027, secured by the related building with a carrying value of \$180,232.	137,168	145,017
Less: current portion	8,149	7,850
	129,019	137,167

Principal payments over the next five years are as follows:

2015	8,149
2016	8,459
2017	8,781
2018	9,116
2019	9,463

10. Investment in Property and Equipment

	2014	2013
Balance, beginning of year	86,062	85,847
Mortgage repayment	7,850	7,562
Purchase of property and equipment	8,531	-
Amortization of property and equipment	(9,053)	(7,347)
	93,390	86,062

11. Economic Dependence

The Corporation receives approximately 65% 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, 2014, the corporation had three loans that have been approved but not disbursed for \$340,000 (2013 – six loans for \$241,557).