

COMMUNITY FUTURES HIGHWOOD
FINANCIAL STATEMENTS
MARCH 31, 2011

COMMUNITY FUTURES HIGHWOOD
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AUDITORS' REPORT ON COMPLIANCE

To: Western Economic Diversification

We have audited Community Futures Highwood's compliance as at March 31, 2011 with the criteria established in the Contribution Agreement between Western Economic Diversification and Community Futures Highwood effective April 1, 2006 and the interpretation of the Agreement as set out in Note 3 attached. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Board of Directors 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 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 the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2011, Community Futures Highwood is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

**CALGARY, ALBERTA
JUNE 15, 2011**

Catalyst LLP

ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the statement of financial position of Community Futures Highwood as of March 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

**CALGARY, ALBERTA
JUNE 15, 2011**

Catalyst LLP

ACCOUNTANTS

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2011

	General Fund	Restricted Loan Funds		March 31, 2011	March 31, 2010
		General	Disabled		
Current assets					
Cash	\$ 123,881	\$ 256,049	\$ -	\$ 379,930	\$ 442,053
Marketable securities (Note 4)	-	20,042	171,829	191,871	19,503
Accounts receivable	1,071	-	-	1,071	5,076
Prepaid expense	9,309	-	-	9,309	10,010
Interfund balances	-	6,186	-	6,186	150,000
Current portion of loans receivable (Note 5)	-	1,095,747	-	1,095,747	738,966
	<u>134,261</u>	<u>1,378,024</u>	<u>171,829</u>	<u>1,684,114</u>	<u>1,365,608</u>
Loans receivable (Note 5)	-	2,208,058	-	2,208,058	1,741,195
Property and equipment (Note 6)	<u>45,968</u>	<u>-</u>	<u>-</u>	<u>45,968</u>	<u>58,070</u>
Total assets	<u>\$ 180,229</u>	<u>\$ 3,586,082</u>	<u>\$ 171,829</u>	<u>\$ 3,938,140</u>	<u>\$ 3,164,873</u>
Current liabilities					
Accounts payable and accrued liabilities	\$ 14,800	\$ 38	\$ -	\$ 14,838	\$ 12,107
Deferred revenue	17,813	-	-	17,813	5,186
Funds held in trust (Note 7)	2,173	-	-	2,173	2,968
Loan payable	-	799,991	-	799,991	-
Interfund balances	6,186	-	-	6,186	150,000
	<u>40,972</u>	<u>800,029</u>	<u>-</u>	<u>841,001</u>	<u>170,261</u>
Share capital (Note 8)	10	-	-	10	10
Fund balances					
Invested in property and equipment	45,968	-	-	45,968	58,070
Externally restricted (Note 9)	-	2,786,053	171,829	2,957,882	2,838,252
Internally restricted (Note 10)	50,317	-	-	50,317	55,318
Unrestricted	42,962	-	-	42,962	42,962
	<u>139,247</u>	<u>2,786,053</u>	<u>171,829</u>	<u>3,097,129</u>	<u>2,994,602</u>
	<u>\$ 180,229</u>	<u>\$ 3,586,082</u>	<u>\$ 171,829</u>	<u>\$ 3,938,140</u>	<u>\$ 3,164,873</u>
Commitments (Note 11)					

Signature _____

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF OPERATIONS
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2011

	General Funds		Restricted Loan Funds			
	2011	2010	General 2011	Disabled 2011	Total 2011	Total 2010
Revenues						
Federal contracts	\$ 294,963	\$ 294,963	\$ -	\$ -	\$ -	\$ -
Other	23,642	35,435	900	-	900	2,213
Other interest	1,344	1,607	2,967	311	3,278	3,507
Interest on investments	-	-	208,260	65	208,325	185,117
Unrealized gain (loss) on investments (Note 4)	-	-	538	875	1,413	4,084
	319,949	332,005	212,665	1,251	213,916	194,921
Expenses						
Salaries and benefits	215,896	225,102	-	-	-	-
Interest	-	-	11,983	-	11,983	-
Administrative costs (Schedule 1)	127,867	155,733	743	-	743	1,355
Allowance for loan impairment (recovery)	-	-	57,746	-	57,746	356,051
Amortization of property and equipment	17,103	18,493	-	-	-	-
	360,866	399,328	70,472	-	70,472	357,406
Excess (deficiency) of revenues over expenses	(40,917)	(67,323)	142,193	1,251	143,444	(162,485)
Fund balances, beginning of year as previously stated	156,350	158,673	2,667,674	170,578	2,838,252	3,065,737
Inter-fund transfers (Note 13)	23,814	65,000	(23,814)	-	(23,814)	(65,000)
Fund balances, end of year	\$ 139,247	\$ 156,350	\$ 2,786,053	\$ 171,829	\$ 2,957,882	\$ 2,838,252

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2011

	Operating Activities	Financing and Investing Activities			Total 2011	Total 2010
	General Fund	General Fund	Restricted Loan Funds			
			General	Disabled		
Sources of cash						
Federal contracts	\$ 307,254	\$ -	\$ -	\$ -	\$ 307,254	\$ 294,963
Investment income	1,344	-	3,032	311	4,687	5,114
Other income	27,190	-	-	-	27,190	31,548
CFLIP loan	-	-	800,000	-	800,000	-
Syndicated loans	-	-	575,500	-	575,500	-
Loan repayments	-	-	1,668,712	6,286	1,674,998	1,295,558
	<u>335,788</u>	<u>-</u>	<u>3,047,244</u>	<u>6,597</u>	<u>3,389,629</u>	<u>1,627,183</u>
Uses of cash						
Operating costs	340,327	-	12,727	-	353,054	392,795
Purchase of capital assets	-	5,001	-	-	5,001	16,405
Purchase investment	-	-	-	170,953	170,953	-
CFLIP loan	-	-	9	-	9	-
Syndicated loan repayment	-	-	24,572	-	24,572	-
Loan advances	-	-	2,898,163	-	2,898,163	1,527,185
	<u>340,327</u>	<u>5,001</u>	<u>2,935,471</u>	<u>170,953</u>	<u>3,451,752</u>	<u>1,936,385</u>
Net increase (decrease) in cash	(4,539)	(5,001)	111,773	(164,356)	(62,123)	(309,202)
Cash, beginning of year	103,421	-	174,276	164,356	442,053	751,255
Inter-fund adjustments	24,999	5,001	(30,000)	-	-	-
	<u>123,881</u>	<u>-</u>	<u>256,049</u>	<u>-</u>	<u>379,930</u>	<u>442,053</u>

Supplemental cash flow information (Note 14)

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

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, 2006. The purpose of the organization 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

The Corporation follows accounting principles generally accepted in Canada in preparing its financial statements. The significant accounting policies used are as follows:

a) Measurement uncertainty

Preparation of these financial statements requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the financial statements and related notes. Actual amounts could differ from those estimates.

b) Financial instruments

The Corporation's financial instruments consist of cash, marketable securities, accounts receivable, loans receivable and accounts payable and accrued liabilities and loans payable. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest or currency risks arising from these financial instruments.

The Corporation has designated its cash and marketable securities as held-for-trading which are measured at fair value and are described in Note 4 of these financial statements. Accounts receivable and loans receivable are designated as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and loans payable are designated as other financial liabilities. The Corporation had neither available for sale, nor held to maturity instruments during the year ended March 31, 2011.

c) Credit risk

The Corporation manages its credit risk by ensuring all loan applications are reviewed by management and subsequently reviewed and approved by the loan committee prior to drafting of a loan.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

2. Significant accounting policies (continued)

d) Loans receivable

Loans receivable are stated net of an allowance for loan impairment and net of any unearned interest. Interest income is recorded on an accrual basis. 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.

e) 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 income 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.

f) Property and equipment

Property and equipment are recorded at cost. Amortization of property and equipment 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.

g) Deferred revenue

Deferred revenue includes funds received for administration of a conference. The amounts will be not be recognized as revenue until a similar event is held.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

2. Significant accounting policies (continued)

h) 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. The Corporation is restricted in the types of loans that can be made according to its agreement with the federal government.

i) Revenue recognition

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

Investment income earned on the General Restricted Fund is recognized as revenue in the General Restricted Fund when earned.

3. Western Economic Diversification Contribution Agreement Interpretation

Subsequent to the inception of the Western Economic Diversification Contribution Agreement, the Department of Western Economic Diversification amended the terms and conditions of the contribution agreement with the Corporation. Under the new terms and conditions the Western Youth Entrepreneurship Fund was discontinued. The Board Members of Community Futures Highwood have decided to discontinue reporting the Youth Fund as a separate restricted fund and amalgamate it with the General Fund.

4. Marketable securities

Marketable securities held by the Corporation have been classified as held for trading. As a result of this classification, an unrealized gain on investments of \$1,413 (2010 – [\$4,084]) has been recorded in the General Restricted Fund and Disabled Fund for the current year.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

5. Loans receivable

	<u>General</u>	<u>Disabled</u>	<u>2011</u>	<u>2010</u>
Loans receivable	\$ 3,410,448	\$ -	\$ 3,410,448	\$ 2,953,034
Allowance for impairment	<u>106,643</u>	<u>-</u>	<u>106,643</u>	<u>472,873</u>
	3,303,805	-	3,303,805	2,480,161
Current portion	<u>1,095,747</u>	<u>-</u>	<u>1,095,747</u>	<u>738,966</u>
Long term portion	\$ <u>2,208,058</u>	\$ <u>-</u>	\$ <u>2,208,058</u>	\$ <u>1,741,196</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.

At March 31, 2011 the corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$106,643 (2010 - \$472,873) for loan impairment based on this review.

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 4.25% to 9.50% with monthly blended principal and interest repayments for terms between 12 and 180 months.

Included in loans receivable are approved operating loans totalling \$957,700 (2010 - \$386,000). All operating loans are approved for a 12 month period and bear interest at rates varying from 4.25% to 8.00%. As at year end borrowers had drawn a combined total of \$792,800 (2010 - \$366,938).

Also included in loans receivable is \$564,445 due to other Community Futures organizations who are partners in certain syndicated loans.

6. Property and equipment

	<u>2011</u>			<u>2010</u>
	<u>Cost</u>	<u>Accum. Amort.</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture & office equipment	\$ 110,111	\$ 68,144	\$ 41,967	\$ 58,070
Leasehold improvements	<u>5,001</u>	<u>1,000</u>	<u>4,001</u>	<u>-</u>
	\$ <u>115,112</u>	\$ <u>69,144</u>	\$ <u>45,968</u>	\$ <u>58,070</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

7. Funds held in trust

This balance represents funds that are held and to be administered by the Corporation for a project that is being operated under the Rural Communities Economic Development initiative. The money has not been segregated from the Corporation's operating funds.

8. Share capital

	<u>2011</u>	<u>2010</u>
Authorized:		
50 shares with no par value		
Issued:		
10 shares	\$ <u> 10</u>	\$ <u> 10</u>

9. Externally restricted fund balances

Major categories of externally imposed restrictions on net assets are as follows:

	<u>2011</u>	<u>2010</u>
<u>Loan Investment Funds</u>		
Restricted to loans and equity investments to entrepreneurs		
- General	2,786,052	2,667,674
- Disabled	<u>171,829</u>	<u>170,578</u>
	\$ <u><u>2,957,881</u></u>	\$ <u><u>2,838,252</u></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.

10. 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, 2011

11. Commitments

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

2012	\$ 4,196
2013	\$ 3,219
2014	\$ 72

- b) The Corporation's annual obligations under operating leases, exclusive of occupancy costs, for office space is as follows:

2012	\$ 3,167
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As of the report date, a new office lease was under negotiation with terms similar to the current lease.

12. Bank financing arrangement

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 Corporation also has a line of credit on a credit card of \$12,000. At year end, there was no balance outstanding on either line of credit.

13. Inter-fund transfer

During the year, Western Economic Diversification authorized the following transfers from the restricted funds to the general fund:

	<u>2011</u>	<u>2010</u>
General Restricted Loan Fund	\$ 23,814	\$ 65,000

14. Supplemental cash flow information

	<u>2011</u>	<u>2010</u>
Interest received	\$ 214,235	\$ 190,231
Interest paid	\$ 11,983	\$ -

15. Capital disclosures

The Corporation defines its capital as the amounts included in its net asset balances.

The Corporation's objective when managing its capital is to safeguard the Corporation's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits to its stakeholders.

The Corporation sets the amount of net asset balances in proportion to risk, manages the net asset structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2011

16. Economic dependence

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

17. 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.

COMMUNITY FUTURES HIGHWOOD
SCHEDULE OF ADMINISTRATIVE COSTS
FOR THE YEAR ENDED MARCH 31, 2011

Schedule 1

	<u>2011</u>	<u>2010</u>
Professional fees	\$ 29,453	\$ 27,729
Rent	25,844	26,118
Meetings and conventions	18,025	16,450
Office	13,172	19,241
Telephone	10,864	10,730
Sundry	7,401	9,349
Repairs and maintenance	7,232	15,574
Advertising and promotion	5,068	9,137
Travel	3,717	11,205
Insurance	3,574	4,239
Non-refundable GST	3,072	3,976
Professional development	445	1,125
CEDO and CED	<u>-</u>	<u>860</u>
	\$ <u>127,867</u>	\$ <u>155,733</u>