

**COMMUNITY FUTURES HIGHWOOD
FINANCIAL STATEMENTS
MARCH 31, 2012**

**COMMUNITY FUTURES HIGHWOOD
TABLE OF CONTENTS
MARCH 31, 2012**

	Page
Independent Auditors' Report on Compliance	3
Independent Auditors' Report	4
Financial Statements	
Statement of Financial Position	5
Statement of Operations and Changes in Fund Balances	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Schedule of Administrative Costs	14

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To: Western Economic Diversification

We have audited Community Futures Highwood's compliance as at March 31, 2012 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 1 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 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 the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2012, Community Futures Highwood is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

**CALGARY, ALBERTA
JULY 7, 2012**



ACCOUNTANTS

INDEPENDENT AUDITORS' 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, 2012, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 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 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, 2012 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
JULY 7, 2012**



ACCOUNTANTS

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2012

	General Fund	Restricted Loan Funds		March 31, 2012	March 31, 2011
		General	Disabled		
Current assets					
Cash	\$ 132,348	\$ 437,726	\$ -	\$ 570,074	\$ 379,930
Marketable securities (Note 3)	-	20,715	177,607	198,322	191,871
Accounts receivable	6,761	-	-	6,761	1,071
Prepaid expense	7,196	-	-	7,196	9,309
Interfund balances	-	-	-	-	6,186
Current portion of loans receivable (Note 4)	-	958,783	-	958,783	1,129,176
	<u>146,305</u>	<u>1,417,224</u>	<u>177,607</u>	<u>1,741,136</u>	<u>1,717,543</u>
Loans receivable (Note 4)	-	2,682,884	-	2,682,884	2,739,072
Capital assets (Note 5)	<u>36,736</u>	<u>-</u>	<u>-</u>	<u>36,736</u>	<u>45,968</u>
Total assets	<u>\$ 183,041</u>	<u>\$ 4,100,108</u>	<u>\$ 177,607</u>	<u>\$ 4,460,756</u>	<u>\$ 4,502,583</u>
Current liabilities					
Accounts payable and accrued liabilities	\$ 13,380	\$ 28	\$ -	\$ 13,408	\$ 14,838
Deferred revenue	536	-	-	536	17,813
Funds held in trust	-	-	-	-	2,173
Loan payable (Note 11)	-	799,991	-	799,991	799,991
Current portion of syndicated loans payable (Note 6)	-	43,475	-	43,475	33,429
Interfund balances	-	-	-	-	6,186
	<u>13,916</u>	<u>843,494</u>	<u>-</u>	<u>857,410</u>	<u>874,430</u>
Syndicated loans payable (Note 6)	-	487,539	-	487,539	531,014
Share capital (Note 7)	10	-	-	10	10
Fund balances					
Invested in capital assets	36,735	-	-	36,735	45,968
Externally restricted (Note 8)	-	2,769,075	177,607	2,946,682	2,957,882
Internally restricted (Note 9)	57,676	-	-	57,676	50,317
Unrestricted	74,704	-	-	74,704	42,962
	<u>169,115</u>	<u>2,769,075</u>	<u>177,607</u>	<u>3,115,797</u>	<u>3,097,129</u>
	<u>\$ 183,041</u>	<u>\$ 4,100,108</u>	<u>\$ 177,607</u>	<u>\$ 4,460,756</u>	<u>\$ 4,502,583</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, 2012**

	General Funds		Restricted Loan Funds			
	<u>2012</u>	<u>2011</u>	<u>General 2012</u>	<u>Disabled 2012</u>	<u>Total 2012</u>	<u>Total 2011</u>
Revenues						
Federal contracts	\$ 294,965	\$ 294,963	\$ -	\$ -	\$ -	\$ -
Other	28,139	18,133	1,094	-	1,094	900
Rental (net)	20,464	5,509	-	-	-	-
Other interest	1,956	1,344	4,326	-	4,326	3,278
Interest on investments	-	-	220,630	-	220,630	208,325
Unrealized gain on marketable securities (Note 3)	-	-	674	5,778	6,452	1,413
	<u>345,524</u>	<u>319,949</u>	<u>226,724</u>	<u>5,778</u>	<u>232,502</u>	<u>213,916</u>
Expenses						
Salaries and benefits	176,487	215,896	-	-	-	-
Interest	-	-	24,071	-	24,071	11,983
Administrative costs (Schedule 1)	132,829	127,867	464	-	464	743
Allowance for loan impairment	-	-	212,917	-	212,917	57,746
Amortization of property and equipment	12,590	17,103	-	-	-	-
	<u>321,906</u>	<u>360,866</u>	<u>237,452</u>	<u>-</u>	<u>237,452</u>	<u>70,472</u>
Excess (deficiency) of revenues over expenses	23,618	(40,917)	(10,728)	5,778	(4,950)	143,444
Fund balances, beginning of year	139,247	156,350	2,786,053	171,829	2,957,882	2,838,252
Inter-fund transfers (Note 12)	6,250	23,814	(6,250)	-	(6,250)	(23,814)
Fund balances, end of year	<u>\$ 169,115</u>	<u>\$ 139,247</u>	<u>\$ 2,769,075</u>	<u>\$ 177,607</u>	<u>\$ 2,946,682</u>	<u>\$ 2,957,882</u>

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2012

	<u>Operating Activities</u>	<u>Financing and Investing Activities</u>			<u>Total 2012</u>	<u>Total 2011</u>
	<u>General Fund</u>	<u>General Fund</u>	<u>Restricted Loan Funds</u>			
			<u>General</u>	<u>Disabled</u>		
Sources of cash						
Federal contracts	\$ 282,672	\$ -	\$ -	\$ -	\$ 282,672	\$ 307,254
Investment income	1,956	-	4,326	-	6,282	4,687
Other income	36,928	-	-	-	36,928	27,190
CFLIP loan	-	-	-	-	-	800,000
Syndicated loans	-	-	-	-	-	575,500
Loan repayments	-	-	1,222,525	-	1,222,525	1,674,998
	<u>321,556</u>	<u>-</u>	<u>1,226,851</u>	<u>-</u>	<u>1,548,407</u>	<u>3,389,629</u>
Uses of cash						
Operating costs	309,796	-	24,536	-	334,332	353,054
Purchase of capital assets	-	3,357	-	-	3,357	5,001
Purchase of marketable securities	-	-	-	-	-	170,953
CFLIP loan	-	-	-	-	-	9
Syndicated loan repayment	-	-	73,149	-	73,149	24,572
Loan advances	-	-	947,425	-	947,425	2,898,163
	<u>309,796</u>	<u>3,357</u>	<u>1,045,110</u>	<u>-</u>	<u>1,358,263</u>	<u>3,451,752</u>
Net increase (decrease) in cash	11,760	(3,357)	181,741	-	190,144	(62,123)
Cash, beginning of year	123,881	-	256,049	-	379,930	442,053
Inter-fund adjustments	(3,293)	3,357	(64)	-	-	-
Cash, end of year	<u>\$ 132,348</u>	<u>\$ -</u>	<u>\$ 437,726</u>	<u>\$ -</u>	<u>\$ 570,074</u>	<u>\$ 379,930</u>

Supplemental cash flow information (Note 14)

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

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 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

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, 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 3 of these financial statements. Changes in the fair value of financial assets designated as held-for-trading are recorded in the Statement of Operations and Changes in Fund Balances and are included in investment and other income. Accounts receivable and loans receivable are designated as loans and receivables, which are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and loans payable are designated as other financial liabilities which are measured at amortized cost using the effective interest method. The Corporation had neither available for sale, nor held to maturity instruments during the year ended March 31, 2012.

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, 2012

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. 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) Capital assets

Capital assets 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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

2. Significant accounting policies (continued)

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

h) 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. Rental revenue is recognized as revenue of the General Fund in the year received once the agreement has been made to rent space.

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

i) Financial reporting by not-for-profit organizations

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has approved the final accounting standards for not-for-profit organizations in Canada. These new standards modify certain disclosure requirements, as well as provide for clarification of issues relating to recognition, measurement and presentation for not-for-profit organizations. These new standards are available for early adoption with mandatory adoption required for fiscal years commencing on or after January 1, 2012. The Corporation is currently assessing the impact, if any, on its financial statements.

3. 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 marketable securities of \$6,452 (2011 – \$1,413) 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, 2012

4. Loans receivable

	<u>General</u>	<u>Disabled</u>	<u>2012</u>	<u>2011</u>
Loans receivable	\$ 3,854,833	\$ -	\$ 3,854,833	\$ 3,974,891
Allowance for impairment	<u>213,166</u>	<u>-</u>	<u>213,166</u>	<u>106,643</u>
	3,641,667	-	3,641,667	3,868,248
Current portion	<u>958,783</u>	<u>-</u>	<u>958,783</u>	<u>1,129,176</u>
Long term portion	<u>\$ 2,682,884</u>	<u>\$ -</u>	<u>\$ 2,682,884</u>	<u>\$ 2,739,072</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, 2012 the corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$213,166 (2011 - \$106,643) 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 \$911,388 (2011 - \$957,700). 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 \$620,785 (2011 - \$792,800) on these operating loans.

5. Capital assets

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture & office equipment	\$ 113,468	\$ 79,734	\$ 33,734	\$ 41,967
Leasehold improvements	<u>5,001</u>	<u>2,000</u>	<u>3,001</u>	<u>4,001</u>
	<u>\$ 118,469</u>	<u>\$ 81,734</u>	<u>\$ 36,735</u>	<u>\$ 45,968</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

6. Syndicated loans payable

	<u>2012</u>	<u>2011</u>
Syndicated loans payable	\$ 531,014	\$ 564,443
Current portion	<u>43,475</u>	<u>33,429</u>
Long term portion	\$ <u>487,539</u>	\$ <u>531,014</u>

Syndicated loans payable are due to other Community Futures organizations who are partners in certain syndicated loans. The loans are interest bearing at fixed rates varying from 7% to 7.75% with monthly blended principal and interest repayments for terms of 5 years.

7. Share capital

	<u>2012</u>	<u>2011</u>
Authorized:		
50 shares with no par value		
Issued:		
10 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>2012</u>	<u>2011</u>
<u>Loan Investment Funds</u>		
Restricted to loans and equity investments to entrepreneurs		
- General	2,769,075	2,786,053
- Disabled	<u>177,607</u>	<u>171,829</u>
	\$ <u>2,946,682</u>	\$ <u>2,957,882</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.

9. Internally restricted funds

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

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012

10. Commitments

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

2013	\$ 3,219
2014	\$ 72

11. 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 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. The Corporation has available a \$1,000,000 line of credit loan payable with the Alberta Community Futures Association's CFLIP Program for the operating fund bearing interest at bank prime and secured by a borrowing resolution.

12. Inter-fund transfer

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

	<u>2012</u>	<u>2011</u>
General Restricted Loan Fund	\$ 6,250	\$ 23,814

13. Supplemental cash flow information

	<u>2012</u>	<u>2011</u>
Interest received	\$ 266,631	\$ 199,431
Interest paid	\$ 63,790	\$ 25,500

14. Capital disclosures

The Corporation defines its capital as the amounts included in its fund 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 fund balances in proportion to risk, manages the fund structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

15. Economic dependence

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

**COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2012**

16. 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, 2012

Schedule 1

	<u>2012</u>	<u>2011</u>
Rent	\$ 26,394	\$ 25,844
Professional fees	25,375	29,453
Office	17,330	13,172
Meetings and conventions	15,749	18,025
Sundry	12,880	7,401
Telephone	10,474	10,864
Advertising and promotion	7,976	5,068
Repairs and maintenance	5,931	7,232
Travel	4,639	3,717
Insurance	2,827	3,574
Non-refundable GST	2,779	3,072
Professional development	<u>475</u>	<u>445</u>
	\$ <u>132,829</u>	\$ <u>127,867</u>