

**COMMUNITY FUTURES HIGHWOOD
FINANCIAL STATEMENTS
MARCH 31, 2013**

COMMUNITY FUTURES HIGHWOOD
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To: Western Economic Diversification

We have audited Community Futures Highwood's compliance as at March 31, 2013 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 auditing standards for not-for-profit organizations. 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, 2013, Community Futures Highwood is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

**CALGARY, ALBERTA
JULY 13, 2013**

Catalyst LLP
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, 2013, March 31, 2012 and April 1, 2011, and the statements of operations and changes in fund balances and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 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, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

**CALGARY, ALBERTA
JULY 13, 2013**

Catalyst LLP
ACCOUNTANTS

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2013

	General Fund	Restricted Loan Funds		March 31, 2013	March 31, 2012	April 1, 2011 (Note 3)
		General	Disabled			
Current assets						
Cash	\$ 174,963	\$ 574,309	\$ -	\$ 749,272	\$ 570,074	\$ 379,930
Marketable securities	-	21,220	181,932	203,152	198,322	191,871
Accounts receivable	1,307	-	-	1,307	6,761	1,071
Prepaid expense	5,533	-	-	5,533	7,196	9,309
Interfund balances	-	-	-	-	-	6,186
Current portion of loans receivable (Note 4)	-	999,434	-	999,434	958,783	1,129,176
	<u>181,803</u>	<u>1,594,963</u>	<u>181,932</u>	<u>1,958,698</u>	<u>1,741,136</u>	<u>1,717,543</u>
Loans receivable (Note 4)	-	2,570,768	-	2,570,768	2,682,884	2,739,072
Capital assets (Note 5)	27,186	-	-	27,186	36,736	45,968
Total assets	<u>\$ 208,989</u>	<u>\$ 4,165,731</u>	<u>\$ 181,932</u>	<u>\$ 4,556,652</u>	<u>\$ 4,460,756</u>	<u>\$ 4,502,583</u>
Current liabilities						
Accounts payable and accrued liabilities	\$ 15,159	\$ 16	\$ -	\$ 15,175	\$ 13,408	\$ 14,838
Deferred revenue	24,780	-	-	24,780	536	17,813
Funds held in trust	-	-	-	-	-	2,173
Loan payable (Note 6)	-	745,930	-	745,930	799,991	799,991
Current portion of syndicated loans payable (Note 7)	-	49,800	-	49,800	43,475	33,429
Interfund balances	-	-	-	-	-	6,186
	<u>39,939</u>	<u>795,746</u>	<u>-</u>	<u>835,685</u>	<u>857,410</u>	<u>874,430</u>
Syndicated loans payable (Note 7)	-	470,582	-	470,582	487,539	531,014
Share capital (Note 8)	10	-	-	10	10	10
Fund balances						
Invested in capital assets	27,186	-	-	27,186	36,735	45,968
Externally restricted (Note 9)	-	2,899,403	181,932	3,081,335	2,946,682	2,957,882
Internally restricted (Note 10)	57,676	-	-	57,676	57,676	50,317
Unrestricted	84,178	-	-	84,178	74,704	42,962
	<u>169,040</u>	<u>2,899,403</u>	<u>181,932</u>	<u>3,250,375</u>	<u>3,115,797</u>	<u>3,097,129</u>
Commitments (Note 11)						
	\$ 208,989	\$ 4,165,731	\$ 181,932	\$ 4,556,652	\$ 4,460,756	\$ 4,502,583

Commitments (Note 11)

Approved on behalf of Board
Signature _____

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF OPERATIONS
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2013

	General Funds		Restricted Loan Funds			Total 2012
	2013	2012	General 2013	Disabled 2013	Total 2013	
Revenues						
Federal contracts	\$ 294,963	\$ 294,965	\$ -	\$ -	\$ -	\$ -
Other	21,181	28,139	585	-	585	1,094
Rental (net)	23,542	20,464	-	-	-	-
Other interest	2,266	1,956	5,669	-	5,669	4,326
Interest on investments	-	-	217,346	-	217,346	220,630
Unrealized gain on marketable securities	-	-	505	4,325	4,830	6,452
	<u>341,952</u>	<u>345,524</u>	<u>224,105</u>	<u>4,325</u>	<u>228,430</u>	<u>232,502</u>
Expenses						
Salaries and benefits	187,975	176,487	-	-	-	-
Interest	-	-	26,241	-	26,241	24,071
Administrative costs (Schedule 1)	143,982	132,829	762	-	762	464
Allowance for loan impairment	-	-	66,774	-	66,774	212,917
Amortization of property and equipment	10,070	12,590	-	-	-	-
	<u>342,027</u>	<u>321,906</u>	<u>93,777</u>	<u>-</u>	<u>93,777</u>	<u>237,452</u>
Excess (deficiency) of revenues over expenses	(75)	23,618	130,328	4,325	134,653	(4,950)
Fund balances, beginning of year	169,115	139,247	2,769,075	177,607	2,946,682	2,957,882
Inter-fund transfers	-	6,250	-	-	-	(6,250)
Fund balances, end of year	\$ 169,040	\$ 169,115	\$ 2,899,403	\$ 181,932	\$ 3,081,335	\$ 2,946,682

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2013

	Operating Activities		Financing and Investing Activities				Total 2012
	General Fund	General Fund	General Fund	Restricted Loan Funds		Total 2013	
				General	Disabled		
Sources of cash							
Federal contracts	\$ 319,543	\$ -	\$ -	\$ -	\$ -	\$ 319,543	\$ 282,672
Investment income	2,266	-	5,669	-	-	7,935	6,282
Other income	49,841	-	-	-	-	49,841	36,928
CFLIP loan	-	-	200,000	-	-	200,000	-
Syndicated loans	-	-	-	-	-	-	-
Loan repayments	-	-	1,349,415	-	-	1,349,415	1,222,525
	<u>371,650</u>	<u>-</u>	<u>1,555,084</u>	<u>-</u>	<u>-</u>	<u>1,926,734</u>	<u>1,548,407</u>
Uses of cash							
Operating costs	328,515	-	26,981	-	-	355,496	334,332
Purchase of capital assets	-	520	-	-	-	520	3,357
Purchase of marketable securities	-	-	-	-	-	-	-
CFLIP loan	-	-	254,061	-	-	254,061	-
Syndicated loan repayment	-	-	48,725	-	-	48,725	73,149
Loan advances	-	-	1,088,734	-	-	1,088,734	947,425
	<u>328,515</u>	<u>520</u>	<u>1,418,501</u>	<u>-</u>	<u>-</u>	<u>1,747,536</u>	<u>1,358,263</u>
Net increase (decrease) in cash	43,135	(520)	136,583	-	-	179,198	190,144
Cash, beginning of year	132,348	-	437,726	-	-	570,074	379,930
Inter-fund adjustments	(520)	520	-	-	-	-	-
Cash, end of year	\$ 174,963	\$ -	\$ 574,309	\$ -	\$ -	\$ 749,272	\$ 570,074

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

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

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.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, marketable securities, accounts receivable and loans receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, loans payable and syndicated loans payable.

The Corporation's financial assets measured at fair value include marketable securities.

ii. Impairment

Financial assets measured at cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in net income. 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 net income.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

2. Significant accounting policies (continued)

iii. Transaction costs

The Corporation recognizes its transaction costs in net income in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjust 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. These estimates are reviewed periodically, and as adjustments become necessary they are reported in income 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 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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

2. Significant accounting policies (continued)

e) 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.

f) 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.

g) 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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

3. Impact of change in basis of accounting

The Corporation has elected to apply the Canadian accounting standards for not-for-profit organizations.

These financial statements are the first financial statements for which the Corporation has applied Canadian accounting standards for not-for-profit organizations hereafter referred to as "ASNFPO".

The financial statements for the year ended March 31, 2013 were prepared in accordance with the accounting principles and provisions set out in FIRST-TIME ADOPTION, Section 1501, for first-time adopters of this basis of accounting.

The impact of adopting these standards has not resulted in changes to the opening fund balances.

4. Loans receivable

	<u>2013</u>	<u>2012</u>
Loans receivable	\$ 3,782,318	\$ 3,854,833
Allowance for impairment	<u>212,116</u>	<u>213,166</u>
	3,570,202	3,641,667
Current portion	<u>999,434</u>	<u>958,783</u>
Long term portion	<u>\$ 2,570,768</u>	<u>\$ 2,682,884</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, 2013 the corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$212,116 (2012 - \$213,166) for loan impairment based on this review.

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 3.0% 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 \$1,122,500 (2012 - \$911,388). 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 \$643,224 (2012 - \$620,785) on these operating loans.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

5. Capital assets

	<u>2013</u>		<u>2012</u>	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & office equipment	\$ 108,955	\$ 83,770	\$ 25,185	\$ 33,734
Leasehold improvements	<u>5,001</u>	<u>3,000</u>	<u>2,001</u>	<u>3,001</u>
	<u>\$ 113,956</u>	<u>\$ 86,770</u>	<u>\$ 27,186</u>	<u>\$ 36,735</u>

6. 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 \$1,500,000 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. The balance was \$745,930 (2012 – 799,991) at March 31, 2013.

7. Syndicated loans payable

	<u>2013</u>	<u>2012</u>
Syndicated loans payable	\$ 520,382	\$ 531,014
Current portion	<u>49,800</u>	<u>43,475</u>
Long term portion	<u>\$ 470,582</u>	<u>\$ 487,539</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.

8. Share capital

	<u>2013</u>	<u>2012</u>
Issued: 10 shares	\$ <u>10</u>	\$ <u>10</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2013

9. Externally restricted fund balances

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

	<u>2013</u>	<u>2012</u>
<u>Loan Investment Funds</u>		
Restricted to loans and equity investments to entrepreneurs		
General	2,899,403	2,769,075
Disabled	181,932	177,607
	\$ 3,081,335	\$ 2,946,682

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.

11. Commitments

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

2014	\$ 3,165
2015	\$ 3,093
2016	\$ 3,093
2017	\$ 773

12. Economic dependence

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

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.

COMMUNITY FUTURES HIGHWOOD
SCHEDULE OF ADMINISTRATIVE COSTS
FOR THE YEAR ENDED MARCH 31, 2013

Schedule 1

	<u>2013</u>	<u>2012</u>
Professional fees	\$ 31,015	\$ 25,375
Rent	25,000	26,394
Meetings and conventions	22,256	15,749
Repairs and maintenance	17,679	5,931
Sundry	12,710	12,880
Office	10,546	17,330
Telephone	7,431	10,474
Travel	6,120	4,639
Advertising and promotion	4,421	7,976
Insurance	3,169	2,827
Non-refundable GST	2,768	2,779
Professional development	<u>867</u>	<u>475</u>
	<u>\$ 143,982</u>	<u>\$ 132,829</u>