

COMMUNITY FUTURES HIGHWOOD

FINANCIAL STATEMENTS

MARCH 31, 2014

COMMUNITY FUTURES HIGHWOOD
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To: Western Economic Diversification Canada

We have audited the Community Futures Highwood's compliance for the year ended March 31, 2014 with the criteria established in the Contribution Agreement between Western Economic Diversification and Community Futures Highwood effective April 1, 2008 and the interpretation of the Agreement as set out in Note 1 attached.

Management's Responsibility for the Financial Information

Management is responsible for the compliance with the criteria established by the provision.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the agreement has been complied with.

An audit involves performing procedures to obtain audit evidence about whether Community Futures Highwood complied with the criteria established by the agreement above. Those standards require that we plan and perform an audit to obtain reasonable assurance whether Community Futures Highwood complied with the criteria established. 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.

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, as at March 31, 2014, Community Futures Highwood is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

Emphasis of Matter

Without modifying our opinion, we draw attention to the fact the audit report is prepared specifically for Community Futures Highwood and Western Economic Diversification and should not be distributed to parties other than these.

Catalyst LLP

**CALGARY, ALBERTA
JULY 12, 2014**

ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, 2014 and the statements of operations and changes in fund balances and cash flows for the year ended March 31, 2014, 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, 2014, and the results of its operations and its cash flows for the year ended March 31, 2014 in accordance with Canadian accounting standards for not-for-profit organizations.

**CALGARY, ALBERTA
JULY 12, 2014**

Catalyst LLP

ACCOUNTANTS

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2014

	General Fund	Restricted Loan Funds		Total 2014	Total 2013
		General	Disabled		
Current assets					
Cash	\$ 267,423	\$ 653,992	\$ -	\$ 921,415	\$ 749,272
Marketable securities	-	21,762	186,578	208,340	203,152
Accounts receivable	1,112	-	-	1,112	1,307
Prepaid expenditures	3,823	-	-	3,823	5,533
Interfund balances	3,742	-	-	3,742	-
Current portion of loans receivable (Note 3)		1,257,635	-	1,257,635	999,434
	<u>276,100</u>	<u>1,933,389</u>	<u>186,578</u>	<u>2,396,067</u>	<u>1,958,698</u>
Loans receivable (Note 3)	-	2,249,471	-	2,249,471	2,570,768
Capital assets (Note 4)	<u>37,071</u>	<u>-</u>	<u>-</u>	<u>37,071</u>	<u>27,186</u>
	<u>\$ 313,171</u>	<u>\$ 4,182,860</u>	<u>\$ 186,578</u>	<u>\$ 4,682,609</u>	<u>\$ 4,556,652</u>
Current liabilities					
Accounts payable and accrued liabilities	\$ 33,687	\$ 14	\$ -	\$ 33,701	\$ 15,175
Deferred revenue	97,522	-	-	97,522	24,780
Funds held in trust	-	-	-	-	-
Loan payable (Note 5)	-	732,131	-	732,131	745,930
Current portion of syndicated loans payable (Note 6)	-	35,421	-	35,421	49,800
Interfund balances	-	3,742	-	3,742	-
	<u>131,209</u>	<u>771,308</u>	<u>-</u>	<u>902,517</u>	<u>835,685</u>
Syndicated loans payable (Note 6)	-	357,102	-	357,102	470,582
Share capital (Note 7)	10	-	-	10	10
Fund balances					
Invested in capital assets	37,071	-	-	37,071	27,186
Externally restricted (Note 8)	-	3,054,450	186,578	3,241,028	3,081,335
Internally restricted (Note 9)	70,588	-	-	70,588	57,676
Unrestricted	74,293	-	-	74,293	84,178
	<u>181,952</u>	<u>3,054,450</u>	<u>186,578</u>	<u>3,422,980</u>	<u>3,250,375</u>
	<u>\$ 313,171</u>	<u>\$ 4,182,860</u>	<u>\$ 186,578</u>	<u>\$ 4,682,609</u>	<u>\$ 4,556,652</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, 2014

	General Funds		Restricted Loan Funds			
	2014	2013	General 2014	Disabled 2014	Total 2014	Total 2013
Revenues						
Federal contracts	\$ 294,963	\$ 294,963	\$ -	\$ -	\$ -	\$ -
Other	17,646	21,181	1,545	-	1,545	585
Rental (net)	26,057	23,542	-	-	-	-
Other interest	2,444	2,266	6,322	-	6,322	5,669
Interest on investments	-	-	214,783	-	214,783	217,346
Unrealized gain on marketable securities	-	-	542	4,646	5,188	4,830
	341,110	341,952	223,192	4,646	227,838	228,430
Expenditures						
Salaries and benefits	189,593	187,975	-	-	-	-
Interest	-	-	22,201	-	22,201	26,241
Administrative costs (Schedule 1)	130,462	143,982	489	-	489	762
Allowance for loan impairment (Note 3)	-	-	113,279	-	113,279	66,774
Amortization of capital assets	8,143	10,070	-	-	-	-
	328,198	342,027	135,969	-	135,969	93,777
Excess (deficiency) of revenues over expenditures	12,912	(75)	87,223	4,646	91,869	134,653
Fund balances, beginning of year						
As previously stated	169,040	169,115	2,899,403	181,932	3,081,335	3,014,506
Prior period adjustment (Note 11)	-	-	67,824	-	67,824	-
Inter-fund transfers	-	-	-	-	-	-
Fund balances, end of year	\$ 181,952	\$ 169,040	\$ 3,054,450	\$ 186,578	\$ 3,241,028	\$ 3,149,159

COMMUNITY FUTURES HIGHWOOD
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2014

	<u>Operating Activities</u>	<u>Financing and Investing Activities</u>			<u>Total 2014</u>	<u>Total 2013</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	\$ 294,963	\$ -	\$ -	\$ -	\$ 294,963	\$ 319,543
Investment income	2,444	-	6,322	-	8,766	7,935
Other income	112,898	-	-	-	112,898	49,841
CFLIP loan	-	-	-	-	-	200,000
Syndicated loans	-	-	-	-	-	-
Loan repayments	-	-	1,079,110	-	1,079,110	1,349,415
	<u>410,305</u>	<u>-</u>	<u>1,085,432</u>	<u>-</u>	<u>1,495,737</u>	<u>1,926,734</u>
Uses of cash						
Operating costs	299,817	-	22,747	-	322,564	355,496
Purchase of capital assets	-	18,028	-	-	18,028	520
Purchase of marketable securities	-	-	-	-	-	-
CFLIP loan	-	-	13,799	-	13,799	254,061
Syndicated loan repayment	-	-	159,870	-	159,870	48,725
Loan advances	-	-	809,333	-	809,333	1,088,734
	<u>299,817</u>	<u>18,028</u>	<u>1,005,749</u>	<u>-</u>	<u>1,323,594</u>	<u>1,747,536</u>
Net increase (decrease) in cash	110,488	(18,028)	79,683	-	172,143	179,198
Cash, beginning of year	174,963	-	574,309	-	749,272	570,074
Inter-fund adjustments	(18,028)	18,028	-	-	-	-
Cash, end of year	<u>\$ 267,423</u>	<u>\$ -</u>	<u>\$ 653,992</u>	<u>\$ -</u>	<u>\$ 921,415</u>	<u>\$ 749,272</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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 that are measured at the carrying amount or exchange amount, as appropriate.

The Corporation subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in net income.

Financial assets measured at amortized cost on a straight-line basis include cash, accounts receivable and loans receivable.

Financial liabilities measured at amortized cost on a straight-line basis include accounts payable and accrued liabilities, loan payable, syndicated loans payable, and operating lease commitments.

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 operations. 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 operations.

2. Significant accounting policies (continued)

iii. Transaction costs

The Corporation recognizes its transaction costs in operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted 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 operations 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 operations 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, 2014

2. Significant accounting policies (continued)

e) Capital assets

Capital assets are recorded at cost. Amortization of capital assets 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) Impairment of long-lived assets

The Corporation tests for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected undiscounted future net cash flows the long-lived assets are expected to generate through their direct use and eventual disposition. When a test for impairment indicates that the carrying amount of an asset is not recoverable, an impairment loss is recognized to the extent carrying value exceeds its fair value.

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 expenditures 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.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

2. Significant accounting policies (continued)

h) Revenue recognition (continued)

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

Deferred revenue includes restricted contributions received in the year to be used for related expenditures in the next fiscal year's general operations. It also includes grant funds received in the year from the Alberta government to aid the Corporation in helping their client businesses and communities impacted by floods that occurred in June 2013.

3. Loans receivable

	<u>2014</u>	<u>2013</u>
Loans receivable	\$ 3,622,201	\$ 3,782,318
Allowance for impairment	<u>115,095</u>	<u>212,116</u>
	3,507,106	3,570,202
Current portion	<u>1,257,635</u>	<u>999,434</u>
Long-term portion	<u>\$ 2,249,471</u>	<u>\$ 2,570,768</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.

As at March 31, 2014, the Corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$115,095 (2013 - \$212,116) for loan impairment based on this review.

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 3.00% 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 \$1,458,000 (2013 - \$1,122,500). All operating loans are approved for a 12 month period and bear interest at rates varying from 4.25% to 8.00%. As at March 31, 2014, borrowers had drawn a combined total of \$927,935 (2013 - \$634,224) on these operating loans.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

4. Capital assets

	2014		2013	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & office equipment	\$ 126,983	\$ 90,913	\$ 36,070	\$ 25,185
Leasehold improvements	<u>5,001</u>	<u>4,000</u>	<u>1,001</u>	<u>2,001</u>
	<u>\$ 131,984</u>	<u>\$ 94,913</u>	<u>\$ 37,071</u>	<u>\$ 27,186</u>

5. Bank financing arrangements

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 effective interest rate as at March 31, 2014 was 2%. The Corporation has a line of credit on a credit card of \$12,000. As at March 31, 2014, 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 \$732,131 (2013 – \$745,930) as at March 31, 2014.

6. Syndicated loans payable

	<u>2014</u>	<u>2013</u>
Syndicated loans payable	\$ 392,523	\$ 520,382
Current portion	<u>35,421</u>	<u>49,800</u>
Long term portion	<u>\$ 357,102</u>	<u>\$ 470,582</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 7.00% to 7.25% with monthly blended principal and interest repayments for terms of 5 years. The annual payments to be made for the loans outstanding are as follows:

2015	\$ 35,421
2016	\$ 47,859
2016	\$ 45,583
2017	\$ 49,010
2018	\$ 29,773
Subsequent years	<u>\$ 184,877</u>
Total	<u>\$ 392,523</u>

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

7. Share capital

	<u>2014</u>	<u>2013</u>
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>2014</u>	<u>2013</u>
<u>Loan Investment Funds</u>		
Restricted to loans and equity investments to entrepreneurs		
General	\$ 3,054,450	\$ 2,899,403
Disabled	<u>186,578</u>	<u>181,932</u>
	<u>\$ 3,241,028</u>	<u>\$ 3,081,335</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 ended March 31, 2014.

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.

10. Commitments

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

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

11. Prior period error correction

In the prior year, the Corporation recognized bad debt expense related to customer accounts twice when instead the reserves for doubtful accounts should have been drawn down to recognize this write-off. This error correction has been applied retroactively with a restatement of prior year balances. As a result of this change, the current year's opening fund balance has been increased by \$67,824 and bad debts in the prior year have decreased by \$67,824.

COMMUNITY FUTURES HIGHWOOD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2014

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.

14. Financial instruments

The Corporation is exposed to various financial risks through transactions in financial instruments. The following provides helpful information in assessing the extent of the Corporation's exposure to these risks.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relate to its loans receivable.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, loan payable, syndicated loans payable, and operating lease commitments.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk on its fixed and floating interest rate financial instruments. Fixed-rate financial instruments subject the Corporation to a fair value risk, while the floating-rate financial instruments subject the Corporation to a cash flow risk.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant currency risk or other price risks arising from these financial instruments.

COMMUNITY FUTURES HIGHWOOD
SCHEDULE OF ADMINISTRATIVE COSTS
FOR THE YEAR ENDED MARCH 31, 2014

Schedule 1

	<u>2014</u>	<u>2013</u>
Professional fees	\$ 28,792	\$ 31,015
Rent	25,000	25,000
Meetings and conventions	16,842	22,256
Repairs and maintenance	13,237	17,679
Sundry	12,755	12,710
Office	8,968	10,546
Telephone	8,552	7,431
Travel	5,674	6,120
Insurance	3,212	3,169
Non-refundable GST	2,645	2,768
Special projects	2,258	0
Advertising and promotion	1,632	4,421
Professional development	<u>895</u>	<u>867</u>
	<u>\$ 130,462</u>	<u>\$ 143,982</u>