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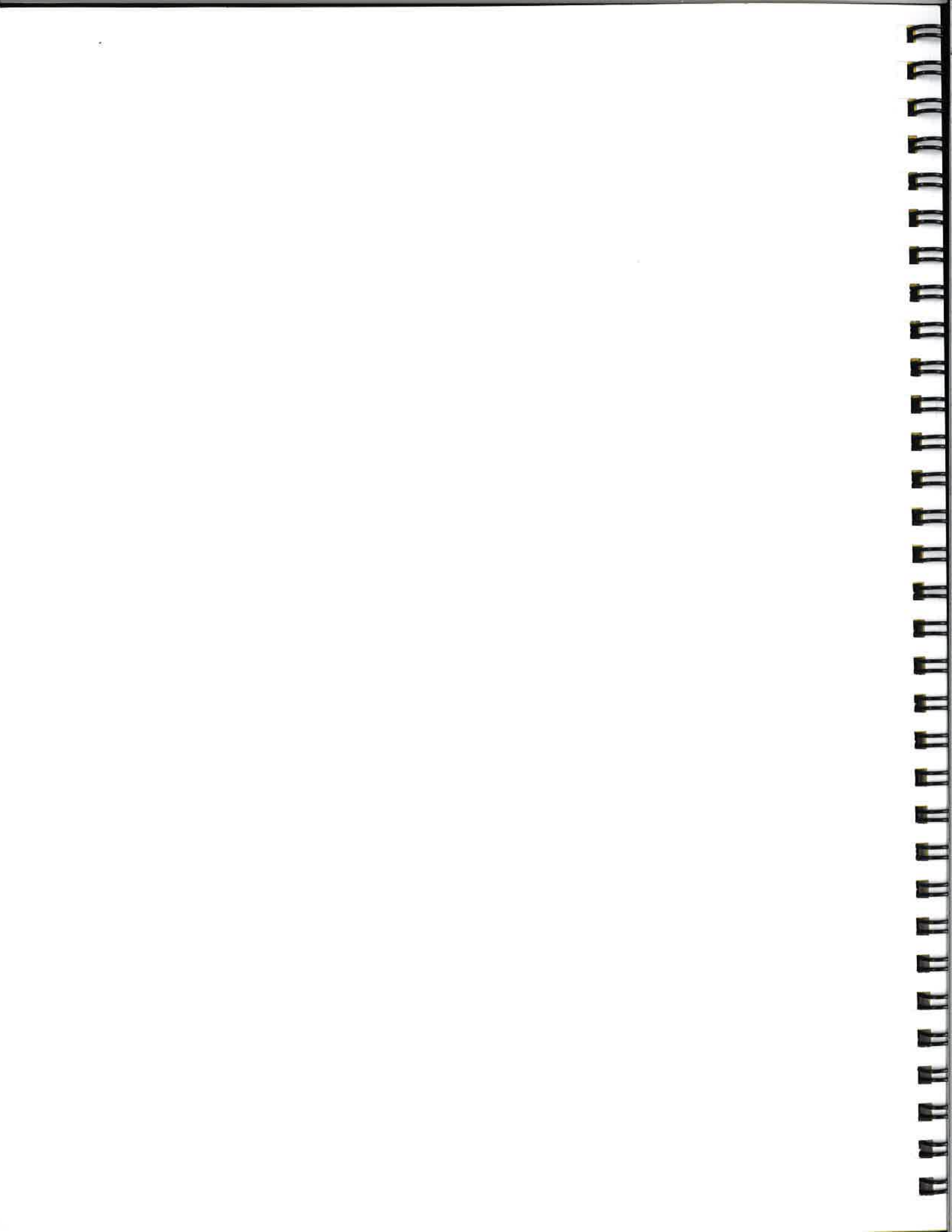
COMMUNITY  
FUTURES  
HIGHWOOD

YEAR ENDED  
MARCH 31, 2018

**COMMUNITY FUTURES HIGHWOOD**

**FINANCIAL STATEMENTS**

**MARCH 31, 2018**



**COMMUNITY FUTURES HIGHWOOD**  
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**MARCH 31, 2018**

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**INDEPENDENT AUDITOR'S REPORT**

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**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, 2018, 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*

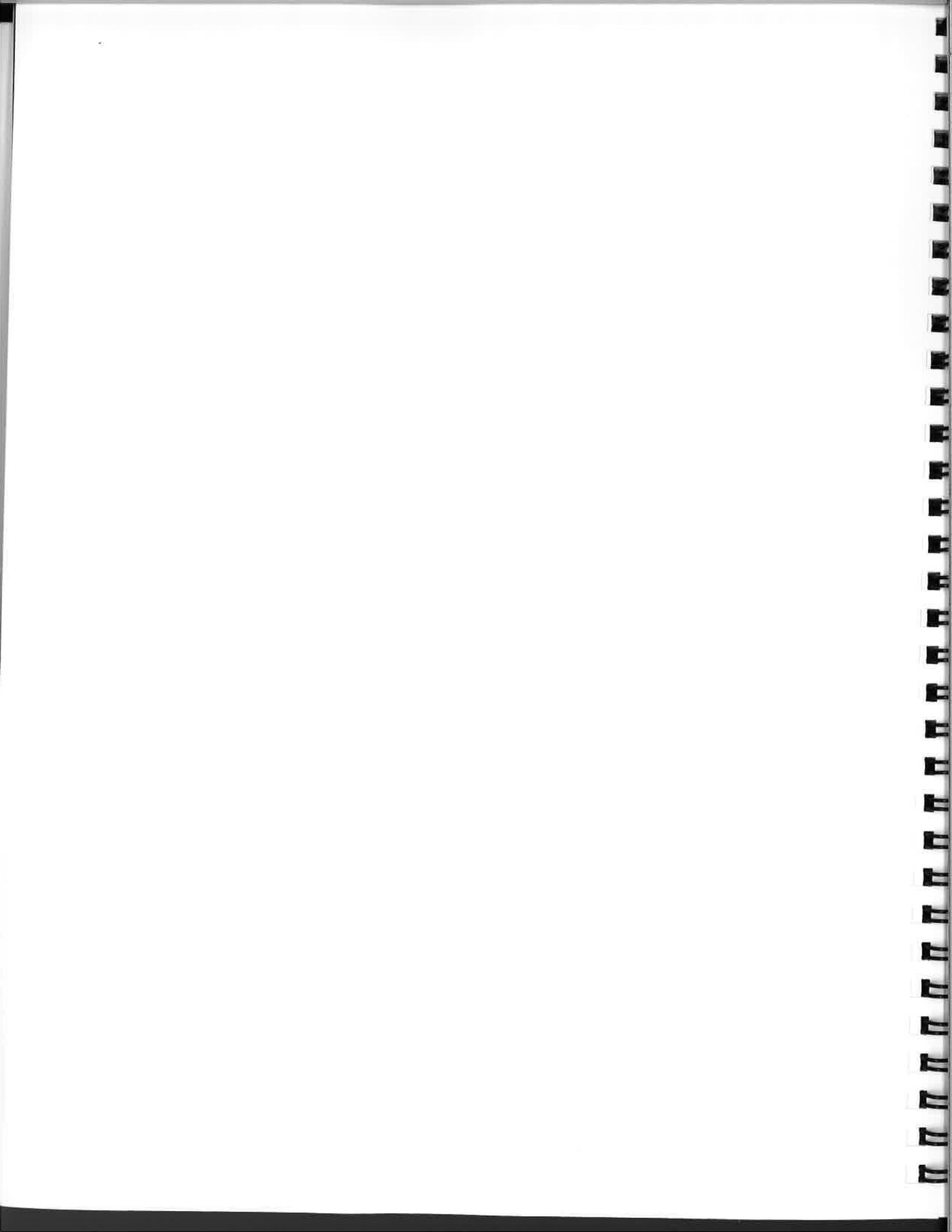
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that 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 Corporation'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.



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**INDEPENDENT AUDITOR'S REPORT, continued**

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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Highwood as at March 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**CALGARY, ALBERTA  
JULY 7, 2018**

*Catalyst LLP*  
**CHARTERED PROFESSIONAL  
ACCOUNTANTS**





**COMMUNITY FUTURES HIGHWOOD  
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
MARCH 31, 2018**

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**To: Western Economic Diversification Canada**

We have audited the Community Futures Highwood's compliance as at March 31, 2018 with the criteria established in the Contribution Agreement effective April 1, 2008 with Western Economic Diversification Canada and the interpretation as set out in Note 1 to the financial statements. Compliance with the criteria established by the provisions of the agreement is the responsibility of management 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 these criteria, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2018, Community Futures Highwood is in compliance, in all material respects, with the criteria established in 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.

**CALGARY, ALBERTA  
JULY 7, 2018**

**CHARTERED PROFESSIONAL  
ACCOUNTANTS**



**COMMUNITY FUTURES HIGHWOOD**  
**STATEMENT OF FINANCIAL POSITION**  
**MARCH 31, 2018**

	Restricted Loan Funds					Total 2017
	General Fund 2018	General 2018	Disabled 2018	Youth 2018	Rotary 2018	
<b>Current assets</b>						
Cash	\$ 169,326	\$ 439,166	\$ -	\$ -	\$ 154,532	\$ 763,024
Marketable securities	-	820,603	212,809	-	-	1,033,412
Accounts receivable	660	-	-	-	-	660
Prepaid expenditures	7,484	-	-	-	-	7,484
Interfund balances	-	1,208,398	17,958	74,836	68,473	54,024
Current portion of loans receivable (Note 3)	177,470	2,468,167	230,767	95,169	223,005	1,591,589
<b>Loans receivable (Note 3)</b>						
<b>Capital assets (Note 4)</b>						
	27,954	1,396,258	-	7,407	24,692	1,428,357
	\$ 205,424	\$ 3,864,425	\$ 230,767	\$ 102,576	\$ 247,697	\$ 4,650,889
<b>Current liabilities</b>						
Accounts payable and accrued liabilities	\$ 14,321	\$ -	\$ -	\$ -	\$ 224,503	\$ 238,824
Deferred revenue	-	-	-	-	-	24,580
Loan payable (Note 5)	-	788,588	-	-	-	882,884
Current portion of syndicated loans payable	-	-	-	-	-	6,913
Interfund balances	14,321	60,266	14,570	-	-	54,024
		848,854	14,570	-	224,503	1,102,248
<b>Share capital (Note 6)</b>	10	-	-	-	-	10
<b>Fund balances</b>						
Invested in capital assets	27,954	-	-	-	-	27,954
Externally restricted (Note 7)	23,485	3,015,571	216,197	102,576	23,194	3,525,263
Internally restricted (Note 8)	139,654	-	-	-	-	23,485
Unrestricted	191,093	3,015,571	216,197	102,576	23,194	110,296
	\$ 205,424	\$ 3,864,425	\$ 230,767	\$ 102,576	\$ 247,697	\$ 3,696,963
<b>Commitments (Note 9)</b>						
						\$ 4,859,336

Approved on behalf of the Board  
 Signature *Evan Berger, Chair*

*A Chapman*  
 Amber Chapman, Secretary

The accompanying notes are an integral part of the financial statements

**COMMUNITY FUTURES HIGHWOOD**  
**STATEMENT OF OPERATIONS**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	General Fund		Restricted Loan Funds				Total 2017
	2018	2017	General 2018	Disabled 2018	Youth 2018	Rotary 2018	
<b>Revenues</b>							
Federal contracts	\$ 294,963	\$ 294,963	\$ -	\$ -	\$ -	\$ -	\$ -
Provincial contracts	-	-	-	-	-	-	-
Other	60,493	41,239	1,692	-	-	-	3,472
Rental (net)	45,369	37,513	-	-	-	-	-
Other interest	2,553	1,552	7,942	-	-	-	7,942
Interest on loans receivable	-	-	207,515	1,028	2,112	5,134	215,789
Unrealized gain on marketable securities	-	-	17,765	6,825	-	-	24,390
	403,378	375,267	234,914	7,653	2,112	5,134	249,813
<b>Expenditures</b>							
Salaries and benefits	258,024	245,841	-	-	-	-	25,704
Interest	-	-	25,704	-	-	-	-
Administrative costs (Schedule 1)	163,981	154,456	2,671	-	-	340	3,011
Allowance for loan impairment	-	-	339,098	-	-	-	339,098
Amortization of capital assets	11,705	15,334	-	-	-	-	-
	433,710	415,631	367,473	-	-	340	367,813
Excess (deficiency) of revenues over expenditures	(30,332)	(40,364)	(132,559)	7,653	2,112	4,794	(118,000)
Fund balances, beginning of year	171,700	162,701	3,197,855	208,544	100,464	18,400	3,525,263
Interfund transfers (Note 10)	49,725	49,363	(49,725)	-	-	-	(49,363)
<b>Fund balances, end of year</b>	<b>\$ 191,093</b>	<b>\$ 171,700</b>	<b>\$ 3,015,571</b>	<b>\$ 216,197</b>	<b>\$ 102,576</b>	<b>\$ 23,194</b>	<b>\$ 3,357,538</b>
							<b>\$ 3,525,263</b>

The accompanying notes are an integral part of the financial statements

**COMMUNITY FUTURES HIGHWOOD**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

	Operating Activities		Financing and Investing Activities				Total 2018	Total 2017
	General Fund	General Fund	General	Disabled	Youth	Rotary		
<b>Sources of cash</b>								
Federal contracts	\$ 270,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 270,383	
Investment income	2,553	-	-	-	-	-	10,495	
Other income	115,224	-	7,942	-	-	-	116,916	
Rotary International	-	-	1,692	-	-	-	45,582	
Loan advance	-	-	-	-	-	45,582	-	
Loan repayments	-	-	1,273,243	6,896	21,347	80,392	1,381,878	
	388,160	-	1,282,877	6,896	21,347	125,974	1,825,254	
<b>Uses of cash</b>								
Operating costs	423,355	-	28,375	-	-	340	452,070	
Purchase of capital assets	-	1,740	-	-	-	-	1,740	
CFIIP loan	-	-	94,286	-	-	-	94,286	
Syndicated loan repayment	-	-	12,863	-	-	-	12,863	
Loan advances	-	-	857,322	22,000	-	80,017	959,339	
Marketable securities	-	-	250,000	-	-	-	250,000	
	423,355	1,740	1,242,856	22,000	-	80,357	1,770,308	
<b>Net increase (decrease) in cash</b>	(35,195)	(1,740)	40,021	(15,104)	21,347	45,617	54,946	
Cash, beginning of year	156,536	-	442,627	-	-	108,915	708,078	
Inter-fund adjustments	47,985	1,740	(43,482)	15,104	(21,347)	-	-	
<b>Cash, end of year</b>	\$ 169,326	\$ -	\$ 439,166	\$ -	\$ -	\$ 154,532	\$ 763,024	
							\$ 708,078	

The accompanying notes are an integral part of the financial statements

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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**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 a Contribution Agreement effective April 1, 2008. 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 cost or 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 deficiency of revenues over expenditures in the period incurred.

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, and operating lease commitments.

Financial assets measured at fair value include marketable securities.

**(ii) Impairment**

Financial assets measured at amortized 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.

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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2. **Significant accounting policies, continued**

(a) **Financial instruments, 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. The significant areas requiring the use of estimates includes allowance for loan impairment and useful lives for capital assets. 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.

Loan impairment is 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, 2018**

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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 and no amortization is recorded in the year of disposal. 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. Youth loans are limited to businesses owned and operated by entrepreneurs between the ages of 18 and 29 at the time of application. The Rotary loans are available to High River businesses that meet specific financing criteria.

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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2. **Significant accounting policies, continued**

(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.

Interest on loans receivable and other interest income earned on the General, Disabled, Youth and Rotary Restricted Funds is recognized as revenue in the respective 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.

3. **Loans receivable**

	<b>2018</b>
Loans receivable	\$ 3,041,119
Allowance for impairment	(297,600)
	2,743,519
Less current portion	1,315,162
	<b>\$ 1,428,357</b>

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, 2018, the Corporation assessed each loan to determine its ultimate collectability and made specific provisions totalling \$297,600 (2017 - \$214,302) for loan impairment based on this review.

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**3. Loans receivable, continued**

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 3.00% to 8.25% with monthly blended principal and interest repayments for terms between 12 and 180 months.

Included in loans receivable are approved operating loans totalling \$1,033,210 (2017 - \$1,522,982). All operating loans are approved for a 12 month period and bear interest at rates varying from 5.00% to 8.25%.

**4. Capital assets**

	<b>2018</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Furniture and office equipment	\$ 172,781	\$ 146,164	\$ 26,617
Leasehold improvements	8,345	7,008	1,337
	\$ 181,126	\$ 153,172	\$ 27,954

**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, 2018 was 3.70%. The Corporation has a line of credit on a credit card of \$12,000 bearing interest at 19.99%. As at March 31, 2018, there was no balance outstanding on either line of credit. The Corporation also has available a \$1,500,000 operating loan 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 drawn on this loan was \$788,588 (2017 - \$882,884) as at March 31, 2018.

**6. Share capital**

	<b>2018</b>
Issued	
10 Common voting shares	\$ 10

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**7. Externally restricted fund balances**

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

	<b>2018</b>
Restricted loans and equity investments to entrepreneurs	
General	\$ 3,015,571
Disabled	216,197
Youth	102,576
Rotary	23,194
	<b>\$ 3,357,538</b>

**8. 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.

**9. Commitments**

The Corporation's annual obligation under various operating leases is as follows:

2019	\$ 28,358
2020	28,358
2021	28,358
2022	25,000
	<b>\$ 110,074</b>

**10. Interfund transfers**

The General Restricted Fund transferred \$49,725 to the General Fund for salaries and benefits per the terms in the Contribution Agreement.

**11. Economic dependence**

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

**COMMUNITY FUTURES HIGHWOOD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

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12. **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 Company'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 relates to its accounts receivable and 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, 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 TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2018**

**Schedule of administrative costs**

**Schedule 1**

	<u>2018</u>	<u>2017</u>
Professional fees	\$ 60,586	\$ 41,415
Rent	27,357	25,186
Meetings and conventions	15,893	14,289
Repairs and maintenance	15,137	15,620
Sundry	13,278	23,738
Office	11,639	11,445
Travel	5,105	3,530
Telephone	4,754	6,016
Insurance	4,221	3,380
Non-refundable GST	2,925	2,569
Professional development	2,909	2,040
Advertising and promotion	177	5,228
	<u>\$ 163,981</u>	<u>\$ 154,456</u>

July 7, 2018

Mr. John Lockhart  
Community Futures Highwood  
Box 1599  
14 McRae Street  
Okotoks, AB T1S 1B5

Dear Sir:

We have completed our audit of the financial statements of Community Futures Highwood ("Corporation") for the year ended March 31, 2018 during which time we reviewed the system of internal controls. While we are satisfied that our audit procedures are as extensive as we consider necessary in the circumstances to report to the financial statement users upon the fair presentation of the Corporation's financial statements, we believe that certain procedures could be altered so as to improve accounting controls and internal processes. We have offered suggestions in this regard which are summarized below.

The matter raised relates to systems only and is not intended to reflect in any way upon Corporation personnel. We very much appreciated the excellent co-operation and assistance received by us from your staff during the course of our audit.

Internal Control Issues

Online banking and electronic funds transfer payments

During our test of internal controls and systems, we discovered some source documents for payments of monthly credit card statements and other online banking payments are reviewed by John and then provided to Cory to make online payments. As more vendors are changing to online payments it is our recommendation that the Corporation looks into different opinions with their bank institution to require two approvals online before a payment is made over a certain threshold.

Should you wish to enquire further into the above matters please feel free to contact our office.

Yours very truly,



Paige Shaw CPA, CA  
Partner  
CATALYST LLP

PTS/pam



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[www.thecatalystgroup.ca](http://www.thecatalystgroup.ca)