

COMMUNITY FUTURES CAPITAL REGION

Financial Statements

Year Ended March 31, 2016

COMMUNITY FUTURES CAPITAL REGION

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Year Ended March 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Members of Community Futures Capital Region

We have audited the accompanying financial statements of Community Futures Capital Region, which comprise the statement of financial position as at March 31, 2016 and the statements of changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report to the Members of Community Futures Capital Region *(continued)*

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Capital Region as at March 31, 2016 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.



Drayton Valley, Alberta
June 20, 2016

CHARTERED ACCOUNTANTS

COMMUNITY FUTURES CAPITAL REGION

Statement of Financial Position

March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
ASSETS						
CURRENT						
Cash	\$ (126,952)	\$ -	\$ 694,720	\$ 212,596	\$ 780,364	\$ 497,079
Accounts receivable (Note 2)	3,429	-	-	-	3,429	14,209
Accrued interest receivable (Note 3)	-	-	7,251	-	7,251	8,299
Prepaid expenses	3,806	-	-	-	3,806	706
Current portion of investment loans receivable (Note 5)	-	-	325,335	-	325,335	340,686
	(119,717)	-	1,027,306	212,596	1,120,185	860,979
EQUIPMENT (Net of accumulated amortization) (Note 4)	-	376,431	-	-	376,431	389,597
INVESTMENT LOANS RECEIVABLE (Note 5)	-	-	454,495	-	454,495	676,107
	\$ (119,717)	\$ 376,431	\$ 1,481,801	\$ 212,596	\$ 1,951,111	\$ 1,926,683

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Financial Position

March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
LIABILITIES AND NET ASSETS						
CURRENT						
Accounts payable	\$ 16,523	\$ -	\$ -	\$ -	\$ 16,523	\$ 15,901
Mortgage payable (Note 7)	-	-	-	-	-	49,162
	16,523	-	-	-	16,523	65,063
	(136,240)	376,431	1,481,801	212,596	1,934,588	1,861,620
NET ASSETS	\$ (119,717)	\$ 376,431	\$ 1,481,801	\$ 212,596	\$ 1,951,111	\$ 1,926,683

ON BEHALF OF THE BOARD

_____ Director

_____ Director

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION
Statement of General and Capital Asset Fund Revenues and Expenses
Year Ended March 31, 2016

	General Fund 2016	Capital Asset 2016	Total 2016	Total 2015
REVENUE				
Federal contracts	\$ 294,963	\$ -	\$ 294,963	\$ 294,963
Loan fees and other	9,902	-	9,902	22,009
Consulting fees	-	-	-	10,000
Interest	5,415	-	5,415	2,752
	<u>310,280</u>	<u>-</u>	<u>310,280</u>	<u>329,724</u>
EXPENSES				
Advertising and promotion	9,195	-	9,195	10,664
Amortization	-	13,166	13,166	12,878
Bank charges and loan costs	1,105	1,802	2,907	4,343
Board member expenses	11,595	-	11,595	14,249
Community education program	1,370	-	1,370	3,425
Consultants	23,034	-	23,034	26,484
GST not recovered	1,278	-	1,278	2,068
Insurance	2,400	-	2,400	2,220
Memberships and dues	577	-	577	570
NAYEC	-	-	-	758
Office	8,910	-	8,910	22,934
Professional development	4,219	-	4,219	10,298
Professional, accounting and audit	13,888	-	13,888	17,060
Property taxes	3,416	-	3,416	3,086
Publications	20	-	20	70
Repairs and maintenance	6,873	-	6,873	8,000
Salaries and benefits	168,049	-	168,049	134,616
Travel	7,414	-	7,414	8,188
Utilities	10,866	-	10,866	12,292
	<u>274,209</u>	<u>14,968</u>	<u>289,177</u>	<u>294,203</u>
EXCESS (DEFICIENCY) OF EXPENSES OVER REVENUE	\$ 36,071	\$ (14,968)	\$ 21,103	\$ 35,521

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION
Statement of Loan Investment Fund Revenues and Expenses
Year Ended March 31, 2016

	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
REVENUE				
Investment interest	\$ 70,825	\$ -	\$ 70,825	\$ 92,980
EXPENSES				
Provision (recovery) for investment losses	18,960	-	18,960	72,334
INCOME FROM OPERATIONS	\$ 51,865	\$ -	\$ 51,865	\$ 20,646

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Changes in Net Assets

Year Ended March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
NET ASSETS - BEGINNING OF YEAR	\$ (121,347)	\$ 340,435	\$ 1,429,936	\$ 212,596	\$ 1,861,620	\$ 1,805,453
Excess of revenue over expenses	36,071	(14,968)	51,865	-	72,968	56,167
Interfund transfer	(50,964)	50,964	-	-	-	-
NET ASSETS - END OF YEAR	\$ (136,240)	\$ 376,431	\$ 1,481,801	\$ 212,596	\$ 1,934,588	\$ 1,861,620

Breakdown of Net Assets

Year Ended March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
Original contributions	\$ -	\$ -	\$ 1,187,500	\$ 200,000	\$ 1,387,500	\$ 1,387,500
Earned net assets	(136,240)	376,431	294,301	12,596	547,088	474,120
	\$ (136,240)	\$ 376,431	\$ 1,481,801	\$ 212,596	\$ 1,934,588	\$ 1,861,620

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Cash Flows

Year Ended March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
OPERATING ACTIVITIES						
Excess of revenue over expenses	\$ 36,071	\$ (14,968)	\$ 51,865	\$ -	\$ 72,968	\$ 56,167
Items not affecting cash:						
Amortization of property, plant and equipment	-	13,166	-	-	13,166	12,878
Provision (recovery) for investment losses	-	-	18,960	-	18,960	70,549
	36,071	(1,802)	70,825	-	105,094	139,594
Changes in non-cash working capital:						
Accounts receivable	10,780	-	-	-	10,780	(6,423)
Accrued interest receivable	-	-	1,048	-	1,048	(1,655)
Accounts payable	622	-	-	-	622	3,157
Deferred income	-	-	-	-	-	(24,580)
Prepaid expenses	(3,100)	-	-	-	(3,100)	1,116
	8,302	-	1,048	-	9,350	(28,385)
Cash flow from operating activities	44,373	(1,802)	71,873	-	114,444	111,209
INVESTING ACTIVITIES						
Purchase of property, plant and equipment	-	-	-	-	-	(3,558)
Repayment of loans and notes receivable	-	-	605,325	-	605,325	685,057
Addition to loans and notes receivable	-	-	(387,322)	-	(387,322)	(497,731)
Cash flow from investing activities	-	-	218,003	-	218,003	183,768
FINANCING ACTIVITIES						

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See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Cash Flows (continued)

Year Ended March 31, 2016

	General Fund 2016	Capital Asset 2016	Restricted General 2016	Restricted Disabled 2016	Total 2016	Total 2015
Mortgage payable	-	(49,162)	-	-	(49,162)	(14,320)
Repayment of short term debt	-	-	-	-	-	-
Interfund transfer	(50,964)	50,964	-	-	-	-
Cash flow from (used by) financing activities	(50,964)	1,802	-	-	(49,162)	(14,320)
INCREASE (DECREASE) IN CASH FLOW	(6,591)	-	289,876	-	283,285	280,657
Cash (deficiency) - beginning of year	(120,361)	-	404,844	212,596	497,079	216,422
CASH (DEFICIENCY) - END OF YEAR	\$ (126,952)	\$ -	\$ 694,720	\$ 212,596	\$ 780,364	\$ 497,079

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Community Futures Capital Region (the "organization") is a not-for-profit organization incorporated provincially under the Not-for-profit Corporations Act of Alberta. Management has determined that they are exempt from payment of income tax under Section 149(1) of the Income Tax Act.

With the financial support of the Government of Canada, it provides loans and financial services to small businesses otherwise unable to obtain financing, delivers government services and programs related to employment and economic development, provides training and business advisory services, and contributes leadership and expertise in economic development to local communities.

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Fund accounting

Community Futures Capital Region follows the restricted fund method of accounting for contributions.

The General Fund accounts for the organization's operating costs, operating grants and general revenues. Project funding is reported as revenue and the related project costs are included in various categories of expense. Cash balances in excess of those required to fund loans approved are retained in the general fund for efficient investment in short term securities. Net transfers of cash appear as inter-fund transfers and the accumulated balance is reflected as inter-fund receivables and payables.

The Capital Asset Fund reports the assets, liabilities, revenues and expenses related to organization's acquisition of capital assets.

The Loan Investment Funds report 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 organization is restricted in the types of loans that can be made according to its agreement with the Government of Canada.

Recognition of Contributions

Federal contracts and grants are included in revenue in the year in which they are received or become receivable, with the exception that amounts received to fund specific expenditures are included in revenue in the year the funds are expended.

Recognition of Other Revenues

Revenue from all other sources is included in revenue in the year in which it is received or becomes receivable.

Contributed services

The operations of the organization depend on both the contribution of time by volunteers and donated materials from various sources. The fair value of donated materials and services cannot be reasonably determined and are therefore not reflected in these financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and short-term investments with maturities not exceeding 90 days.

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COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment Loans and Accrued Interest Receivable

Investment loans receivable are classified as held to maturity financial instruments and are recorded at the lower of principal plus accrued interest and estimated realizable value.

Interest income from loans is recorded on the accrual basis for all loans not classified as impaired. Loans are classified as impaired when there is reasonable doubt as to the timely collection of some portion of principal or interest. This assessment is made by management and the Board of Directors.

When a loan is classified as impaired, recognition of interest income in accordance with the original loan agreement ceases. Any subsequent payments received on an impaired loan are applied to reduce the recorded investment in the loan.

Allowance for Doubtful Loans

The Allowance for Doubtful Loans is calculated by management based on specific doubtful loans plus 3% (3% - 2015) of the rest of the portfolio.

Equipment

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Equipment is amortized over their estimated useful lives on a declining balance basis at the following rates.

Buildings	3%	declining balance method
Computer hardware	33%	declining balance method
Computer software	50%	declining balance method
Office furniture and fixtures	20%	declining balance method

Measurement uncertainty

The preparation of financial statements in conformity 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

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COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial Instruments Policy

Held for trading

The organization has classified the following financial assets and liabilities as held for trading: cash and short term investments. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Held for trading financial instruments are subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in net income.

Loans and receivables

The organization has classified the following financial assets as loans and receivables: trade accounts receivable and long term loans receivable. These assets are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are exactly discounted over the asset's expected life, or other appropriate method, to its net carrying value. Amortized cost is the amount at which the financial asset is measured at initial recognition less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, and less any reduction for impairment or uncollectibility. Gains or losses arising from changes in fair value are recognized in net income from derecognition or impairment.

Other financial liabilities

The organization has classified the following financial liabilities as other financial liabilities: accounts payable and accruals. These liabilities are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Under this method, estimated future cash payments are exactly discounted over the liability's expected life, or other appropriate period, to its net carry value. Amortized cost is the amount at which the financial liability is measured at initial recognition less principal repayments, and plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount. Gains and losses arising from the changes in fair value are recognized in net income upon derecognition or impairment.

2. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of

	<u>2016</u>	<u>2015</u>
GST receivable	\$ -	\$ 80
Loan fees receivable	3,429	9,129
Trade receivables	-	5,000
	<u>\$ 3,429</u>	<u>\$ 14,209</u>

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

3. ACCRUED INTEREST RECEIVABLE

Loan Investment Funds

	Restricted General	Restricted Disabled	2016	2015
Interest in arrears	\$ 8,884	\$ -	\$ 8,884	\$ 8,725
Less: provision for loan losses	(1,633)	-	(1,633)	(426)
	<u>\$ 7,251</u>	<u>\$ -</u>	<u>\$ 7,251</u>	<u>\$ 8,299</u>

4. EQUIPMENT

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Buildings	\$ 486,550	\$ 111,807	\$ 374,743	\$ 386,333
Computer hardware	50,793	49,105	1,688	3,264
Computer software	2,764	2,764	-	-
Office furniture and fixtures	44,477	44,477	-	-
	<u>\$ 584,584</u>	<u>\$ 208,153</u>	<u>\$ 376,431</u>	<u>\$ 389,597</u>

5. INVESTMENT LOANS RECEIVABLE

Loan Investment Funds

	Restricted General	Restricted Disabled	2016	2015
Loan Receivable	\$ 862,242	\$ -	\$ 862,242	\$ 1,107,010
Less: allowance for loan impairment	(82,412)	-	(82,412)	(90,217)
Less: current portion	(325,335)	-	(325,335)	(340,686)
	<u>\$ 454,495</u>	<u>\$ -</u>	<u>\$ 454,495</u>	<u>\$ 676,107</u>

ALLOWANCE FOR LOAN IMPAIRMENT:

An allowance for impairment on investment loans is made based on expected loan default rates, potential loss ratios and review of loans portfolio, as determined by management as follows:

Balance, beginning of year	\$ (90,217)	\$ -	\$ (90,217)	\$ (272,991)
Provision for loan losses	(18,826)	-	(18,826)	(1,617)
Amounts written off to the allowance	26,631	-	26,631	184,391
Balance at end of year	<u>\$ (82,412)</u>	<u>\$ -</u>	<u>\$ (82,412)</u>	<u>\$ (90,217)</u>

In accordance with the organization's objectives, the organization has provided loans to small businesses. Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 4.75% to 10% per annum with monthly blended principal and interest repayments amortized for terms between 12 and 60 months. Security is taken on these loans as appropriate to the situation and includes personal guarantees, general security agreements covering business assets and mortgages on property.

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

6. SHORT TERM DEBT

The organization also has a credit facility of \$750,000 from Community Futures Network of Alberta. As at March 31, 2016, the organization used \$Nil (\$Nil in 2015) from its credit facility. As a security for the repayment, the Society provided a general security agreement and a promissory note for the total amount of the loan.

7. CALLABLE DEBT

	<u>2016</u>	<u>2015</u>
Loan paid out in full.	\$ -	\$ 49,162

8. EXTERNALLY RESTRICTED NET ASSETS

Loan funds contributed by the government are classified as general and disabled according to the nature of the restrictions placed on their use and the term of the program for which they were advanced. Externally imposed restrictions on loan investment fund balances are as follows:

	<u>2016</u>	<u>2015</u>
General	\$ 1,481,801	\$ 1,429,937
Disabled	212,596	212,596
	<u>\$ 1,694,397</u>	<u>\$ 1,642,533</u>

Under the terms and conditions of the contribution agreement with the Department of Western Economic Diversification, loan investment funds include Conditionally Repayable Funds in the amount of \$1,387,500 that are repayable if any of the following conditions occur:

- a) The Conditionally Repayable Investment fund is not administered according to the terms and conditions specified in the Agreement; or
- b) Based on review and evaluations of the operations and the Conditionally Repayable Investment Fund of the organization, the Conditionally Repayable investment Fund is not providing a satisfactory level of benefits in terms of employment creation, the development of community-owned or controlled businesses and strengthening of the western Canadian economy; or
- c) In the opinion of the Minister, the Conditionally Repayable Investment Fund is no longer necessary or relevant to the development of the Western Canadian economy; or
- d) The Agreement is terminated as described in Section 12 of the Agreement; or
- e) An event of default occurs as described in Section 7 of the Agreement; or
- f) The Minister does not approve terms and conditions to extend the project beyond March 31, 2018.
- g) If this agreement is not renewed beyond the March 31, 2018 ending date, the outstanding loans receivable would be liquidated in an orderly fashion over a period of 3 to 5 years. Minimal staff would be kept on to oversee this process and operational costs would have to be covered by the interest earned by the loans as the Department of Western Economic Diversification would no longer fund operational costs. No new loans receivable would be granted and no other projects would be initiated.

9. ECONOMIC DEPENDENCE

The organization receives a significant portion of its operating revenues from the Federal and Provincial governments and is economically dependent upon them.

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2016

10. FINANCIAL INSTRUMENTS

The company is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the company's risk exposure and concentration as of March 31, 2016.

Credit risk

The organization is exposed to credit risk on investment loans receivable from its applicants. In order to reduce its risk, the organization has adopted credit policies and all loans are approved by the Board of Directors. The organization also provides for doubtful accounts based on estimated realizable value of the investment loans receivable.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company is exposed to this risk mainly in respect of its receipt of funds from its customers and other related sources, long-term debt, obligations under capital leases, contributions to the pension plan, and accounts payable.

The organization is exposed to this risk mainly in respect of its receipt of funds from its loan clients and other related sources, short-term debt and accounts payable.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its floating interest rate on short-term debt.

Changes in risk

There have been no changes in the organization's risk exposures from the prior year.