

COMMUNITY FUTURES CAPITAL REGION

Financial Statements

Year Ended March 31, 2018

COMMUNITY FUTURES CAPITAL REGION

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Year Ended March 31, 2018

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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, 2018 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, 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.

A handwritten signature in black ink that reads "Carlson Roberts Seely LLP." The signature is written in a cursive, flowing style.

Drayton Valley, Alberta
June 18, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

COMMUNITY FUTURES CAPITAL REGION

Statement of Financial Position

March 31, 2018

	General Fund 2018	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
ASSETS					
CURRENT					
Cash (Note 2)	\$ (92,555)	\$ 341,234	\$ 215,199	\$ 463,878	\$ 653,338
Term deposits	-	151,772	-	151,772	-
Accounts receivable (Note 3)	3,788	-	-	3,788	5,722
Accrued interest receivable (Note 4)	-	2,981	-	2,981	5,796
Prepaid expenses	1,862	-	-	1,862	5,334
Current portion of investment loans receivable (Note 6)	-	225,503	-	225,503	327,363
	(86,905)	721,490	215,199	849,784	997,553
PROPERTY, PLANT AND EQUIPMENT (Net of accumulated amortization) (Note 5)	355,143	-	-	355,143	368,409
LOANS AND NOTES RECEIVABLE (Note 6)	-	755,450	-	755,450	631,456
	\$ 268,238	\$ 1,476,940	\$ 215,199	\$ 1,960,377	\$ 1,997,418

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Financial Position

March 31, 2018

	General Fund 2018	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
LIABILITIES AND NET ASSETS					
CURRENT					
Accounts payable	\$ 19,618	\$ -	\$ -	\$ 19,618	\$ 19,248
NET ASSETS	<u>248,620</u>	<u>1,476,940</u>	<u>215,199</u>	<u>1,940,759</u>	<u>1,978,170</u>
LIABILITIES AND NET ASSETS	<u>\$ 268,238</u>	<u>\$ 1,476,940</u>	<u>\$ 215,199</u>	<u>\$ 1,960,377</u>	<u>\$ 1,997,418</u>

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

COMMUNITY FUTURES CAPITAL REGION
Statement of General Fund Revenues and Expenses
Year Ended March 31, 2018

	Total 2018	Total 2017
REVENUE		
Federal contracts	\$ 294,963	\$ 294,963
Succession planning program	68,500	-
Loan fees and other	14,279	10,697
Summer entrepreneurial program	6,905	6,900
Interest	1,330	596
Community education program	-	100
	<u>385,977</u>	<u>313,256</u>
EXPENSES		
Salaries and benefits	221,873	199,135
Succession planning program	67,290	-
Office	17,651	9,972
Professional, accounting and audit	17,137	16,171
Utilities	10,020	10,161
Provision (recovery) for investment losses	8,737	-
Board member expenses	8,685	6,645
Repairs and maintenance	7,319	5,239
Travel	5,005	6,549
Property taxes	3,860	3,500
Summer entrepreneurial program expenses	3,500	2,000
Advertising and promotion	3,130	8,222
Professional development	2,668	3,706
Insurance	2,483	2,419
Community education program	1,381	4,115
Memberships and dues	711	820
Bank charges and loan costs	465	895
GST not recovered	350	1,382
Consultants	-	717
Amortization	13,266	13,625
	<u>395,531</u>	<u>295,273</u>
DEFICIENCY OF EXPENSES OVER REVENUE	<u>\$ (9,554)</u>	<u>\$ 17,983</u>

COMMUNITY FUTURES CAPITAL REGION
Statement of Loan Investment Fund Revenues and Expenses
Year Ended March 31, 2018

	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
REVENUE				
Investment interest	\$ 67,805	\$ -	\$ 67,805	\$ 49,039
Interest	3,757	1,565	5,322	5,285
Loan fees and other	1,772	-	1,772	-
	<u>73,334</u>	<u>1,565</u>	<u>74,899</u>	<u>54,324</u>
EXPENSES				
Provision for investment losses	102,468	-	102,468	28,725
Bank charges and loan costs	288	-	288	-
	<u>102,756</u>	<u>-</u>	<u>102,756</u>	<u>28,725</u>
INCOME FROM OPERATIONS	<u>\$ (29,422)</u>	<u>\$ 1,565</u>	<u>\$ (27,857)</u>	<u>\$ 25,599</u>

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Statement of Changes in Net Assets

Year Ended March 31, 2018

	General Fund 2018	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
NET ASSETS - BEGINNING OF YEAR	\$ 258,174	\$ 1,506,362	\$ 213,634	\$ 1,978,170	\$ 1,934,588
Deficiency of trade sales over expenses	(9,554)	(29,422)	1,565	(37,411)	43,582
NET ASSETS - END OF YEAR	\$ 248,620	\$ 1,476,940	\$ 215,199	\$ 1,940,759	\$ 1,978,170

Breakdown of Net Assets

Year Ended March 31, 2018

	General Fund 2018	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
Original contributions	\$ -	\$ 1,187,500	\$ 200,000	\$ 1,387,500	\$ 1,387,500
Earned net assets	248,620	289,440	15,199	553,259	590,670
	\$ 248,620	\$ 1,476,940	\$ 215,199	\$ 1,940,759	\$ 1,978,170

COMMUNITY FUTURES CAPITAL REGION

**Statement of Cash Flows
Year Ended March 31, 2018**

	General Fund 2018	Restricted General 2018	Restricted Disabled 2018	Total 2018	Total 2017
OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$ (9,554)	\$ (29,422)	\$ 1,565	\$ (37,411)	\$ 43,582
Items not affecting cash:					
Amortization of property and equipment	13,266	-	-	13,266	13,625
Provision for investment losses	8,737	102,468	-	111,205	46,560
	<u>12,449</u>	<u>73,046</u>	<u>1,565</u>	<u>87,060</u>	<u>103,767</u>
Changes in non-cash working capital:					
Accrued interest receivable	-	(15,738)	-	(15,738)	1,455
Accounts receivable	(6,802)	-	-	(6,802)	(2,293)
Accounts payable	369	-	-	369	2,725
Prepaid expenses	3,472	-	-	3,472	(1,528)
	<u>(2,961)</u>	<u>(15,738)</u>	<u>-</u>	<u>(18,699)</u>	<u>359</u>
Cash flow from operating activities	<u>9,488</u>	<u>57,308</u>	<u>1,565</u>	<u>68,361</u>	<u>104,126</u>
INVESTING ACTIVITIES					
Purchase of property and equipment	-	-	-	-	(5,603)
Repayment of loans and notes receivable	-	325,871	-	325,871	312,290
Addition to loans and notes receivable	-	(431,920)	-	(431,920)	(537,839)
Cash flow from (used by) investing activities	<u>-</u>	<u>(106,049)</u>	<u>-</u>	<u>(106,049)</u>	<u>(231,152)</u>
INCREASE (DECREASE) IN CASH FLOW	<u>9,488</u>	<u>(48,741)</u>	<u>1,565</u>	<u>(37,688)</u>	<u>(127,026)</u>
Cash (deficiency) - beginning of year	<u>(102,043)</u>	<u>541,747</u>	<u>213,634</u>	<u>653,338</u>	<u>780,364</u>
CASH (DEFICIENCY) - END OF YEAR	<u>(92,555)</u>	<u>493,006</u>	<u>215,199</u>	<u>615,650</u>	<u>653,338</u>
CASH CONSISTS OF:					
Cash	\$ (92,555)	\$ 341,234	\$ 215,199	\$ 463,878	\$ 653,338
Term deposits	-	151,772	-	151,772	-
	<u>\$ (92,555)</u>	<u>\$ 493,006</u>	<u>\$ 215,199</u>	<u>\$ 615,650</u>	<u>\$ 653,338</u>

See notes to financial statements

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2018

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 (ASNPO).

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 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, 2018

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% - 2017) of the rest of the portfolio.

Property and 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.

Building and land	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 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, 2018

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 collectability. 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. INTERFUND PAYABLE

The corporation received permission to complete a net transfer of \$239,621 from the loan investment fund balance to the general operating fund during 2008 for the purchase, renovation and furnishing of a building. Additional funds were borrowed from the restricted funds in order to cover the excess costs. As at March 31, 2018 the balance remaining is \$92,555 (2017 - \$102,043).

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of

	2018	2017
GST receivable	\$ 1,108	\$ 768
Loan fees receivable	11,417	6,198
Less: provision for loan fees receivable	(8,737)	(1,244)
	\$ 3,788	\$ 5,722

4. ACCRUED INTEREST RECEIVABLE

Loan Investment Funds

	Restricted General	Restricted Disabled	2018	2017
Interest in arrears	\$ 21,533	\$ -	\$ 21,533	\$ 6,595
Less: provision for interest in arrears	(18,552)	-	(18,552)	(799)
	\$ 2,981	\$ -	\$ 2,981	\$ 5,796

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2018 Net book value	2017 Net book value
Building and land	\$ 486,550	\$ 133,954	\$ 352,596	\$ 363,501
Computer hardware	56,396	53,849	2,547	4,908
Computer software	2,764	2,764	-	-
Office furniture and fixtures	44,477	44,477	-	-
	\$ 590,187	\$ 235,044	\$ 355,143	\$ 368,409

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2018

6. INVESTMENT LOANS RECEIVABLE

Loan Investment Funds

	Restricted General	Restricted Disabled	2018	2017
Loan Receivable	\$ 1,121,889	\$ -	\$ 1,121,889	\$ 1,087,966
Less: allowance for loan impairment	(140,936)	-	(140,936)	(129,147)
Less: current portion	(225,503)	-	(225,503)	(327,363)
	<u>\$ 755,450</u>	<u>\$ -</u>	<u>\$ 755,450</u>	<u>\$ 631,456</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	\$ (129,147)	\$ -	\$ (129,147)	\$ (82,412)
Provision for loan losses	(83,915)	-	(83,915)	(46,735)
Amounts written off to the allowance	72,126	-	72,126	17,835
Amounts recovered from the allowance	-	-	-	(17,835)
Balance at end of year	<u>\$ (140,936)</u>	<u>\$ -</u>	<u>\$ (140,936)</u>	<u>\$ (129,147)</u>
Total recorded investment on impaired loans	<u>\$ 211,058</u>	<u>\$ -</u>	<u>\$ 211,058</u>	<u>\$ 177,765</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 3% 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.

7. SHORT TERM DEBT

The organization also has a credit facility of \$750,000 from Community Futures Network of Alberta. As at March 31, 2018, the organization used \$Nil (\$Nil in 2017) 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.

8. GENERAL FUND NET ASSETS

Included in the general fund net assets is \$355,143 (2017 - \$368,409) that is invested in capital assets.

COMMUNITY FUTURES CAPITAL REGION

Notes to Financial Statements

Year Ended March 31, 2018

9. 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>2018</u>	<u>2017</u>
General	\$ 1,476,940	\$ 1,506,361
Disabled	215,199	213,634
	<u>\$ 1,692,139</u>	<u>\$ 1,719,995</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, 2021.
- g) If this agreement is not renewed beyond the March 31, 2021 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.

10. 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, 2018

11. 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, 2018.

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.