

**Community Futures
Peace Country
Financial Statements**
March 31, 2014

Community Futures Peace Country

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Year Ended March 31, 2014

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Auditors' Report

To the Board of Directors of
Community Futures Peace Country

Report on the Financial Statements

We have audited the accompanying financial statements of Community Futures Peace Country, which comprise the balance sheet as at March 31, 2014, the statements of income and changes in unrestricted fund balance, income (loss) and changes in restricted 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 generally accepted accounting standards, 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 auditors judgement, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures Peace Country as at March 31, 2014, the results of its operations, change in unrestricted and restricted fund balances and its cash flows for the year ended in accordance with Canadian generally accepted accounting principles.

Peace River, Alberta
June 16, 2014

MNP LLP

Chartered Accountants

Community Futures Peace Country
Balance Sheet
As at March 31, 2014

	<i>Loan Investment Funds</i>				2014	2013
	<i>General</i> Fund	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Assets						
Current						
Cash in bank and short term investments	264,380	181,895	121,800	92,014	660,089	714,073
Accounts receivable	13,404	14,256	31,585	838	60,083	63,137
Prepaid expenses	1,920	-	-	-	1,920	1,900
Inter-fund receivable	761	-	-	-	761	69
Assets held for resale	-	-	-	-	-	10,000
Current portion of loans	-	581,271	245,292	29,021	855,584	917,652
	280,465	777,422	398,677	121,873	1,578,437	1,706,831
Property and equipment (Note 3)	352,006	-	-	-	352,006	363,164
Investment loans receivable						
net of allowance for credit loss (Note 4, 5)	-	1,891,002	653,585	84,314	2,628,901	2,924,068
Less: current portion	-	581,271	245,292	29,021	855,584	917,652
	-	1,309,731	408,293	55,293	1,773,317	2,006,416
Total assets	632,471	2,087,153	806,970	177,166	3,703,760	4,076,411
Liabilities and fund balances						
Current						
Short-term debt (Note 7)	-	500,000	-	-	500,000	1,000,000
Inter-fund payable	-	761	-	-	761	69
Accounts payable	32,795	-	-	-	32,795	34,117
Deferred revenue (Note 10)	51,406	-	-	-	51,406	83,243
Current portion of long-term debt (Note 11)	17,533	-	-	-	17,533	17,533
	101,734	500,761	-	-	602,495	1,134,962
Long-term debt (Note 11)	159,262	-	-	-	159,262	176,795
Fund Balances						
Invested in property and equipment	175,211	-	-	-	175,211	168,836
Externally restricted (Note 6)	-	1,586,392	806,970	177,166	2,570,528	2,430,161
Unrestricted	196,264	-	-	-	196,264	165,657
	371,475	1,586,392	806,970	177,166	2,942,003	2,764,654
Total liabilities and fund balances	632,471	2,087,153	806,970	177,166	3,703,760	4,076,411

Approved on behalf of the Board

Director

Director

See accompanying notes to the financial statements

Community Futures Peace Country
Statement of Income and Changes in Unrestricted Fund Balance

Year Ended March 31, 2014

	2014	2013
Revenue		
WD contribution	309,963	309,963
Bank interest	3,250	2,823
Program revenues (Note 9)	82,995	152,416
Loan and technical fees	10,050	15,650
Rental income	900	8,800
Other revenues	-	-
	407,158	489,652
Operating expenses		
Advertising and promotion	10,030	15,503
Amortization	11,158	11,158
Bank charges	1,008	1,215
Board members expenses	8,788	7,403
Books and publications	291	206
CED expenses	1,350	1,350
Contractor expenses	42,020	38,362
Insurance and memberships	5,073	4,854
Janitorial	8,655	8,635
Legal and audit fees	13,622	13,505
Loan expenses	1,976	2,827
Long term interest	7,453	8,155
Meeting expenses	2,287	3,768
Non-refundable GST	3,906	5,069
Office supplies and postage	5,725	6,711
Repairs and maintenance	1,265	34
Salaries and benefits	154,979	173,474
Small equipment and furniture	3,554	-
Special projects - other	74,252	143,568
Staff development	1,270	965
Staff travel	6,577	7,295
Utilities	14,936	14,674
	380,175	468,731
Net income for the year	26,983	20,921
Unrestricted Net Assets, beginning of year	165,657	151,112
Transfer from restricted fund	10,000	-
Transfer to/from investment in property and equipment	(6,376)	(6,376)
Unrestricted Net Assets, end of year	196,264	165,657

See accompanying notes to the financial statements

Community Futures Peace Country
Statement of Income (loss) and Changes in Restricted Fund Balances

Year Ended March 31, 2014

	<i>Loan Investment Funds</i>			2014	2013
	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Revenue					
Interest and fees on investments and bank account	1,593	1,094	643	3,330	1,787
Investment fees	900	-	-	900	1,175
Interest on loans	174,657	47,782	6,924	229,363	246,119
	177,150	48,876	7,567	233,593	249,081
Expenses					
Bank and investment charges	4,882	-	-	4,882	4,268
Long term interest - CFLIP	14,603	-	-	14,603	18,357
Bad debts	58,249	2,748	2,655	63,652	64,529
GST expense	89	-	-	89	69
	77,823	2,748	2,655	83,226	87,223
Net income for the year	99,327	46,128	4,912	150,367	161,858
Interfund transfers	(20,164)	19,442	722	-	-
Transfer to general fund	(10,000)			(10,000)	
Earned fund balance, beginning of year (Note 6)	679,729	391,400	(28,468)	1,042,661	880,803
Earned fund balance, end of year (Note 6)	748,892	456,970	(22,834)	1,183,028	1,042,661
Original contributions	837,500	350,000	200,000	1,387,500	1,387,500
Total fund balance, end of year (Note 6)	1,586,392	806,970	177,166	2,570,528	2,430,161

See accompanying notes to the financial statements

Community Futures Peace Country
Statement of Cash Flows

As at March 31, 2014

	<u>Operating Activities</u>	<u>Financing and Investing Activities</u>			2014	2013
	<i>General Fund</i>	<i>Loan Investment Funds</i>				
		<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Sources of Cash						
WD Contribution	309,963	-	-	-	309,963	309,963
Interest received	3,250	186,574	44,844	7,005	241,673	254,271
Other revenue	59,432	1,750	-	-	61,182	162,737
Advances of short term debt	-	-	-	-	-	150,000
Transfer in	10,000	-	19,442	722	30,164	55,932
Investment loan repayments	-	829,351	191,213	47,450	1,068,014	889,909
	382,645	1,017,675	255,499	55,177	1,710,996	1,822,812
Uses of Cash						
Salaries and benefits	156,688	-	-	-	156,688	173,571
Materials and services	206,040	109	-	-	206,149	276,360
Interest and investment expenses paid	8,461	19,485	-	-	27,946	31,995
Repayment of short term debt	-	500,000	-	-	500,000	-
Repayment of long term debt	17,533	-	-	-	17,533	17,533
Transfer out	-	30,164	-	-	30,164	55,932
Investment loan advances	-	558,000	208,500	60,000	826,500	1,188,000
	388,722	1,107,758	208,500	60,000	1,764,980	1,743,391
Net increase (decrease) in cash	(6,077)	(90,083)	46,999	(4,823)	(53,984)	79,421
Cash, beginning of year	270,457	271,978	74,801	96,837	714,073	634,652
Cash, end of year	264,380	181,895	121,800	92,014	660,089	714,073

See accompanying notes to the financial statements

Community Futures Peace Country

Notes to the Financial Statements

March 31, 2014

1. Purpose of the organization

Community Futures Peace Country is a community-based organization that provides loans and financial services to small businesses that are otherwise unable to obtain financing. The Corporation is incorporated under the Alberta Companies Act as a non-profit organization. It is exempt from income taxes under the Income Tax Act as a non-profit organization.

2. Significant accounting policies

Revenue Recognition — Restricted Fund Method

Community Futures Peace Country follows the restricted method of accounting for contributions.

The General Fund accounts for the organization's operating costs and general revenues. This fund reports unrestricted resources and restricted operating grants.

The Investment Fund reports 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 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 federal government.

Property and equipment

Property and equipment acquisitions over \$1,000 are recorded at cost.

Property and equipment are being amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment	4 years
Equipment between \$1,000 and \$5,000	5 years
Equipment over \$5,000	10 years
Buildings	30 years

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of Property and Equipment.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in earnings in the periods in which they become known.

Community Futures Peace Country

Notes to the Financial Statements

March 31, 2014

2. Significant accounting policies (continued)

Financial Instruments

Held for trading

The Corporation 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 Corporation 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 that 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 upon derecognition or impairment.

Other financial liabilities

The Corporation has classified the following financial liabilities as other financial liabilities: accounts payable and accruals, short-term debt and long term debt. 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 that initial amount and the maturity amount. Gains and losses arising from changes in fair value are recognized in net income upon derecognition or impairment.

Community Futures Peace Country
Notes to the Financial Statements

March 31, 2014

3. Property and equipment

	<i>Cost</i>	<i>Accumulated Depreciation</i>	2014 Net Book Value	2013 Net Book Value
Building	298,000	49,667	248,333	258,267
Computer equipment	8,373	8,373	-	-
Equipment \$1,000 - \$5,000	22,993	22,993	-	-
Equipment over \$5,000	23,859	20,186	3,673	4,897
Land	100,000	-	100,000	100,000
	453,225	101,219	352,006	363,164

4. Allowance for Credit Loss

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

	<i>2013 Ending Balance</i>	<i>Written Off</i>	<i>Recovery</i>	<i>Provision for Credit Losses</i>	2014 Ending Balance
Loan Investment Fund - Repayable	308,718	-	(16,927)	51,087	342,878
Loan Investment Fund - Non - Repayable	130,526	-	-	1,292	131,818
Loan Investment Fund - Disability	34,602	-	-	626	35,228
	473,846	-	(16,927)	53,005	509,924

Actual write-offs, net of recoveries, will be deducted from the allowance for credit losses. The provision for credit losses in the statement of income and changes in fund balances is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

5. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 6% to 10% with monthly principal and interest repayments amortized for terms between 12 and 84 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 land and building. This security is usually subordinated to those of a primary lender.

	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disability</i>	2014 Total	2013 Total
Investment loans receivable	2,233,880	785,402	119,543	3,138,825	3,397,914
Less: Allowance for credit loss (<i>Note 4</i>)	342,878	131,817	35,229	509,924	473,846
	1,891,002	653,585	84,314	2,628,901	2,924,068

Community Futures Peace Country
Notes to the Financial Statements

March 31, 2014

6. Externally Restricted Fund Balance

	2014	2013
<u>Loan Investment funds</u>		
Loan Investment Funds restricted to loans and Equity		
Investments to entrepreneurs		
Repayable - contributions	837,500	837,500
Repayable - earned	748,892	679,729
	1,586,392	1,517,229
Non-Repayable - contributions	350,000	350,000
Non-Repayable - earned	456,970	391,400
	806,970	741,400
Disabled - contributions	200,000	200,000
Disabled - earned	(22,834)	(28,468)
	177,166	171,532
	2,570,528	2,430,161

Under the terms and conditions of the contribution agreement between the Corporation and the Department of Western Economic Diversification, the Conditionally Repayable Loan Funds are repayable if any of the following conditions occur:

- i. The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this Agreement; or
- ii. Based on reviews and evaluations of the operations and the Conditionally Repayable Investment Fund of the Corporation, 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
- iii. 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
- iv. The Agreement is Terminated as described in Section 16; or
- v. An event of default occurs, as described in Section 17 of the Agreement; or
- vi. The Minister does not approve terms and conditions to extend the project beyond March 31, 2014.

Community Futures Peace Country Notes to the Financial Statements

March 31, 2014

7. Short-term debt

Short-term debt consists of a line of credit totalling \$1,500,000 of which \$500,000 was drawn as of March 31, 2014 (2013 – \$1,000,000). The interest rate included on the line of credit is at prime minus 1.0%. Funds can be drawn in increments of \$50,000. The line of credit is payable on demand and in any case not later than sixty (60) months following the date of the first loan advance. Amount is secured by a demand promissory note executed by the Corporation and related general security agreement securing all assets and undertakings of the borrower.

8. Commitments

As of March 31, 2014, the corporation did not have any loans that were approved but not disbursed.

9. Program revenues

	2014	2013
PREDA	-	500
Think Local Market	32,488	66,572
Peace Oil Sands	16,875	38,151
Special Projects	33,632	47,193
	82,995	152,416

10. Deferred revenue

During the year, the Corporation administered a number of projects in which they received \$33,933 in allocations. Opening deferred revenue was \$83,243 for a total revenue stream of \$117,176. Of this amount, \$65,770 was spent on the related projects. The excess contributions over expenses incurred for 2014 is \$51,406 (2013 - \$83,243).

11. Long term debt

	2014	2013
CIBC building mortgage with monthly principal payments of \$1,461 plus interest at prime plus 1%, secured by the related land and building with a net book value of \$348,333, maturing 2023.	176,795	194,328
Less: current portion	17,533	17,533
	159,262	176,795

Principal payments over the next five years are as follows:

2015	17,533
2016	17,533
2017	17,533
2018	17,533
2019	17,533