

**Community Futures
Peace Country
Financial Statements**
March 31, 2018

Community Futures Peace Country

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Year Ended March 31, 2018

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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 statement of financial position as at March 31, 2018, the statements of earnings (loss) and changes in unrestricted fund balance, earnings 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 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 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, 2018, the results of its operations, change in unrestricted and restricted fund balances and its cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

Peace River, Alberta
June 25, 2018



Chartered Professional Accountants

Community Futures Peace Country
Statement of Financial Position

As at March 31, 2018

	<u>Loan Investment Funds</u>				2018	2017
	<i>General Fund</i>	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>		
Assets						
Current						
Cash in bank and short term investments	183,872	231,262	137,630	104,227	656,991	777,668
Accounts receivable	12,771	15,728	43,030	836	72,365	68,251
Prepaid expenses	2,529	-	-	-	2,529	2,529
Current portion of loans	-	394,360	113,245	39,388	546,993	665,366
	199,172	641,350	293,905	144,451	1,278,878	1,513,814
Property and equipment (Note 3)	309,707	-	-	-	309,707	320,009
Investment loans receivable net of allowance for credit loss (Note 5)	-	2,290,547	731,083	109,865	3,131,495	3,049,070
Less: current portion	-	(394,360)	(113,245)	(39,388)	(546,993)	(665,366)
	-	1,896,187	617,838	70,477	2,584,502	2,383,704
Total assets	508,879	2,537,537	911,743	214,928	4,173,087	4,217,527
Liabilities and fund balances						
Current						
Short-term debt (Note 7)	-	250,000	-	-	250,000	450,000
Accounts payable (Note 8)	54,087	-	-	-	54,087	41,863
Deferred revenue (Note 11)	17,148	-	-	-	17,148	43,815
Current portion of long-term debt (Note 12)	17,533	-	-	-	17,533	17,533
	88,768	250,000	-	-	338,768	553,211
Long-term debt (Note 12)	89,129	-	-	-	89,129	106,662
	177,897	250,000	-	-	427,897	659,873
Fund Balances						
Invested in property and equipment	203,045	-	-	-	203,045	195,814
Externally restricted (Note 6)	-	2,287,537	911,743	214,928	3,414,208	3,223,191
Unrestricted	127,937	-	-	-	127,937	138,649
	330,982	2,287,537	911,743	214,928	3,745,190	3,557,654
Total liabilities and fund balances	508,879	2,537,537	911,743	214,928	4,173,087	4,217,527

Approved on behalf of the Board

Director

Director

See accompanying notes to the financial statements

Community Futures Peace Country
Statement of Earnings (Loss) and Changes in Unrestricted Fund Balance
Year Ended March 31, 2018

	2018	2017
Revenue		
WD contribution	309,963	309,963
Bank interest	1,940	1,018
Program revenues (Note 10)	34,306	36,394
Loan and technical fees	12,025	16,150
	358,234	363,525
Operating expenses		
Advertising and promotion	5,618	11,404
Amortization	10,302	11,527
Bank charges	596	817
Board members expenses	10,101	11,592
Books and publications	151	34
CED expenses	300	3,858
Contractor expenses	51,261	49,672
Insurance and memberships	5,226	4,466
Janitorial	8,212	8,190
Legal and audit fees	15,328	14,815
Loan expenses	2,668	3,423
Long term interest	4,645	4,948
Meeting expenses	2,866	2,678
Non-refundable GST	4,056	4,164
Office supplies and postage	10,026	13,043
Repairs and maintenance	6,914	667
Salaries and benefits	187,720	155,953
Small equipment and furniture	384	350
Special projects - other	29,378	35,927
Staff development	1,735	781
Staff travel	6,942	3,674
Utilities	13,666	12,090
	378,095	354,073
Net earnings (loss) for the year	(19,861)	9,452
Unrestricted Net Assets, beginning of year	138,649	137,049
Transfer from restricted fund	16,380	-
Transfer to/from investment in property and equipment	(7,231)	(7,852)
Unrestricted Net Assets, end of year	127,937	138,649

See accompanying notes to the financial statements

Community Futures Peace Country
Statement of Earnings and Changes in Restricted Fund Balances

Year Ended March 31, 2018

	<u>Loan Investment Funds</u>				
	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>	2018	2017
Revenue					
Interest and fees on investments and bank account	-	-	-	-	1,687
Investment fees	2,250	-	-	2,250	750
Interest on loans	211,715	66,591	12,232	290,538	269,854
	213,965	66,591	12,232	292,788	272,291
Expenses					
Bank and investment charges	1,945	-	-	1,945	1,679
Long term interest - CFLIP	11,070	-	-	11,070	14,664
Bad debts (recoveries)	(3,625)	78,102	(2,141)	72,336	6,212
GST expense	40	-	-	40	10
	9,430	78,102	(2,141)	85,391	22,565
Net earnings for the year	204,535	(11,511)	14,373	207,397	249,726
Interfund transfers	7,941	(8,191)	250	-	-
Transfer to general fund	-	(16,380)	-	(16,380)	-
Earned fund balance, beginning of year (<i>Note 6</i>)	1,237,561	597,825	305	1,835,691	1,585,965
Earned fund balance, end of year (<i>Note 6</i>)	1,450,037	561,743	14,928	2,026,708	1,835,691
Original contributions	837,500	350,000	200,000	1,387,500	1,387,500
Total fund balance, end of year (<i>Note 6</i>)	2,287,537	911,743	214,928	3,414,208	3,223,191

See accompanying notes to the financial statements

Community Futures Peace Country Statement of Cash Flows

As at March 31, 2018

	<i>General Fund</i>	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disabled</i>	2018	2017
Cash provided by (used) for the following:						
Operating:						
WD Contribution	309,963	-	-	-	309,963	309,963
Interest received	1,940	214,437	(20,455)	14,304	210,226	258,016
Other revenue	21,842	2,250	-	-	24,092	58,344
Investment loan repayments	-	813,449	176,000	40,750	1,030,199	753,946
Investment loan advances	-	(756,000)	(353,000)	-	(1,109,000)	(1,104,500)
Interest and investment expenses paid	(5,241)	(13,055)	-	-	(18,296)	(22,118)
Salaries and benefits	(176,725)	-	-	-	(176,725)	(152,671)
Materials and services	(173,603)	-	-	-	(173,603)	(181,546)
	(21,824)	261,081	(197,455)	55,054	96,856 ✓	(80,566)
Investing:						
Purchases of capital assets	-	-	-	-	-	(1,844)
Transfer out	-	(16,380)	(24,571)	-	(40,951) ↘	(216,834)
	-	(16,380)	(24,571)	-	(40,951) ✓	(218,678)
Financing:						
Repayment of short term debt	-	(200,000)	-	-	(200,000)	(200,000)
Repayment of long term debt	(17,533)	-	-	-	(17,533) ✓	(17,533)
Transfer in	16,380	24,321	-	250	40,951	216,834
	(1,153)	(175,679)	-	250	(176,582)	(699)
Increase (decrease) in cash resources	(22,977)	69,022	(222,026)	55,304	(120,677) ↘	(299,943)
Cash resources, beginning of year	206,849	162,240	359,656	48,923	777,668	1,077,611
Cash resources, end of year	183,872	231,262	137,630	104,227	656,991	777,668
Cash resources consists of:						
Cash in bank	183,872	231,262	137,630	104,227	656,991	777,668

See accompanying notes to the financial statements

Community Futures Peace Country

Notes to the Financial Statements

March 31, 2018

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, 2018

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. Transactions to purchase or sell these items are recorded on the settlement date.

Held for trading financial instruments are initially and subsequently measured at their fair value. Gains and losses arising from changes in fair value are recognized immediately in the statement of revenues and expenses.

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. Transactions to purchase or sell these items are recorded on the settlement date.

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 excess of revenues and expenses 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. Transactions to purchase or sell these items are recorded on the settlement date.

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 excess of revenues over expenses upon derecognition or impairment.

Community Futures Peace Country

Notes to the Financial Statements

March 31, 2018

2. Significant accounting policies (continued)

Long-lived assets and discontinued operations

Long-lived assets consist of property and equipment with finite useful lives. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The organization performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying amount of an asset, or group of assets, may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows from its use and disposal. If the carrying amount is not recoverable, impairment is then measured as the amount by which the asset's carrying amount exceeds its fair value. Fair value is measured using prices for similar items. Any impairment is included in earnings for the year.

Long-lived assets are classified as held for sale when all of the following criteria are met:

- The Board of Directors, having the authority to approve the action, commits the organization to a plan to sell the assets;
- The asset is available for immediate sale in its present condition;
- The organization has initiated an active program to locate a buyer;
- The sale is probable, and is expected to qualify for recognition as a completed sale within one year;
- The asset is being actively marketed for sale at a reasonable price relative to its fair value; and

- It is unlikely that the plan to sell the asset will be withdrawn or that significant changes will be made to the plan.

Long-lived assets classified as held for sale are initially measured at the lower of the carrying amount and fair value less costs to sell, and are not amortized. Subsequent increases in fair value not in excess of the cumulative loss previously recorded are recognized as gains.

Community Futures Peace Country
Notes to the Financial Statements

March 31, 2018

3. Property and equipment

	<i>Accumulated</i>		2018	2017
	<i>Cost</i>	<i>Depreciation</i>	Net	Net
			Book Value	Book Value
Building	298,000	89,400	208,600	218,533
Computer equipment	8,373	8,373	-	-
Equipment \$1,000 - \$5,000	24,838	23,731	1,107	1,476
Equipment over \$5,000	23,859	23,859	-	-
Land	100,000	-	100,000	100,000
	455,070	145,363	309,707	320,009

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>2017</i>			<i>Provision</i>	2018
	<i>Ending</i>	<i>Written</i>	<i>Recovery</i>	<i>for Credit</i>	Ending
	<i>Balance</i>	<i>Off</i>		<i>Losses</i>	Balance
Loan Investment Fund - Repayable	433,117	-	(2,833)	-	430,284
Loan Investment Fund - Non - Repayable	156,701	-	(8,891)	88,771	236,581
Loan Investment Fund - Disability	38,718	-	(2,145)	-	36,573
	628,536	-	(13,869)	88,771	703,438

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.

				2018	2017
	<i>Repayable</i>	<i>Non-Repay</i>	<i>Disability</i>	Total	Total
Investment loans receivable	2,720,831	967,664	146,438	3,834,933	3,677,606
Less: Allowance for credit loss (Note 4)	430,284	236,581	36,573	703,438	628,536
	2,290,547	731,083	109,865	3,131,495	3,049,070

Community Futures Peace Country Notes to the Financial Statements

March 31, 2018

6. Externally Restricted Fund Balance

	2018	2017
<u>Loan Investment funds</u>		
Loan Investment Funds restricted to loans and Equity Investments to entrepreneurs		
Repayable - contributions	837,500	837,500
Repayable - earned	1,450,037	1,237,561
	2,287,537	2,075,061
Non-Repayable - contributions	350,000	350,000
Non-Repayable - earned	561,743	597,825
	911,743	947,825
Disabled - contributions	200,000	200,000
Disabled - earned	14,928	305
	214,928	200,305
	3,414,208	3,223,191

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, 2018.

Community Futures Peace Country Notes to the Financial Statements

March 31, 2018

7. Short-term debt

Short-term debt consists of a line of credit totalling \$1,000,000 (2017 - \$1,000,000) of which \$250,000 was drawn as of March 31, 2018 (2017 - \$450,000). The interest rate included on the line of credit is at prime, effective rate of 3.45% (2017 - prime, effective rate of 2.7%). 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 (the loan was first advanced in August 2016). 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. Accounts payable

Included in accounts payable is \$4,674 (2017 - \$3,203) owing to the Receiver General for payroll source deductions.

9. Commitments

As of March 31, 2018, the corporation had no loans (2017 - one loan of \$150,000) that were approved but not disbursed.

10. Program revenues

	2018	2017
Special Projects	34,306	36,394

11. Deferred revenue

During the year, the Corporation administered a number of projects in which they received \$19,629 (2017 - \$11,000) in allocations. Opening deferred revenue was \$17,985 (2017 - \$7,373) for a total revenue stream of \$37,614 (2017 - \$18,373). Of this amount, \$20,466 (2017 - \$388) was spent on the related projects. The excess contributions over expenses incurred for 2018 is \$17,148 (2017 - \$17,985) for the program revenues. In addition to this, no WD payments for April 2018 (2017 - one payment of \$25,830) were received in March and included in deferred revenue.

12. Long term debt

	2018	2017
CIBC building mortgage with monthly principal payments of \$1,461 plus interest at prime plus 1.0%, effective rate of 4.45% (2017 - prime plus 1.0%, effective rate of 3.7%), secured by the related land and building with a net book value of \$308,600 (2017 - \$318,533), maturing 2023.	106,662	124,195
Less: current portion	17,533	17,533
	89,129	106,662

Principal payments over the next five years are as follows:

2018	17,533
2019	17,533
2020	17,533
2021	17,533
2022	17,533

**Community Futures Peace Country
Notes to the Financial Statements**

March 31, 2018

13. Economic Dependence

The Corporation receives 87% (2017 - 85%) of its operating revenue from the federal government and is economically dependant upon it.

14. Financial instruments

The organization as part of its operations carries a number of financial instruments. It is management's opinion that the Organization is not exposed to significant interest rate, currency or credit risks arising from these financial instruments except as otherwise disclosed.