

COMMUNITY FUTURES ALBERTA SOUTHWEST

Financial Statements

For the year ended March 31, 2009

COMMUNITY FUTURES ALBERTA SOUTHWEST
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For the year ended March 31, 2009

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AUDITORS' REPORT

To: The Board of Directors of
the Community Futures Alberta Southwest

We have audited the statement of financial position of Community Futures Alberta Southwest as at March 31, 2009 and the statements of operations, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Community Futures Alberta Southwest as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fort Macleod, Alberta
June 5, 2009

Young Parkyn M. Nels LLP

Chartered Accountants

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2009

| | Operating fund | Non-repayable investment fund | Repayable investment fund | Repayable Disability fund | 2009 Total | 2008 Total |
|--|----------------|-------------------------------|---------------------------|---------------------------|--------------|--------------|
| ASSETS | | | | | | |
| Current assets | | | | | | |
| Cash and short-term investments (note 3) | \$ 21,374 | \$ 934,663 | \$ 1,149,675 | \$ 112,043 | \$ 2,217,755 | \$ 1,199,943 |
| Accounts receivable | 2,494 | - | - | - | 2,494 | 91,205 |
| Loans receivable (note 4) | 23,868 | 934,663 | 1,149,675 | 112,043 | 2,220,249 | 1,291,148 |
| | - | 474,674 | 358,019 | 129,842 | 962,535 | 1,802,305 |
| Investment in subsidiary (note 5) | 7,052 | - | - | - | 7,052 | 33,413 |
| Property and equipment (note 6) | 33,009 | - | - | - | 33,009 | 50,871 |
| | \$ 63,929 | \$ 1,409,337 | \$ 1,507,694 | \$ 241,885 | \$ 3,222,845 | \$ 3,177,737 |

LIABILITIES AND FUND BALANCES

| | | | | | | |
|---|-----------|--------------|--------------|------------|--------------|--------------|
| Current liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 12,729 | \$ - | \$ - | \$ - | \$ 12,729 | \$ 41,180 |
| Unamortized deferred capital contributions | 5,714 | - | - | - | 5,714 | 8,571 |
| Repayable investment funds | - | - | 800,000 | 200,000 | 1,000,000 | 1,000,000 |
| | 18,443 | - | 800,000 | 200,000 | 1,018,443 | 1,049,751 |
| Contingency (note 7) | | | | | | |
| Fund balances | | | | | | |
| Unrestricted | 18,191 | - | - | - | 18,191 | 58,475 |
| Externally restricted | - | 1,409,337 | 707,694 | 41,885 | 2,158,916 | 2,027,211 |
| Invested in property and equipment | 27,295 | - | - | - | 27,295 | 42,300 |
| | 45,486 | 1,409,337 | 707,694 | 41,885 | 2,204,402 | 2,127,986 |
| | \$ 63,929 | \$ 1,409,337 | \$ 1,507,694 | \$ 241,885 | \$ 3,222,845 | \$ 3,177,737 |

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF OPERATIONS
For the year ended March 31, 2009

| | Operating fund | Non-repayable investment fund | Repayable investment fund | Repayable Disability fund | 2009 Total | 2008 Total |
|---|----------------|-------------------------------|---------------------------|---------------------------|------------|------------|
| Revenue | | | | | | |
| Investment income - clients - bank | \$ - | \$ 47,073 | \$ 64,903 | \$ 11,460 | \$ 123,436 | \$ 194,453 |
| Operating grants | 1,066 | 14,262 | 6,866 | 319 | 22,513 | 21,729 |
| RCED grants | 289,179 | - | - | - | 289,179 | 283,579 |
| S.E.A. grant | - | - | - | - | - | 90,972 |
| Other grants | 3,600 | - | - | - | 3,600 | 26,200 |
| Consulting | - | - | - | - | - | 22,194 |
| Miscellaneous | - | - | - | - | - | 74,424 |
| Town of Pincher Creek | 3,896 | - | 550 | - | 4,446 | 20,200 |
| Amortization of deferred capital contributions | 12,000 | - | - | - | 12,000 | 12,000 |
| Equity in earnings of subsidiary | 2,857 | - | - | - | 2,857 | 1,429 |
| | (26,361) | - | - | - | (26,361) | 33,412 |
| | 286,237 | 61,335 | 72,319 | 11,779 | 431,670 | 780,592 |
| Expenditures (schedule 1) | 341,526 | - | 13,728 | - | 355,254 | 444,675 |
| (Deficiency) excess of revenue over expenditures | \$ (55,289) | \$ 61,335 | \$ 58,591 | \$ 11,779 | \$ 76,416 | \$ 335,917 |

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended March 31, 2009

| | Operating fund | Non-repayable investment fund | Repayable investment fund | Repayable Disability fund | 2009 Total | 2008 Total |
|--|----------------|-------------------------------|---------------------------|---------------------------|------------------|------------------|
| Fund balances | | | | | | |
| Equity in property and equipment, beginning of year | \$ 42,300 | \$ - | \$ - | \$ - | \$ 42,300 | \$ 27,432 |
| Purchase of property and equipment | - | - | - | - | - | 37,581 |
| Deferred capital contributions | - | - | - | - | - | (10,000) |
| Amortization of deferred capital contributions | 2,857 | - | - | - | 2,857 | 1,429 |
| Amortization | (17,862) | - | - | - | (17,862) | (14,142) |
| Equity in property and equipment, end of year | 27,295 | - | - | - | 27,295 | 42,300 |
| Externally restricted funds, beginning of year | - | 1,348,002 | 649,103 | 30,106 | 2,027,211 | 1,735,476 |
| Excess of revenue over expenditures | - | 61,335 | 58,591 | 11,779 | 131,705 | 291,735 |
| Externally restricted funds, end of year | - | 1,409,337 | 707,694 | 41,885 | 2,158,916 | 2,027,211 |
| Unrestricted funds, beginning of year | 58,475 | - | - | - | 58,475 | 29,161 |
| Purchase of property and equipment | - | - | - | - | - | (37,581) |
| Excess of revenue over expenditures | (55,289) | - | - | - | (55,289) | 44,182 |
| Deferred capital contributions | - | - | - | - | - | 10,000 |
| Amortization of deferred capital contributions | (2,857) | - | - | - | (2,857) | (1,429) |
| Amortization | 17,862 | - | - | - | 17,862 | 14,142 |
| Unrestricted funds, end of year | 18,191 | - | - | - | 18,191 | 58,475 |
| | \$ 45,486 | \$ 1,409,337 | \$ 707,694 | \$ 41,885 | \$ 2,204,402 | \$ 2,127,986 |

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CASH FLOWS
For the year ended March 31, 2009

| | Operating fund | Non-repayable investment fund | Repayable investment fund | Repayable Disability fund | 2009 Total | 2008 Total |
|---|----------------|-------------------------------|---------------------------|---------------------------|--------------|--------------|
| Cash flows from operating activities | | | | | | |
| (Deficiency) excess of revenue over expenditures of revenue over expenditures items not involving cash: | \$ (55,289) | \$ 61,335 | \$ 58,591 | \$ 11,779 | \$ 76,416 | \$ 335,917 |
| Provision for credit losses | - | - | 13,728 | - | 13,728 | (75,552) |
| Amortization | 17,862 | - | - | - | 17,862 | 14,142 |
| Amortization of deferred capital contributions | (2,857) | - | - | - | (2,857) | (1,429) |
| Equity in earnings of subsidiary | 26,361 | - | - | - | 26,361 | (33,412) |
| | (13,923) | 61,335 | 72,319 | 11,779 | 131,510 | 239,666 |
| Net change in non-cash working capital items | | | | | | |
| Accounts receivable | 88,711 | - | - | - | 88,711 | (16,061) |
| Accounts payable and accrued liabilities | (28,452) | - | - | - | (28,452) | 14,660 |
| Deferred revenue | - | - | - | - | - | (56,717) |
| | 46,336 | 61,335 | 72,319 | 11,779 | 191,769 | 181,548 |
| Cash flows from investing activities | | | | | | |
| Purchase of property and equipment | - | - | - | - | - | (37,581) |
| Loan advances | - | (165,528) | - | (25,000) | (190,528) | (440,000) |
| Loan payments received | - | 474,143 | 535,633 | 8,388 | 1,018,164 | 1,093,420 |
| Accrued interest on loan portfolio | - | (6,684) | 5,208 | (117) | (1,593) | 8,736 |
| | - | 301,931 | 540,841 | (16,729) | 826,043 | 624,575 |
| Cash flows from financing activities | | | | | | |
| Capital contributions received | - | - | - | - | - | 10,000 |
| Increase (decrease) in cash and cash equivalents | 46,336 | 363,266 | 613,160 | (4,950) | 1,017,812 | 816,123 |
| Cash and cash equivalents, beginning of year | (24,962) | 571,397 | 536,515 | 116,993 | 1,199,943 | 383,820 |
| Cash and cash equivalents, end of year | \$ 21,374 | \$ 934,663 | \$ 1,149,675 | \$ 112,043 | \$ 2,217,755 | \$ 1,199,943 |

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2009

1. **Nature of operations**

Community Futures Alberta Southwest (formerly Southwest Alberta Business Development Institute) is a community based non-profit part IX corporation that has been established to provide loan and financial services to small businesses that are otherwise unable to obtain financing. The Organization is registered as a Company under the laws of the Province of Alberta and is exempt from income tax under paragraph 149 1(l) of the Income Tax Act.

2. **Significant accounting policies**

(a) Financial instruments

Cash and short-term investments have been classified as held-for-trading and are reported at estimated fair value.

Accounts receivable and loans receivable have been classified as loans and receivables and are reported at amortized cost using the effective interest method.

Accounts payable and accrued liabilities have been classified as other financial liabilities and are reported at amortized cost using the effective interest method.

The carrying amount of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities is comparable to fair value due to the approaching maturity of these financial instruments.

(b) Revenue recognition

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenditures are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

(c) Investment in subsidiary

The equity method is used to account for the Organization's investment in 1024267 Alberta Ltd. (100% subsidiary). This method of accounting brings into consolidated earnings the income (loss) of the subsidiary, which is also added to the carrying value of the investment.

(d) Property and equipment

Purchased property and equipment are recorded at cost. Contributed property and equipment are recorded at fair market value at the date of the contribution. Amortization is provided for on a straight-line basis over the assets' estimated useful lives.

| | |
|------------------------|-------------|
| Computer equipment | 3 1/2 years |
| Office equipment | 5 years |
| Leasehold improvements | 5 years |

In the year of acquisition these rates are reduced by one-half.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2009

2 **Significant accounting policies, continued**

(e) Allowance for impaired loans

The Organization maintains an allowance that reduces the carrying value of loans to their estimated realizable amount. The allowance is increased by a charge to income and reduced by write-offs, net of recoveries. Specific provisions are established through examination of individual loans in order to reduce their book values to their estimated net realizable values. Estimated realizable values are determined by reference to their underlying security.

(f) Fund accounting

The Organization follows the restricted fund method of accounting for contributions.

The Operating Fund reports all assets, liabilities, revenue and expenditures to carry out community development and administrative activities and the assets, liabilities, revenue and expenditures related to the Organization's property and equipment.

The Non-Repayable Investment Fund is a non-repayable contribution that is restricted in accordance with the Community Futures Program. All revenue from loans approved under the investment fund and all repayments on account of principal shall be credited to the investment fund. This agreement is in effect from the date it is signed by the Government of Canada until six years following the end of the funding period.

The Repayable Investment Fund is a repayable contribution that is restricted in accordance with the Community Futures Program. All revenue from loans approved under the repayable investment fund and all repayments on account of principal shall be credited to the repayable investment fund. Effective April 1, 2001, the Repayable Western Youth Entrepreneur Investment Fund has been merged with the Repayable Investment Fund, as per direction from the Minister of Western Economic Diversification. As a result, \$219,840 was transferred from the Repayable Youth Fund to the Repayable Investment Fund. Subsequent principal repayments will be repaid within fifteen days of each month until the original repayable investment fund contribution is entirely repaid. Interest earned after March 31, 2005 shall be credited to the Fund. The amount repayable will be the original investment contribution, net of any investment losses. Once the amount has been repaid in full, the obligation to repay the Minister will be terminated.

The Repayable Disability Fund is a repayable contribution that is restricted in accordance with the Community Futures Program. Assistance may be provided to persons who have a disability due to physical or mental impairment such that the ability to perform at least one of the basic activities of self-employment or entrepreneurship is restricted. The maximum for any one business will normally be \$125,000.

Loans approved and disbursed under the Non-Repayable Investment Fund, Repayable Investment Fund and the Repayable Disability Fund are made for the purpose of investing in local businesses. The Organization must demonstrate that the funds will be used to develop and diversify the local economy, to create or maintain employment by assisting local businesses to stabilize or expand, or to help entrepreneurs create new local businesses. Assistance to businesses will be provided in the form of loans, loan guarantees or equity participation.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2009

2 **Significant accounting policies, continued**

(g) Measurement uncertainty

The financial statements by their nature contain estimates and are subject to measurement uncertainty. Accounts receivable and loans receivable are stated after evaluation as to their collectibility and an appropriate allowance for doubtful accounts is provided based on management's best information available at the time. The amounts recorded for amortization of capital assets are based on estimates of the useful life of the related assets. The effect on the financial statements of changes in such estimates in future periods could be significant.

3. **Cash and short-term investments**

Included in cash and short-term investments is a treasury bill of \$1,715,722 (2008 - \$103,033) bearing interest at 0.75% and with no maturity date. Also included are investments held at the Community Futures Lending and Investment Pool of \$13,363 (2008 - \$12,980).

4. **Loans receivable**

| | Loans receivable | Accrued loan interest receivable | Allowance for impaired loans | 2009 | 2008 |
|---------------|---------------------|--|------------------------------------|-------------------|---------------------|
| Non-repayable | \$ 459,926 | \$ 14,748 | \$ - | \$ 474,674 | \$ 594,758 |
| Repayable | 364,134 | 7,613 | (13,728) | 358,019 | 1,088,800 |
| Disability | 128,800 | 1,042 | - | 129,842 | 118,747 |
| | <u>\$ 952,860</u> | <u>\$ 23,403</u> | <u>\$ -</u> | <u>\$ 962,535</u> | <u>\$ 1,802,305</u> |

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2009

5. **Investment in subsidiary**

The investment in 1024267 Alberta Ltd. consists of 100 class A common shares at \$100, plus the net earnings in the subsidiary of \$6,952.

As at March 31, 2009, 1024267 Alberta Ltd. reported the following balances:

| | 2009 | 2008 |
|----------------------|-----------|-----------|
| Assets | \$ 12,468 | \$ 82,318 |
| Liabilities | (4,556) | (48,045) |
| Shareholder's equity | \$ 7,912 | \$ 34,273 |

For the period ended March 31, 2009, 1024267 Alberta Ltd. had the following transactions:

| | 2009 | 2008 |
|-------------------------------|-------------|------------|
| Revenue | \$ 119,852 | \$ 394,604 |
| Expenses | (151,033) | (243,390) |
| Income tax recovery (expense) | 4,820 | (19,141) |
| Net (loss) income | \$ (26,361) | \$ 132,073 |

For the period ending March 31, 2009, 1024267 Alberta Ltd. had the following cash flows:

| | 2009 | 2008 |
|--|-------------|------------|
| Cash flows from operating activities | \$ (54,516) | \$ 152,647 |
| Cash flows from investing activities | 41,350 | 2,045 |
| Cash flows from financing activities | - | (149,900) |
| Net increase (decrease) in cash and cash equivalents | \$ (13,166) | \$ 4,792 |
| Cash and cash equivalents, beginning of year | 18,728 | 13,936 |
| Cash and cash equivalents, end of year | 5,562 | 18,728 |

There were no transactions between the Organization and 1024267 Alberta Ltd. during the year.

6. **Property and equipment**

| | 2009 | | 2008 | |
|-------------------------|------------|--------------------------|-----------|-----------|
| | Cost | Accumulated amortization | Net | Net |
| Computer equipment | \$ 103,072 | \$ 85,706 | \$ 17,366 | \$ 26,664 |
| Furniture and equipment | 75,351 | 62,119 | 13,232 | 19,664 |
| Leasehold improvements | 24,659 | 22,248 | 2,411 | 4,543 |
| | \$ 203,082 | \$ 170,073 | \$ 33,009 | \$ 50,871 |

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
As at March 31, 2009

7. **Contingency**

The Organization has been named in a claim for wrongful dismissal by a former employee. The amount of the settlement, if any, cannot be reasonably estimated at this time and therefore, no accrual has been included in the financial statements.

8. **Donated materials and services**

During the year, the Town of Pincher Creek donated the use of office space to the Organization which has been recorded at the estimated fair value of \$1,000 per month.

9. **Economic dependence**

The Organization is economically dependent on Western Economic Diversification for its operating funding.

10. **Financial instruments**

Credit risk

The Organization is exposed to credit risk on the loans receivable from its customers. In order to reduce its credit risk, the Institute has adopted credit policies which include the analysis of the financial position of its customers and the regular review of their loan portfolio. The Organization does not have a significant exposure to any individual customer or counterpart.

Fair value

The carrying value of the loans receivable approximates the fair value as the interest rates are consistent with the current rates offered by the Organization for loans with similar terms.

Interest rate risk

Interest rate risk refers to the potential impact of changes in interest rates on the Organization's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets. At March 31, 2009, the increase or decrease in net earnings for each one percent change in interest rates would not have a significant effect on net earnings.

11. **Subsequent events**

Subsequent to year-end, Community Futures Alberta Southwest will be winding up 1024267 Alberta Ltd. as the lease agreement between 1024267 Alberta Ltd. and Alberta Tourism, Parks and Recreation has been terminated.

12. **Comparative figures**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.

COMMUNITY FUTURES ALBERTA SOUTHWEST
SCHEDULE 1
STATEMENT OF EXPENDITURES
As at March 31, 2009

| | Operating fund | Non-repayable investment fund | Repayable investment fund | Repayable Disability fund | 2009 Total | 2008 Total |
|-----------------------------------|----------------|-------------------------------|---------------------------|---------------------------|------------|------------|
| Expenditures | | | | | | |
| Wages and benefits | \$ 133,300 | \$ - | \$ - | \$ - | \$ 133,300 | \$ 299,701 |
| 2008 operating grant repayment | 57,249 | - | - | - | 57,249 | - |
| Professional fees | 21,723 | - | - | - | 21,723 | 12,307 |
| Rent | 18,741 | - | - | - | 18,741 | 18,667 |
| Amortization | 17,862 | - | - | - | 17,862 | 14,142 |
| Staff meetings/conferences | 17,183 | - | - | - | 17,183 | 9,308 |
| Bad debts (recovery) | - | - | 13,728 | - | 13,728 | (75,552) |
| Board member expenses | 12,599 | - | - | - | 12,599 | 6,982 |
| Telephone and fax | 12,263 | - | - | - | 12,263 | 14,396 |
| Travel | 11,296 | - | - | - | 11,296 | 24,947 |
| Community economic development | 9,765 | - | - | - | 9,765 | 77,348 |
| Contract service | 6,272 | - | - | - | 6,272 | 5,100 |
| Office and administration | 5,463 | - | - | - | 5,463 | 23,347 |
| Advertising and promotion | 4,905 | - | - | - | 4,905 | 3,573 |
| Equipment repairs and maintenance | 3,796 | - | - | - | 3,796 | 500 |
| Program and contract delivery | 3,132 | - | - | - | 3,132 | 2,600 |
| Insurance | 3,058 | - | - | - | 3,058 | 2,970 |
| Memberships and subscriptions | 2,386 | - | - | - | 2,386 | 2,580 |
| Electronic ex-net | 316 | - | - | - | 316 | 52 |
| Resource materials | 217 | - | - | - | 217 | 1,707 |
| | \$ 341,526 | \$ - | \$ 13,728 | \$ - | \$ 355,254 | \$ 444,675 |