

COMMUNITY FUTURES ALBERTA SOUTHWEST

Financial Statements

For the year ended March 31, 2017

COMMUNITY FUTURES ALBERTA SOUTHWEST
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CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To: The Board of Directors of
Community Futures Alberta Southwest

We have audited the accompanying financial statements of Community Futures Alberta Southwest which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in 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 auditor's 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 Alberta Southwest as at March 31, 2017 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.

Lethbridge, Alberta

A handwritten signature in black ink that reads "Avail LLP".

June 30, 2017

Chartered Professional Accountants

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2017

	Operating Fund	Loan investment funds			2017 Total	2016 Total
		Non-Repayable	Repayable	Repayable Disability		
ASSETS						
Current assets						
Cash and short-term investments (note 3)	\$ 130,237	\$ 936,595	\$ 1,490,051	\$ 263,892	\$ 2,820,775	\$ 2,635,164
Accounts receivable	2,177	-	-	-	2,177	25,819
Inventory	11,355	-	-	-	11,355	11,807
Current portion of loans receivable	-	75,416	26,303	-	101,719	117,247
	143,769	1,012,011	1,516,354	263,892	2,936,026	2,790,037
Loans receivable (note 4)	-	681,590	213,720	-	895,310	1,049,101
Capital assets (note 5)	171,324	-	-	-	171,324	4,710
	\$ 315,093	\$ 1,693,601	\$ 1,730,074	\$ 263,892	\$ 4,002,660	\$ 3,843,848
LIABILITIES AND FUND BALANCES						
Current liabilities						
Accounts payable and accrued liabilities	\$ 6,336	\$ -	\$ -	\$ -	\$ 6,336	\$ 8,912
Deferred revenue (note 6)	24,581	-	-	-	24,581	24,580
	30,917	-	-	-	30,917	33,492
Repayable investment funds (note 7)	-	-	800,000	200,000	1,000,000	1,000,000
	30,917	-	800,000	200,000	1,030,917	1,033,492
Fund balances						
Invested in capital assets	171,324	-	-	-	171,324	4,710
Externally restricted	-	1,693,601	930,074	63,892	2,687,567	2,687,725
Unrestricted	112,852	-	-	-	112,852	117,921
	284,176	1,693,601	930,074	63,892	2,971,743	2,810,356
	\$ 315,093	\$ 1,693,601	\$ 1,730,074	\$ 263,892	\$ 4,002,660	\$ 3,843,848

Approved on behalf of the board

Director William L. Harf

Director David H. Edmonds

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF OPERATIONS
For the year ended March 31, 2017

	Operating Fund	Loan investment funds			2017 Total	2016 Total
		Non-Repayable	Repayable	Repayable Disability		
Revenue						
Operating grant	\$ 294,962	\$ -	\$ -	\$ -	\$ 294,962	\$ 294,963
Interest						
- clients	-	44,768	20,774	-	65,542	66,052
- bank	3,333	14,804	33,163	3,861	55,161	53,782
FDI project	-	-	-	-	-	47,090
Miscellaneous	8,176	-	-	-	8,176	5,747
Town of Pincher Creek	12,000	-	-	-	12,000	12,000
Unrealized gain (loss) on investments	-	9,300	27,134	1,038	37,472	(8,829)
	318,471	68,872	81,071	4,899	473,313	470,805
Expenses						
Wages and benefits	189,820	-	-	-	189,820	202,685
Rent	18,822	-	-	-	18,822	18,822
Board member expenses	14,772	-	-	-	14,772	14,971
Community economic development	13,409	-	-	-	13,409	7,406
Travel	12,915	-	-	-	12,915	9,258
Professional fees	11,344	-	-	-	11,344	9,705
Advertising and promotion	9,047	-	-	-	9,047	9,461
Telephone and fax	7,340	-	-	-	7,340	8,027
Office and administration	6,439	-	-	-	6,439	2,326
Staff meetings/conferences	6,165	-	-	-	6,165	3,743
Bad debts	-	-	5,000	-	5,000	6,000
Insurance	2,492	-	-	-	2,492	2,433
Contract service	2,460	-	-	-	2,460	2,460
FDI project	2,017	-	-	-	2,017	76,209
Memberships and subscriptions	1,953	-	-	-	1,953	2,073
Program and contract delivery	1,845	-	-	-	1,845	7,790
Electronic ex-net	1,064	-	-	-	1,064	1,216
Resource materials	678	-	-	-	678	426
Equipment repairs and maintenance	506	-	-	-	506	496
Maps	452	-	-	-	452	537
Amortization	3,386	-	-	-	3,386	4,210
	306,926	-	5,000	-	311,926	390,254
Excess of revenue over expenses	\$ 11,545	\$ 68,872	\$ 76,071	\$ 4,899	\$ 161,387	\$ 80,551

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended March 31, 2017

	Operating Fund	Loan investment funds			2017 Total	2016 Total
		Non-Repayable	Repayable	Repayable Disability		
Fund balances						
Equity in capital assets, beginning of year	\$ 4,710	\$ -	\$ -	\$ -	\$ 4,710	\$ 8,202
Purchase of capital assets	170,000	-	-	-	170,000	718
Amortization	(3,386)	-	-	-	(3,386)	(4,210)
Equity in capital assets, end of year	171,324	-	-	-	171,324	4,710
Externally restricted funds, beginning of year	-	1,710,729	913,868	63,128	2,687,725	2,607,344
Excess of revenue over expenses	-	68,872	76,071	4,899	149,842	104,361
Interfund transfer (note 8)	-	(86,000)	(59,865)	(4,135)	(150,000)	(23,980)
Externally restricted funds, end of year	-	1,693,601	930,074	63,892	2,687,567	2,687,725
Unrestricted funds, beginning of year	117,921	-	-	-	117,921	114,259
Purchase of capital assets	(170,000)	-	-	-	(170,000)	(718)
Excess (deficiency) of revenue over expenses	11,545	-	-	-	11,545	(23,810)
Amortization	3,386	-	-	-	3,386	4,210
Interfund transfer (note 8)	150,000	-	-	-	150,000	23,980
Unrestricted funds, end of year	112,852	-	-	-	112,852	117,921
	\$ 284,176	\$ 1,693,601	\$ 930,074	\$ 63,892	\$ 2,971,743	\$ 2,810,356

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CASH FLOWS
For the year ended March 31, 2017

	Operating Fund	Loan investment funds			2017 Total	2016 Total
		Non-Repayable	Repayable	Repayable Disability		
Cash flows from operating activities						
Excess of revenue over expenses	\$ 11,545	\$ 68,872	\$ 76,071	\$ 4,899	\$ 161,387	\$ 80,551
Items not involving cash:						
Provision for credit losses	-	-	5,000	-	5,000	6,000
Amortization	3,386	-	-	-	3,386	4,210
	14,931	68,872	81,071	4,899	169,773	90,761
Net change in non-cash working capital items						
Accounts receivable	23,642	-	-	-	23,642	(22,343)
Inventory	453	-	-	-	453	1,335
Accounts payable and accrued liabilities	(2,574)	-	-	-	(2,574)	(6,415)
Deferred revenue	1	-	-	-	1	24,580
	36,453	68,872	81,071	4,899	191,295	87,918
Loan payments	-	433,327	221,290	-	654,617	321,044
Accrued interest on loan portfolio	-	(1,228)	670	-	(558)	(2,618)
Loan advances	-	(377,402)	(112,340)	-	(489,742)	(510,012)
	36,453	123,569	190,691	4,899	355,612	(103,668)
Cash flows from investing activities						
Purchase of capital assets	(170,000)	-	-	-	(170,000)	(718)
Interfund transfers for purchase of capital assets	150,000	(86,000)	(59,865)	(4,135)	-	-
	(20,000)	(86,000)	(59,865)	(4,135)	(170,000)	(718)
Increase (decrease) in cash	16,453	37,569	130,826	764	185,612	(104,386)
Cash, beginning of year	113,785	899,026	1,359,225	263,128	2,635,164	2,739,550
Cash, end of year	\$ 130,238	\$ 936,595	\$ 1,490,051	\$ 263,892	\$ 2,820,776	\$ 2,635,164

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2017

1. Nature of operations

Community Futures Alberta Southwest is a community based non-profit society 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 society 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

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

(a) Cash and short-term investments

Cash and short-term investments consist of amounts on deposit with banking institutions, funds held in the Community Futures Lending Investment Pool and funds held in a Guaranteed Investment Certificate.

(b) Revenue recognition

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

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

(c) Allowance for loan impairment

The organization maintains an allowance that reduces the carrying value of the 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.

(d) Capital assets

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
Building	20 years

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

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2017

2. Significant accounting policies, continued

(e) Fund accounting

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

The operating fund reports all assets, liabilities, revenue and expenses to carry out community development and administrative activities and the assets, liabilities, revenue and expenses 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. 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 \$20,000.

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.

(f) Equity in capital assets

The organization has chosen to continue to treat equity in capital assets as a separate component of fund balances.

(g) Financial instruments

The organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions. The organization subsequently measures all its financial assets and liabilities at amortized cost, with the exception of CFLIP which is measured at fair value. Changes in fair value are recognized in net income.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2017

2. Significant accounting policies, continued

(h) 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 amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

A significant area requiring the use of management's estimates is the allowance for loan impairment. This estimate reflects management's best estimate based on the conditions and information available at the time of preparation of the financial statements. Significant changes in these conditions could result in a different impairment of loan balances.

3. Cash and short-term investments

Included in cash and short-term investments are investments held in Community Futures Lending and Investment Pool (CFLIP) of \$1,848,872 (carrying amount of \$1,788,639) bearing an interest rate of 2.80%. The 2016 CFLIP balance was \$1,763,522 (carrying amount of \$1,740,762). The initial funds deposited to the CFLIP totalled \$1,500,000.

In addition, cash includes a guaranteed investment certificate for \$320,508 (2016 - \$318,107) bearing interest at 1.75% (2016 - 1.4%). The investment matures November 2018. Cash also includes two other guaranteed investment certificates for \$211,462 bearing interest at 1.30% maturing February 2018 and \$87,842 bearing interest at 1.2% maturing December 2017.

4. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 6.0% to 8.0% with monthly blended principal and interest repayments amortized for terms of between 12 and 180 months. Security is taken on these loans as appropriate and includes personal guarantees, general security agreements covering personal and business assets, assignment of insurance, and mortgages on land and buildings.

	Recorded loan	Accrued interest	Allowance	Carrying value	Current portion	Long-term portion
Non-Repayable	\$ 750,950	\$ 6,056	-	\$ 757,006	\$ 75,416	\$ 681,590
Repayable	261,902	3,321	(25,200)	240,023	26,303	213,720
	<u>\$ 1,012,852</u>	<u>\$ 9,377</u>	<u>(25,200)</u>	<u>\$ 997,029</u>	<u>\$ 101,719</u>	<u>\$ 895,310</u>

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2017

5. Capital assets

	2017		2016	
	Cost	Accumulated amortization	Net	Net
Land	\$ 45,000	\$ -	\$ 45,000	\$ -
Building	125,000	-	125,000	-
Office equipment	85,836	(85,215)	622	870
Leasehold improvements	24,659	(24,659)	-	-
Computer equipment	114,724	(114,022)	702	3,840
	<u>\$ 395,219</u>	<u>\$ (223,896)</u>	<u>\$ 171,324</u>	<u>\$ 4,710</u>

As at March 31, 2017, the entity has a total of \$170,000 of capital assets that are currently not available for use and are not being amortized.

6. Deferred revenue

	Opening	Received	Spent	Closing
Western Economic Diversification	\$ 24,580	\$ 24,581	\$ 24,580	\$ 24,581

Deferred revenue represents funding received that is related to subsequent years.

7. Investment funds

Western Economic Diversification contributions are required to be maintained in particular funds. These contributions are available solely for the mandate of each fund.

In prior years, Western Economic Diversification provided contributions totaling \$1,000,000 to improve access to capital for qualifying business.

Upon notice of the Minister of Western Economic Development (the "Minister"), the organization must repay the lesser of the uncommitted cash balance with each of these funds and the amount of the repayable contributions within each fund. As of March 31, 2017 no such notice has been given by the Minister.

8. Interfund transfers

Interfund transfers are approved through Western Economic Diversification for the building purchase for \$150,000.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2017

9. Economic dependence

The organization is economically dependent on Western Economic Diversification for its operating fund.

10. Financial instruments

Credit risk

The organization is exposed to credit risk on the loans receivables with its customers. In order to reduce credit risk, the organization 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 significant exposure to any individual customer or counterpart.

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, 2017, the increase or decrease in net earnings for each one percent in interest rates would not have a significant effect on net earnings.

11. 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.

June 30, 2017

Board of Directors
Community Futures Alberta Southwest
Box 1568
Pincher Creek, Alberta T0K 1W0

Ladies and Gentlemen:

We have completed our audit of the financial statements of Community Futures Alberta Southwest for the year ended March 31, 2017. Our audit included consideration of internal control relevant to the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, our review of any given control was limited and would not disclose all weaknesses in the system or all matters which an in-depth study might indicate. As you know, the maintenance of an adequate system of internal controls is the responsibility of the Board of Directors.

During the course of our audit for the year ended March 31, 2017, we identified no significant matters which may be of interest to the Board.

This communication is prepared solely for the information of the Board members and management of Community Futures Alberta Southwest and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We would like to thank Tony and Kirk for their assistance during our audit. Thank you for the continuing opportunity to be of service to your organization and we look forward to serving you in the future. If you have any questions or concerns regarding our audit or any other issues with which you may require our assistance, please do not hesitate to contact us.

Thank you.

Yours truly,

AVAIL LLP



Brian Nelson, CPA, CA



AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT

To Western Diversification

We have audited Community Futures Alberta Southwest's compliance as at March 31, 2017 with the criteria established in the contribution agreement between Western Diversification and Community Futures Alberta Southwest dated March 3, 2015. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Management of Community Futures Alberta Southwest. Our responsibility is to express an opinion on this compliance 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 Community Futures Alberta Southwest complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluating the overall compliance with the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2017, Community Futures Alberta Southwest is in compliance, in all material respects, with the criteria established by the contribution agreement.

Lethbridge, Alberta

June 30, 2017

Avail LLP

Chartered Professional Accountants