

COMMUNITY FUTURES ALBERTA SOUTHWEST

FINANCIAL STATEMENTS

For the year ended March 31, 2020

COMMUNITY FUTURES ALBERTA SOUTHWEST
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For the year ended March 31, 2019

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CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Community Futures Alberta Southwest

Opinion

We have audited the financial statements of Community Futures Alberta Southwest, which comprise the statement of financial position as at March 31, 2020, the statement of change in fund balances, and the statement of operations and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Community Futures Alberta Southwest as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Community Futures Alberta Southwest in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Community Futures Alberta Southwest's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Community Futures Alberta Southwest or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Community Futures Alberta Southwest's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT, continued

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 organization's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Fort Macleod, Alberta
June 24, 2020

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

Chartered Professional Accountants

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2020

	Loan investment funds				2020 Total	2019 Total
	Operating Fund	WD Non- Repayable Investment Fund	Conditionally Repayable Investment Fund	WD Conditionally Repayable EDP Fund		
ASSETS						
Current						
Cash and short-term investments (note 3)	\$ 69,314	\$ 332,932	\$ 958,816	\$ 282,685	\$ 1,643,747	\$ 1,936,971
Accounts receivable	1,810	-	-	-	1,810	1,979
Inventory	10,431	-	-	-	10,431	10,523
Advances to/from other funds	-	1,393	-	-	1,393	7,579
Current portion of loans receivable	-	214,137	189,867	-	404,004	200,939
	81,555	548,462	1,148,683	282,685	2,061,385	2,157,991
Loans receivable (note 4)	-	1,385,142	704,760	-	2,089,902	1,836,390
Capital assets (note 5)	257,976	-	-	-	257,976	274,923
	\$ 339,531	\$ 1,933,604	\$ 1,853,443	\$ 282,685	\$ 4,409,263	\$ 4,269,304
LIABILITIES AND FUND BALANCES						
Current liabilities						
Accounts payable and accrued liabilities	\$ 38,792	\$ -	\$ -	\$ -	\$ 38,792	\$ 12,446
Deferred revenue (note 6)	24,580	-	-	-	24,580	24,580
Advances to/from other funds	1,393	-	-	-	1,393	7,579
	64,765	-	-	-	64,765	44,605
Repayable investment fund (note 7)	-	-	800,000	200,000	1,000,000	1,000,000
	64,765	-	800,000	200,000	1,064,765	1,044,605
Fund Balances						
Invested in capital assets	257,976	-	-	-	257,976	274,923
Externally restricted	-	1,933,604	1,053,443	82,685	3,069,732	2,933,708
Unrestricted	16,790	-	-	-	16,790	16,068
	274,766	1,933,604	1,053,443	82,685	3,344,498	3,224,699
	\$ 339,531	\$ 1,933,604	\$ 1,853,443	\$ 282,685	\$ 4,409,263	\$ 4,269,304

Approved on behalf of the board

Director Michael H. Owen,

Director _____

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF OPERATIONS
For the year ended March 31, 2020

	Loan investment funds				2020 Total	2019 Total
	Operating Fund	WD Non- Repayable Investment Fund	WD Conditionally Repayable Investment Fund	WD Conditionally Repayable EDP Fund		
Revenue						
Western Economic Diversification contributions (schedule 1)	\$ 294,963	\$ -	\$ -	\$ -	\$ 294,963	\$ 294,963
Interest from clients	-	96,571	56,705	-	153,276	103,078
Interest from bank	65	2,865	27,916	8,414	39,260	59,314
Cardston ambassador project	-	-	-	-	-	19,843
Miscellaneous	9,416	-	-	-	9,416	12,638
	304,444	99,436	84,621	8,414	496,915	489,836
Expenses						
Wages and benefits	166,869	-	-	-	166,869	202,736
Community economic development	43,999	-	-	-	43,999	34,252
Board member expenses	22,533	-	-	-	22,533	18,171
Provision for credit losses	-	-	19,600	-	19,600	20,838
Professional fees	11,195	-	-	-	11,195	11,473
Travel	10,904	-	-	-	10,904	11,846
Advertising and promotion	7,414	-	-	-	7,414	8,152
Staff meetings/conferences	6,222	-	-	-	6,222	5,802
Utilities	5,036	-	-	-	5,036	4,401
FDI project	5,000	-	-	-	5,000	2,528
Office and administration	4,364	-	-	-	4,364	9,620
Telephone and fax	4,303	-	-	-	4,303	6,520
Insurance	4,183	-	-	-	4,183	3,783
Property taxes	2,900	-	-	-	2,900	2,875
Contract service	2,400	-	-	-	2,400	2,400
Electronic ex-net	2,290	-	-	-	2,290	2,234
Memberships and subscriptions	1,968	-	-	-	1,968	1,705
Program and contract delivery	1,845	-	-	-	1,845	1,815
Equipment repairs and maintenance	205	-	-	-	205	1,061
Maps	92	-	-	-	92	541
Resource materials	-	-	-	-	-	250
Amortization	16,947	-	-	-	16,947	16,983
	320,669	-	19,600	-	340,269	369,986
Excess of revenue over expenses before other income and expenses	(16,225)	99,436	65,021	8,414	156,646	119,850
Other expenses/(income)						
Gain on sale of investments	-	(1,822)	(15,238)	-	(17,060)	(12,234)
Unrealized loss on investments	-	56	50,891	2,961	53,908	16,992
	-	(1,766)	35,653	2,961	36,848	4,758
(Deficiency) excess of revenue over expenses	\$ (16,225)	\$ 101,202	\$ 29,368	\$ 5,453	\$ 119,798	\$ 115,092

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CHANGES IN FUND BALANCES
For the year ended March 31, 2020

	Loan investment funds				2020 Total	2019 Total
	Operating Fund	WD Non-Repayable Investment Fund	Conditionally Repayable Investment Fund	WD Conditionally Repayable EDP Fund		
Invested in capital assets						
Beginning of year	\$ 274,923	\$ -	\$ -	\$ -	\$ 274,923	\$ 287,539
Purchase of capital assets	-	-	-	-	-	4,367
Amortization	(16,947)	-	-	-	(16,947)	(16,983)
End of year	257,976	-	-	-	257,976	274,923
Externally restricted						
Beginning of year	-	1,832,402	1,024,074	77,232	2,933,708	2,811,919
Excess of revenue over expenses	-	101,202	29,369	5,453	136,024	136,789
Interfund transfers	-	-	-	-	-	(15,000)
End of year	-	1,933,604	1,053,443	82,685	3,069,732	2,933,708
Unrestricted						
Beginning of year	16,068	-	-	-	16,068	10,148
Purchase of capital assets	-	-	-	-	-	(4,367)
Deficiency of revenue over expenses	(16,225)	-	-	-	(16,225)	(21,696)
Amortization	16,947	-	-	-	16,947	16,983
Interfund transfers	-	-	-	-	-	15,000
End of year	16,790	-	-	-	16,790	16,068
	\$ 274,766	\$ 1,933,604	\$ 1,053,443	\$ 82,685	\$ 3,344,498	\$ 3,224,699

COMMUNITY FUTURES ALBERTA SOUTHWEST
STATEMENT OF CASH FLOWS
For the year ended March 31, 2020

	Loan investment funds				2020 Total	2019 Total
	Operating Fund	WD Non- Repayable Investment Fund	WD Conditionally Repayable Investment Fund	WD Conditionally Repayable EDP Fund		
Cash flows from operating activities						
Excess of revenue over expenses	\$ (16,225)	\$ 101,202	\$ 29,368	\$ 5,453	\$ 119,798	\$ 115,092
Items not involving cash						
Amortization	16,947	-	-	-	16,947	16,983
Provision for credit losses	-	-	19,600	-	19,600	20,838
	722	101,202	48,968	5,453	156,345	152,913
Net change in non-cash working capital items						
Accounts receivable	169	-	-	-	169	3,405
Inventory	92	-	-	-	92	541
Accounts payable and accrued liabilities	26,346	-	-	-	26,346	1,151
Deferred revenue	-	-	-	-	-	24,580
Advances to/from other funds	420	(1,569)	7,580	(6,431)	-	-
	27,749	99,633	56,548	(978)	182,952	182,590
Cash flows from lending activities						
Loan payments	-	260,974	237,846	-	498,820	404,348
Loan advances	-	(272,802)	(691,437)	-	(964,239)	(1,007,130)
Accrued interest on loan portfolio	-	(10,622)	(135)	-	(10,757)	(9,634)
	-	(22,450)	(453,726)	-	(476,176)	(612,416)
Cash flows from investing activities						
Purchase of capital assets	-	-	-	-	-	(4,367)
Increase (decrease) in cash	27,749	77,183	(397,178)	(978)	(293,224)	(434,193)
Cash, beginning of year	41,565	255,749	1,355,994	283,663	1,936,971	2,371,164
Cash, end of year	\$ 69,314	\$ 332,932	\$ 958,816	\$ 282,685	\$ 1,643,747	\$ 1,936,971

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

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) Investments

Investments are recorded at fair value. Changes in fair value are recognized in the statement of operations.

(d) 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.

(e) 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
Building	20 years

One-half the normal rate of amortization is recorded in the year of acquisition.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

2. Significant accounting policies, continued

(f) 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 WD 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 seven years following the end of the funding period.

The WD Conditionally 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 WD Conditionally Repayable EDP 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 WD Non-Repayable Investment Fund, the WD Conditionally Repayable Investment Fund, and the WD Conditionally Repayable EDP 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.

(g) Equity in capital assets

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

(h) Financial instruments

The organization initially measures all of its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The organization subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments which are measured at fair value. Changes in fair value are recognized in the statement of operations.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

2. Significant accounting policies, continued

(i) 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 \$855,490 (cost of \$858,790) with a variable interest rate depending on the performance of the investments. Interest earned in 2020 was between 2 and 4%. The 2019 CFLIP balance was \$1,656,904 (cost of \$1,606,296). The initial funds deposited to the CFLIP totalled \$1,500,000.

In addition, cash includes guaranteed investment certificates for \$402,610 (2019 - \$150,000) bearing interest between 1.3 and 2.02% (2019 - 2.34%). The investments mature in May 2020, November 2020 and November 2024.

4. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 5.0% to 7.0% 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
WD Non-repayable Investment Fund	\$ 1,575,022	\$ 24,256	\$ -	\$ 1,599,279	\$ 214,137	\$ 1,385,142
WD Conditionally Repayable Investment Fund	929,639	4,988	(40,000)	894,627	189,867	704,760
	<u>\$ 2,504,661</u>	<u>\$ 29,244</u>	<u>\$ (40,000)</u>	<u>\$ 2,493,906</u>	<u>\$ 404,004</u>	<u>\$ 2,089,902</u>

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

4. Loans receivable, continued

Included in the WD Non-repayable Investment Fund are five loans with balances over \$150,000, totaling \$861,535, along with one loan in the WD Conditionally Repayable Fund over \$150,000, with a total balance of \$154,407.

Subsequent to year-end, the organization gave the option on a case by case basis to pay interest only. Current year portions have been adjusted to reflect this change.

During the year, there were the following changes in the allowance for doubtful accounts:

	Beginning balance	Provision	Write-offs	Reversals	Ending balance
WD Conditionally Repayable Investment Fund	\$ 20,400	\$ 19,600	\$ -	\$ -	\$ 40,000

Included in the loan impairment provision are provisions, write-offs, and reversals of \$19,600.

5. Capital assets

	Cost	Accumulated amortization	2020 Net	2019 Net
Land	\$ 45,000	\$ -	\$ 45,000	\$ 45,000
Building	238,123	32,750	205,373	217,279
Office equipment	16,086	12,359	3,727	5,342
Computer equipment	12,711	8,836	3,876	7,302
	\$ 311,920	\$ 53,945	\$ 257,976	\$ 274,923

6. Deferred revenue

	Opening	Received	Spent	Closing
Western Economic Diversification	\$ 24,580	\$ 294,963	\$ 294,963	\$ 24,580

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

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

7. Repayable investment fund

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 funds. As of March 31, 2020, no such notice has been given by the Minister.

8. Subsequent event

On March 11, 2020, the World Health Organization assessed the COVID-19 outbreak as a pandemic. On March 17, 2020, the Province of Alberta declared a public health emergency as a result of the outbreak.

The global coronavirus pandemic has had a significant impact on global financial markets and will have significant accounting, disclosure, and internal control implications for many entities.

Some of the key impacts include, but are not limited to, interruptions of productions and supply chains, unavailability of personnel, reductions in revenue, decline in value of financial investments, disruptions or stoppages in non-essential travel, and the closure of facilities and businesses. These impacts will have a significant effect on the ability of entrepreneurs to repay their loans owing the organization.

The situation is changing rapidly and the future impact on the organization is not readily determinable at this time.

In response to the COVID-19 pandemic, an estimated contribution of \$66,000 and an estimated loan of \$980,000 from the Government of Canada is expected. These funds will be used to administer and finance loans through the Regional Relief & Recovery Fund. Terms and conditions are yet to be determined.

COMMUNITY FUTURES ALBERTA SOUTHWEST
NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2020

9. 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, 2020, the increase or decrease in net earnings for each one percent in interest rates would not have a significant effect on net earnings.

10. Economic dependence

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

COMMUNITY FUTURES ALBERTA SOUTHWEST**SCHEDULE 1****For the year ended March 31, 2020****Schedule of WD operating revenue and expenses**

	2020	2019
Western Economic Diversification contributions	\$ 294,963	\$ 294,963
Expenses		
Wages and benefits	166,869	202,736
Community economic development	43,999	34,252
Board member expenses	22,533	18,171
Professional fees	11,195	11,473
Travel	6,398	7,167
Advertising and promotion	7,414	8,152
Staff meetings/conferences	6,222	5,802
Utilities	5,036	4,401
FDI project	5,000	2,528
Office and administration	4,364	9,620
Telephone and fax	4,303	6,520
Insurance	4,183	3,783
Property taxes	2,900	2,875
Contract service	2,400	2,400
Electronic ex-net	2,290	2,234
Memberships and subscriptions	1,968	1,705
Program and contract delivery	1,845	1,815
Equipment repairs and maintenance	205	1,061
Resource materials	-	250
	299,124	326,945
Deficiency of revenue over expenses	\$ (4,161)	\$ (31,982)