

COMMUNITY FUTURES LAKELAND

FINANCIAL STATEMENTS

FOR THE YEAR ENDING MARCH 31, 2020

INDEX

	Page
Auditor's Report on Compliance with Agreement	1
Independent Auditor's Report	2-3
Statement of Financial Position	4
Statement of Operations	5
Statement of Changes in Fund Balances	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-13
Schedule of Operating Expenses	14



AUDITOR'S REPORT
ON COMPLIANCE WITH AGREEMENT

To Western Economic Diversification

We have audited Community Futures Lakeland's compliance as at March 31, 2020 with the criteria established in the Contribution Agreement between Western Economic Diversification and Community Futures Lakeland dated March 31, 2018. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Board of Directors of Community Futures Lakeland. 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 Lakeland 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, Community Futures Lakeland is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

ST. PAUL, ALBERTA
June 24, 2020

JMD Group LLP
CHARTERED ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

To the Members of Community Futures Lakeland

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Community Futures Lakeland, which comprise the statement of financial position as at March 31, 2020, and the statements of operations, changes in fund balances, and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information, and a schedule of operating expenses.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2020, 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.

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 Corporation 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 those 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 misstatements, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibility 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 the audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 Corporation'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 Corporation'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 disclosure 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 Corporation 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.

ST. PAUL, ALBERTA
June 24, 2020

JMD Group LLP
CHARTERED ACCOUNTANTS

COMMUNITY FUTURES LAKELAND
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2020

	General Fund	Loan Investment Funds		2020	2019
		Non-Repayable	Repayable		
ASSETS					
Current assets	\$ 36,971	\$ 873,555	\$ 810,455	\$ 151,861	\$ 1,597,574
Cash in bank	3,370	--	--	--	3,625
GST receivable	8,071	--	--	--	57,939
Accounts receivable	--	14,529	2,886	--	27,234
Due from general fund	100	--	--	--	115,823
Due from investment fund	6,660	--	--	--	5,151
Prepaid expenses	--	313,005	112,839	53,857	620,590
Current portion of investment loans	--	1,201,089	926,180	205,718	2,427,936
Long term investments (note 3)	2,665	10,000	10,000	--	22,588
Capital assets (note 4)	8,086	--	--	--	10,740
Investment loans receivable (notes 5 - 7)	--	1,308,737	277,040	119,734	1,772,507
	<u>\$ 65,923</u>	<u>\$ 2,519,826</u>	<u>\$ 1,213,220</u>	<u>\$ 325,452</u>	<u>\$ 4,233,771</u>

LIABILITIES AND FUND BALANCES

Current liabilities	\$ 31,828	\$ --	\$ --	\$ --	\$ 70,753
Payables and accrued liabilities	5,668	--	--	--	6,214
Government remittances	--	--	--	100	5,823
Due to general fund	17,415	--	--	--	137,234
Due to investment fund	28,580	--	--	--	28,580
Deferred revenue - WED	83,491	--	--	100	248,604
Fund balances	8,086	--	--	--	10,740
Invested in capital assets	--	2,519,826	1,213,220	325,352	4,021,393
Externally restricted (note 8)	(25,654)	--	--	--	(46,966)
Unrestricted	(17,568)	2,519,826	1,213,220	325,352	3,985,167
	<u>\$ 65,923</u>	<u>\$ 2,519,826</u>	<u>\$ 1,213,220</u>	<u>\$ 325,452</u>	<u>\$ 4,233,771</u>

Approved on Behalf of The Board: B. Ross Chairman A. Hobart Treasurer

COMMUNITY FUTURES LAKELAND
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Operating</u> <u>General Fund</u>	<u>Financing and Investing</u> <u>Loan Investment Funds</u>			<u>2020</u>	<u>2019</u>
		<u>Non-Repayable</u>	<u>Repayable</u>	<u>Disabled</u>		
Revenue						
Federal contracts	\$ 294,963	\$ --	\$ --	\$ --	\$ 294,963	\$ 294,963
Investment interest	--	147,726	40,346	10,880	198,952	235,574
Other revenue	61,767	--	--	--	61,767	90,455
Bank interest	<u>81</u>	<u>1,647</u>	<u>1,093</u>	<u>64</u>	<u>2,885</u>	<u>1,756</u>
	<u>356,811</u>	<u>149,373</u>	<u>41,439</u>	<u>10,944</u>	<u>558,567</u>	<u>622,748</u>
Expenses						
Operating expenses (schedule)	408,153	--	--	--	408,153	440,517
Provision for (recovery of) investment losses	--	101,846	(7,452)	357	94,751	230,965
	<u>408,153</u>	<u>101,846</u>	<u>(7,452)</u>	<u>357</u>	<u>502,904</u>	<u>671,482</u>
Excess (deficiency) of revenue over expenses	<u>\$ (51,342)</u>	<u>\$ 47,527</u>	<u>\$ 48,891</u>	<u>\$ 10,587</u>	<u>\$ 55,663</u>	<u>\$ (48,734)</u>

COMMUNITY FUTURES LAKELAND
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2020

	<u>Financing and Investing</u> <u>Loan Investment Funds</u>			
	<u>Operating</u> <u>General Fund</u>	<u>Non-Repayable</u>	<u>Repayable</u>	<u>Disabled</u>
	<u>2020</u>	<u>2020</u>	<u>2020</u>	<u>2019</u>
Equity in capital assets, beginning of year	\$ 10,740	\$ --	\$ --	\$ 10,740
Purchase of capital assets	--	--	--	3,842
Amortization	(2,654)	--	--	(3,073)
Proceeds from sale of capital assets	--	--	--	--
Gain (loss) on sale of capital assets	--	--	--	(735)
Equity in capital assets, end of year	<u>8,086</u>	<u>--</u>	<u>--</u>	<u>10,740</u>
Externally restricted funds, beginning of year	--	2,542,299	1,164,329	4,021,393
Excess of revenue over expenses	--	47,527	48,891	107,005
Interfund transfer (note 10)	--	(70,000)	--	(70,000)
Externally restricted funds, end of year	<u>--</u>	<u>2,519,826</u>	<u>1,213,220</u>	<u>4,058,398</u>
Unrestricted funds, beginning of year	(46,966)	--	--	8,089
Deficiency of revenue over expenses	(51,342)	--	--	(55,021)
Purchase of capital assets	--	--	--	(3,842)
Amortization	2,654	--	--	3,073
Proceeds from sale of capital assets	--	--	--	--
Loss (gain) on sale of capital assets	--	--	--	735
Interfund transfer (note 10)	70,000	--	--	--
Unrestricted funds, end of year	<u>(25,654)</u>	<u>--</u>	<u>--</u>	<u>(46,966)</u>
	<u>\$ (17,568)</u>	<u>\$ 2,519,826</u>	<u>\$ 1,213,220</u>	<u>\$ 3,985,167</u>
		<u>\$ 325,352</u>	<u>\$ 4,040,830</u>	

COMMUNITY FUTURES LAKELAND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2020

	Operating General Fund	Financing and Investing Loan Investment Funds			2020	2019
		Non-Repayable	Repayable	Disabled		
Sources of cash						
Federal contracts	\$ 294,963	\$ --	\$ --	\$ --	\$ 294,963	\$ 323,543
Bank interest (expense) and fees	4	(647)	(7,106)	(2,544)	(10,293)	(4,285)
Investment income	--	146,306	39,720	10,470	196,496	231,516
Other	111,635	--	--	--	111,635	95,749
Investment loan repayments	--	350,540	\$ 124,878	103,636	579,054	1,171,530
	<u>406,602</u>	<u>496,199</u>	<u>157,492</u>	<u>111,562</u>	<u>1,171,855</u>	<u>1,818,053</u>
Uses of cash						
Salaries and benefits	272,804	--	--	--	272,804	258,161
Materials and services	160,317	--	--	--	160,317	180,034
Purchase of capital assets	--	--	--	--	--	3,842
Sale of capital assets	--	--	--	--	--	--
Investment loan advances	--	383,463	67,003	13,000	463,466	773,774
	<u>433,121</u>	<u>383,463</u>	<u>67,003</u>	<u>13,000</u>	<u>896,587</u>	<u>1,215,811</u>
Net increase (decrease) in cash	(26,519)	112,736	90,489	98,562	275,268	602,242
Cash, beginning of year	8,490	765,819	659,966	163,299	1,597,574	995,332
Interfund transfer (note 10)	55,000	(5,000)	60,000	(110,000)	--	--
Cash, end of year	\$ <u>36,971</u>	\$ <u>873,555</u>	\$ <u>810,455</u>	\$ <u>151,861</u>	\$ <u>1,872,842</u>	\$ <u>1,597,574</u>

COMMUNITY FUTURES LAKELAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

Purpose of the Organization

Community Futures Lakeland 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.

1. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant policies:

a) Fund accounting

Community Futures Lakeland follows the restricted method of accounting for contributions and uses the following funds:

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

The Loan Investment Funds report 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 the Loan 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.

b) Financial Instruments

The organizations financial instruments consist of cash, receivables, payables and accrued liabilities. All financial instruments are initially recognized at fair value and subsequently measured at amortized cost. Transaction costs and financial fees associated with financial instruments carried at amortized cost are recorded as adjustments to the initial fair value recognized and amortized over the life of the financial instrument.

c) Cash in Bank

Cash in bank is defined as cash in chequing accounts adjusted for outstanding cheques and deposits.

d) Investments

Investments are recorded at fair value. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

COMMUNITY FUTURES LAKELAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

1. Significant Accounting Policies (continued)

e) Capital Assets

Purchased capital assets are recorded at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives which are as follows:

Leasehold improvements	3 years
Office furniture	10 years
Office equipment	5 years
Computer equipment	3 years

No amortization is taken in the year of acquisition except for leasehold improvements which are amortized over the term of the lease. Amortization is recorded in the general fund.

f) Revenue Recognition

Community Futures Lakeland follows the deferral method of accounting for revenue. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

g) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Such estimates include the amortization of capital assets and the provision for investment losses. These estimates are reviewed periodically and as adjustments become necessary, they are reported as earnings in the period in which they become known.

2. Economic Dependence

The organization received 82.7% (2019 – 76.5%) of its operating revenue from the federal government and is economically dependent on these revenues.

3. Long-Term Investments

Long-term investments consist of Credit Union Equity.

COMMUNITY FUTURES LAKELAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

4. Capital Assets

	2020			2019
	Cost	Accumulated Amortization	NBV	NBV
Leasehold improvements	\$ 74,116	\$ 74,116	\$ --	\$ --
Office furniture	18,713	12,841	5,872	6,914
Office equipment	17,062	17,062	--	--
Computer equipment	<u>41,668</u>	<u>39,454</u>	<u>2,214</u>	<u>3,826</u>
	<u>\$ 151,559</u>	<u>\$ 143,473</u>	<u>\$ 8,086</u>	<u>\$ 10,740</u>

5. Impaired Loans

Impaired loans and the related allowance for credit losses are as follows:

	Gross Amount	General Allowance	Specific Allowance	Carrying Value	
				2020	2019
Loans to small business	\$ <u>981,872</u>	\$ <u>--</u>	\$ <u>594,291</u>	\$ <u>387,581</u>	\$ <u>664,058</u>

6. Allowance for Credit Losses

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

	2019 Ending Balance	Write offs (net of Recoveries)	Provision for Credit Losses	2020 Ending Balance
Loan Investment Fund - Non-repayable	\$ 304,750	\$ --	\$ 101,846	\$ 406,596
Loan Investment Fund - Repayable	163,348	--	(7,453)	155,895
Loan Investment Fund - Disability	<u>105,405</u>	<u>73,962</u>	<u>357</u>	<u>31,800</u>
	<u>\$ 573,503</u>	<u>\$ 73,962</u>	<u>\$ 94,750</u>	<u>\$ 594,291</u>

Actual write-offs, net of recoveries, are 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.

COMMUNITY FUTURES LAKELAND
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED MARCH 31, 2020

7. Investment Loans Receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 5% to 9% with monthly blended principal and interest repayments amortized for terms between twelve months and sixteen 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 buildings.

At yearend, the corporation had approved additional loans totaling \$Nil (2019 – \$40,000) pending certain conditions.

At year end the corporation had 2 loans with a balance outstanding of more than \$150,000. The corporation also has two more loans to one company that totals more than \$150,000.

8. Externally Restricted Funds

Major categories of externally imposed restrictions on net assets are as follows:

	<u>2020</u>	<u>2019</u>
Non-Repayable Investment	\$ 2,559,826	\$ 2,542,299
Repayable Investment	1,213,220	1,164,329
Disabled Investment	<u>325,352</u>	<u>314,765</u>
	<u>\$ 4,098,398</u>	<u>\$ 4,021,393</u>

The department of Western Economic Diversification amended the terms and conditions of its contribution agreement with the Corporation. Under the revised terms and conditions, the Conditionally Repayable Loan investment funding of \$875,000 is 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 12; or
- v) An event of default occurs, as described in Section 7 of the Agreement; or
- vi) The Minister does not approve terms and conditions to extend the project beyond March 31, 2021.

COMMUNITY FUTURES LAKELAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

9. Lease Commitments

The organization has signed a three-year lease for office space and has leased office equipment with the following annual minimum lease payments:

	<u>Rent</u>	<u>Equipment</u>
2021	\$ 35,725	\$ 5,682
2022	35,725	5,468
2023	35,725	4,048

10. Inter Fund Transfers

Approved interest transfers:

2017/18	\$ 10,000
2018/19	30,000
2019/20	<u>30,000</u>
	<u>\$ 70,000</u>

The approved interest transfers for 2017/18 and 2018/19 were not recorded in the prior year statements. These transfers adjust the due to investment accounts and fund balances in the current year.

In the current year, the disability fund repaid \$60,000 to the repayable fund and \$50,000 to the non-repayable fund for amounts transferred in prior years.

During the year \$55,000 was transferred from the non-repayable fund to the operating fund to cover a cash shortage.

11. Non-Balance Sheet Items

To meet the needs of its clients and fulfill its purpose, the investment funds participate in various non-balance sheet instruments which these financial statements do not fully reflect. These instruments are subject to the investment funds normal credit and financial procedures and consist of:

- i) Loan guarantees which represent irrevocable assurances that the investment funds will pay if a client cannot meet his obligations to a third party; and
- ii) Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans.

As at March 31, the investment fund had the following amounts outstanding:

	<u>2020</u>	<u>2019</u>
Commitments to extend credit	\$ 9,392	\$ 15,000
Letters of credit	18,100	18,100

COMMUNITY FUTURES LAKELAND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2020

12. Financial Instruments

a) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk on the loans receivable from its clients. In order to reduce such risk, the organization has adopted extensive credit and approval policies that include the regular review of client accounts and credit worthiness. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its policy of setting loan terms of less than 16 months.

c) Liquidity risk

The organizations exposure to liquidity risk is dependent on the collection of accounts receivable and obligations or raising of funds to meet commitments and sustain operations. The system controls liquidity risk by management of working capital, cash flows and the availability of borrowing facilities.

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is minimal.

e) Currency risk

It is management's opinion that the organization is not exposed to significant currency risk arising from its financial instruments as they are all in Canadian dollars.

13. Subsequent Event

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19). The situation is constantly evolving, and the measures put in place are having multiple impacts on local, provincial, national and global economies.

Management is uncertain of the effects of these changes on its financial statements and believes that any disturbance may be temporary, however, there is uncertainty about the length and potential impact of the disturbance.

As a result we are unable to estimate the potential impact on the organization's operations as at the date of these financial statements.

COMMUNITY FUTURES LAKELAND
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED MARCH 31, 2020

Operating expenses	<u>2020</u>	<u>2019</u>
Salaries and benefits	\$ 240,103	\$ 255,864
Office rent and utilities	42,716	43,544
Advertising and promotion	24,475	18,560
Professional fees	16,292	15,134
Contract services	15,452	11,254
Special projects	13,174	25,600
Telephone and internet	11,655	11,822
Staff travel	7,658	12,176
Office supplies	6,011	8,548
Equipment rental	5,690	5,670
Maintenance and repairs	4,548	8,566
Conferences/workshops	3,673	5,313
Board member expenses	3,479	3,918
Amortization expense	2,654	3,073
Memberships	2,447	2,228
Insurance	2,404	2,116
Information technology	2,278	2,320
Meeting expenses	1,677	1,882
Bank charges	1,533	1,687
Postage and delivery	234	507
Loss on sale of capital assets	<u>--</u>	<u>735</u>
	<u>\$ 408,153</u>	<u>\$ 440,517</u>