

AUDITORS' REPORT ON COMPLIANCE WITH AGREEMENT

To Western Economic Diversification

We have audited Community Futures Greenstone's compliance as at March 31, 2017 with the criteria established in the Contribution Agreement between Western Economic Diversification and the organization dated March 23, 2015. Compliance with the criteria established by the provisions of the agreement is the responsibility of the organization's management. 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 the organization 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 Greenstone is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

Chartered Professional Accountants

The Pas, Manitoba
September 6, 2017

COMMUNITY FUTURES GREENSTONE

STATEMENT 1

STATEMENT OF FINANCIAL POSITION

MARCH 31

	Operating Fund	Investment Fund	Combined	
			2 0 1 7	2 0 1 6
A S S E T S				
CURRENT				
Cash and term deposits	\$ 244,848	\$ 282,607	\$ 527,455	\$ 406,689
Accounts receivable	9,024		9,024	77,623
Prepaid expenses	3,972		3,972	4,614
Current portion of loans receivable	-	494,287	494,287	442,472
	<u>257,844</u>	<u>776,894</u>	<u>1,034,738</u>	<u>931,398</u>
DUE FROM INVESTMENT FUND	26,475		26,475	2,528
LOANS RECEIVABLE (Note 4)		933,136	933,136	1,174,585
INVESTMENTS (Note 5)		40,000	40,000	40,000
CAPITAL ASSETS (Note 6)	<u>308,758</u>	<u>-</u>	<u>308,758</u>	<u>305,113</u>
	<u>\$ 593,077</u>	<u>\$ 1,750,030</u>	<u>\$ 2,343,107</u>	<u>\$ 2,453,624</u>
L I A B I L I T I E S				
CURRENT				
Accounts payable and accrued liabilities	\$ 20,769	\$	\$ 20,769	\$ 37,753
DEFERRED REVENUE	24,999		24,999	
REPAYABLE CONTRIBUTION		882,364	882,364	882,364
DUE TO OPERATING FUND	-	26,475	26,475	2,528
	<u>45,768</u>	<u>908,839</u>	<u>954,607</u>	<u>922,645</u>
F U N D B A L A N C E S				
FUND BALANCES				
Invested in capital assets	308,758		308,758	305,113
Internally restricted (Note 7)	75,000		75,000	75,000
Unrestricted	<u>163,551</u>	<u>-</u>	<u>163,551</u>	<u>159,816</u>
	547,309		547,309	539,929
Externally restricted (Note 8)	-	841,191	841,191	991,050
	<u>547,309</u>	<u>841,191</u>	<u>1,388,500</u>	<u>1,530,979</u>
	<u>\$ 593,077</u>	<u>\$ 1,750,030</u>	<u>\$ 2,343,107</u>	<u>\$ 2,453,624</u>

Approved on behalf of the Board:

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Director

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Director

COMMUNITY FUTURES GREENSTONE

STATEMENT 2

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31

	2017		2016		
OPERATING FUND					
	INVESTED IN CAPITAL ASSETS	INTERNALLY RESTRICTED	UNRESTRICTED		
FUND BALANCE, <i>beginning of year</i>	\$ 305,113	\$ 75,000	\$ 159,816	\$ 539,929	\$ 521,072
Excess of revenue over expenditures			3,735	3,735	3,691
Change in investment in Visions North					15,166
Acquisition of capital assets	<u>3,645</u>			<u>3,645</u>	
FUND BALANCE, <i>end of year</i>	\$ <u>308,758</u>	\$ <u>75,000</u>	\$ <u>163,551</u>	\$ <u>547,309</u>	\$ <u>539,929</u>
INVESTMENT FUND					
		GENERAL	DISABILITY		
EARNED DEFICIT, <i>beginning of year</i>		\$(291,312)	\$(35,196)	\$(326,508)	\$(427,471)
Excess of revenue over expenditures (expenditures over revenue)		(149,319)	(540)	(149,859)	100,963
EARNED DEFICIT, <i>end of year</i>		(440,631)	(35,736)	(476,367)	(326,508)
FUNDED SURPLUS		<u>1,317,558</u>	-	<u>1,317,558</u>	<u>1,317,558</u>
FUND BALANCE, <i>end of year</i>		\$ <u>876,927</u>	\$(<u>35,736</u>)	\$ <u>841,191</u>	\$ <u>991,050</u>

COMMUNITY FUTURES GREENSTONE

STATEMENT 3

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31

OPERATING FUND

2017

2016

REVENUE

Western Economic Diversification	\$ 299,989	\$ 299,989
Interest earned	220	32
Other	<u>20,619</u>	<u>67</u>
	<u>320,828</u>	<u>300,088</u>

EXPENDITURES

Advertising and promotion	8,300	12,178
Assets acquired	3,645	
Bank charges and interest	1,001	149
Community projects	214	
Goods and services tax	2,241	2,703
IT equipment and support	8,144	
Insurance	2,583	4,979
Library	119	400
Office and general	21,932	20,420
Professional fees	13,864	10,935
Recruitment	137	7,430
Rent	25,685	23,400
Small business week	12,982	2,572
Telephone	9,279	8,413
Training	5,908	
Travel	13,720	25,575
Vehicle	4,463	5,252
Wages and benefits	181,003	169,745
Workshops and conferences	<u>1,873</u>	<u>2,246</u>

317,093 296,397

EXCESS OF REVENUE OVER EXPENDITURES

\$ 3,735 \$ 3,691

COMMUNITY FUTURES GREENSTONE

STATEMENT 4

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31

INVESTMENT FUND	General	Disability	2 0 1 7	2 0 1 6
REVENUE				
Interest income	\$ <u>67,787</u>	\$ <u>17</u>	\$ <u>67,804</u>	\$ <u>100,398</u>
EXPENDITURES				
Legal and other loan costs	2,947		2,947	3,790
Provision for loan impairment (recovery)	<u>214,159</u>	<u>557</u>	214,716	(<u>4,355</u>)
	<u>217,106</u>	<u>557</u>	217,663	(<u>565</u>)
EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUE)	\$ <u>(149,319)</u>	\$ <u>(540)</u>	\$ <u>(149,859)</u>	\$ <u>100,963</u>

COMMUNITY FUTURES GREENSTONE

STATEMENT 5

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31

ALL FUNDS

2017

2016

CASH FLOW FROM

OPERATING ACTIVITIES

Cash received from funding sources and clients	\$ 339,207	\$ 304,432
Cash paid to suppliers and employees	(336,382)	(305,864)
Interest earned	<u>68,024</u>	<u>100,430</u>
	<u>70,849</u>	<u>98,998</u>

INVESTING ACTIVITIES

Repayment of loans	253,667	301,887
Issuance of loans	(278,750)	(334,029)
Sale of shares	<u>75,000</u>	<u>-</u>
	<u>49,917</u>	<u>(32,142)</u>

NET INCREASE IN CASH DURING YEAR

120,766

66,856

CASH, *beginning of year*406,689339,833CASH, *end of year*\$ 527,455\$ 406,689

CASH COMPRISED OF

Cash	\$ 447,226	\$ 339,557
Short term deposits	<u>80,229</u>	<u>67,132</u>
	<u>\$ 527,455</u>	<u>\$ 406,689</u>

COMMUNITY FUTURES GREENSTONE

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

1. PURPOSE OF ORGANIZATION

Community Futures Greenstone is a community based not-for-profit organization incorporated without share capital under the laws of the Province of Manitoba. The Government of Canada, through the Department of Western Economic Diversification, provides financial assistance to the organization pursuant to an agreement. The purpose of the organization is to support community economic development, diversify the economy, support the creation and expansion of small and medium sized enterprises, maintain and create new employment and maintain the Minister's capacity to deliver business services to rural communities in Western Canada.

Community Futures Greenstone is exempt from federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

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

FUND ACCOUNTING

The Operating Fund accounts for the program delivery and administration activities of the organization. This fund reports unrestricted resources, restricted operating grants and internally restricted balances.

The Investment Fund accounts for the investment activities to promote new business or the expansion of existing businesses. Investment funds are segregated into repayable and non-repayable funds.

(a) **General Investment Fund**

A repayable contribution of \$682,364 by Western Diversification to be used for loans, loan guarantees and equity investment in a new business or expansion of an existing business. In 2007 the Youth Entrepreneur Investment Fund was combined with the General Investment Fund.

(b) **Disabled Entrepreneur Investment Fund**

A repayable contribution of \$200,000 by Western Diversification to be used for loans, loan guarantees and equity investment in businesses owned by disabled persons.

For each fund, the maximum amount of an individual loan is normally \$150,000 at a minimum interest rate of prime rate plus two percent.

REVENUE RECOGNITION

Community Futures Greenstone follows the restricted fund method whereby externally restricted contributions are recognized in the fund corresponding to the purpose for which they were contributed.

Unrestricted contributions are recognized as revenues in the Operating Fund.

Interest income is recognized as revenue in the Investment Fund on the accrual basis when earned. While interest is accrued on impaired loans for collection purposes, unpaid interest on impaired loans is not recognized in interest income for financial statement purposes.

LOANS RECEIVABLE

Loans receivable are stated net of an allowance for loan impairment. Loans are considered to be impaired when, in management's opinion, there is a reasonable doubt as to the ultimate collectibility of some portion of the principal or interest. Impaired loans are recorded at their estimated realizable amounts.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INVESTMENTS

Community Futures Greenstone follows the equity method of accounting for investments.

CAPITAL ASSETS

Capital assets primarily consist of office equipment and furniture for use by the organization in its operations. The acquisition of capital assets is expensed in the statement of operations in the year of acquisition. At the same time an entry is made to an asset account at cost with a corresponding entry to investment in capital assets account. Assets are held in the accounts at cost until disposed without any subsequent amortization.

USE OF ESTIMATES

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 amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, and the reported amounts of revenues and expenses during the reported period.

Significant areas requiring the use of management estimates include the determination of the allowance for impairment of loans and investments. Actual results could differ from these estimates.

CONTRIBUTED SERVICES

Volunteers on the board of directors contribute significant time to assist in control and supervision of program delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

3. ECONOMIC DEPENDENCE

Community Futures Greenstone receives most of its operating revenue in the form of an annual grant pursuant to a funding arrangement with Western Economic Diversification Canada. In the absence of this grant, the organization would be forced to curtail or cease its operations.

4. LOANS RECEIVABLE

<u>Investment Fund</u>	General	Disability	TOTAL	
			2 0 1 7	2 0 1 6
Loans receivable	\$ <u>2,974,921</u>	\$ <u>155,989</u>	\$ <u>3,130,910</u>	\$ <u>3,105,829</u>
Less allowance for loan impairment				
Opening balance	1,416,332	72,440	1,488,772	1,482,752
Change in estimate	<u>214,158</u>	<u>557</u>	<u>214,715</u>	<u>6,020</u>
Closing balance	<u>1,630,490</u>	<u>72,997</u>	<u>1,703,487</u>	<u>1,488,772</u>
Less current portion	<u>494,287</u>	<u>-</u>	<u>494,287</u>	<u>442,472</u>
	\$ <u>850,144</u>	\$ <u>82,992</u>	\$ <u>933,136</u>	\$ <u>1,174,585</u>

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

4. LOANS RECEIVABLE *(continued)*

In most cases the loans are secured by a chattel mortgage, personal guarantees, or second mortgage. As the net recoverable value of the underlying security is often difficult to ascertain, measurement uncertainty exists in the valuation of loans and provision for losses.

In determining the recognized amounts for these assets and loss provisions, the organization relies on an assessment of prevailing business and economic conditions. Management believes that the recognized amounts are unlikely to change by a material amount in the near term.

5. INVESTMENTS

	2 0 1 7	2 0 1 6
<u>Investment Fund</u>		
Equity investments	\$ 125,000	\$ 125,000
Less allowance for loan impairment	<u>(85,000)</u>	<u>(85,000)</u>
	<u>\$ 40,000</u>	<u>\$ 40,000</u>

6. CAPITAL ASSETS

	2 0 1 7	2 0 1 6
Automotive equipment	\$ 44,008	\$ 44,008
Buildings	25,000	25,000
Furniture, fixtures and office equipment	<u>239,750</u>	<u>236,105</u>
	<u>\$ 308,758</u>	<u>\$ 305,113</u>

7. INTERNAL RESTRICTIONS ON FUND BALANCES

During the year ended March 31, 2016, Community Futures Greenstone voluntarily restricted \$75,000 of its operating surplus for future office relocation costs and related leasehold improvements.

8. EXTERNAL RESTRICTIONS ON FUND BALANCES

Investment fund balances are restricted under the contribution agreement by the Government of Canada and are to be used for loans to businesses. Loans from the Disabled Entrepreneur Investment Fund 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.

Under the terms of the contributions agreement, the Conditionally Repayable Loan Funds are repayable if any of the following conditions occur:

- (i) The Conditionally Repayable Investment Loan 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 Loan Fund of the Corporation, the Conditionally Repayable Investment Loan 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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2017

8. EXTERNAL RESTRICTIONS ON FUND BALANCES *(continued)*

- (iii) In the opinion of the Minister, the Conditionally Repayable Investment Loan fund is no longer necessary or relevant to the development of the western Canadian economy; or
- (iv) The Agreement is Terminated as described in Section 16; or
- (v) An event of default occurs, as described in Section 17 of the Agreement; or
- (vi) The Minister does not approve terms and conditions to extend the project.

9. FINANCIAL INSTRUMENTS

Community Futures Greenstone initially measures its financial assets and financial liabilities at fair value. Subsequently, Community Futures Greenstone measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in the statements of revenue and expenditures.

Financial assets measured at amortized cost include cash and term deposits, accounts receivable, loans receivable and interfund balances.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and interfund payables.

Community Futures Greenstone does not hold investments in equity instruments that are quoted in an active market. If such investments were held they would be measured at fair value.

Community Futures Greenstone is exposed to the following risks through its financial instruments:

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Financial instruments that subject Community Futures Greenstone to concentrations of credit risk consist of cash and term deposits, accounts receivable, loans receivable and investments. The maximum exposure to credit risk at the balance sheet date is the fair value of these instruments.

Community Futures Greenstone's primary exposure to credit risk arises from its lending activities. To reduce its exposure to credit risk on lending activities the organization:

- Adheres to internal policies and procedures related to credit risk management
- Obtains promissory notes, security agreements and life insurance coverage from borrowers
- Has implemented prescribed maximum loan amounts for individual borrowers
- Conducts and documents on-going monitoring and review procedures

Community Futures Greenstone has a concentration of credit risk in the Northwestern Manitoba region. A general decline in regional economic conditions would increase overall credit risk exposure.

NOTES TO FINANCIAL STATEMENTS**MARCH 31, 2017**

9. FINANCIAL INSTRUMENTS *(continued)**LIQUIDITY RISK*

Liquidity risk is the risk that the organization will encounter difficulty in meeting obligations associated with financial liabilities.

Community Futures Greenstone manages liquidity risk as a component of its overall budgeting, financial reporting and financial monitoring processes. As the organization has a significant working capital surplus management does not believe it is exposed to significant liquidity risk.

INTEREST RATE RISK

Interest rate risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Community Futures Greenstone's term deposits bear interest at fixed rates over a one year term and loans receivable bear interest at variable rates. Consequently, a decline in market interest rates would negatively impact the organization's cash flows from these financial instruments.

OTHER PRICE RISK

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

Community Futures Greenstone does not hold any financial assets or liabilities subject to this type of fluctuation and consequently is not exposed to significant other price risk.