

Financial Statements of

**COMMUNITY FUTURES DEVELOPMENT
CORPORATION, CENTRAL OKANAGAN**

Year ended March 31, 2014



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Community Futures Development Corporation, Central Okanagan

We have audited the accompanying financial statements of Community Futures Development Corporation, Central Okanagan which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in fund balances and cash flows for the year then ended, and notes comprising 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.

Auditors' 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 an 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 Development Corporation, Central Okanagan as at March 31, 2014, and its results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations. As required by the Society Act (British Columbia), we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian accounting standards for not-for-profit organizations have been applied on a basis consistent with that of the preceeding period.

A handwritten signature in black ink that reads "KPMG LLP". The letters are stylized and cursive.

Chartered Accountants

June 25, 2014

Kelowna, Canada

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Statement of Financial Position

March 31, 2014 with comparative information for 2013

	Restricted Loan and Program Funds (Schedule 1)	General and Marketing Funds	2014	2013
Assets				
Cash (note 2)	\$ 951,305	\$ 13,400	\$ 964,705	\$ 1,131,413
Accounts receivable	2,618	15,193	17,811	16,447
Prepaid expenses and deposits	-	6,367	6,367	9,407
Loans receivable (note 3)	1,947,081	-	1,947,081	1,823,411
Tangible capital assets (note 4)	-	7,462	7,462	10,414
Interfund balances	(3,599)	3,599	-	-
	\$ 2,897,405	\$ 46,021	\$ 2,943,426	\$ 2,991,092

Liabilities and Fund Balances

Liabilities:

Accounts payable and accrued liabilities	\$ -	\$ 37,810	\$ 37,810	\$ 56,388
Deferred revenue	-	-	-	3,925
Conditionally repayable contributions (note 5)	1,133,187	-	1,133,187	1,115,450
Advances from related party (note 6)	-	23,508	23,508	27,116
	1,133,187	61,318	1,194,505	1,202,879


Fund balances:

Restricted loan and program funds	1,764,218	-	1,764,218	1,794,937
Marketing contingency fund	-	-	-	19,118
Investment in tangible capital assets	-	7,462	7,462	10,414
General fund	-	(22,759)	(22,759)	(36,256)
	1,764,218	(15,297)	1,748,921	1,788,213

	\$ 2,897,405	\$ 46,021	\$ 2,943,426	\$ 2,991,092
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See accompanying notes to financial statements.

On behalf of the Board:


Director


Director

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Statement of Operations

Year ended March 31, 2014 with comparative information for 2013

	Restricted Loan and Program Funds (Schedule 2)	General and Marketing Funds	2014	2013
Revenue:				
Federal government				
agency contributions	\$ 130,790	\$ 282,141	\$ 412,931	\$ 501,430
Administration recovery	-	13,657	13,657	27,471
Client fees and other revenue	-	162,873	162,873	193,995
Interest income - loans	151,721	-	151,721	143,787
Interest income - bank	3,889	-	3,889	-
Community economic development initiatives	-	1,750	1,750	60,224
	286,400	460,421	746,821	926,907
Expenses:				
Administration	-	15,737	15,737	14,799
Advertising	2,135	46,692	48,827	68,999
Allowances paid to participants	62,100	-	62,100	116,500
Amortization	-	3,578	3,578	3,952
Community economic development initiatives	-	-	-	55,840
Loan impairment provision (recovery)	155,726	-	155,726	(21,467)
Office and general	1,809	11,895	13,704	20,527
Insurance	-	3,267	3,267	4,437
Interest and bank charges	-	66	66	304
Loss on disposal of tangible capital assets	-	-	-	7,208
Professional development	-	1,759	1,759	2,022
Professional fees	25,371	27,693	53,064	67,231
Rent and utilities	3,324	53,718	57,042	86,976
Repairs and maintenance	1,409	11,092	12,501	24,319
Telephone	480	4,114	4,594	4,318
Travel	13	5,616	5,629	4,401
Wages and benefits	34,012	296,767	330,779	360,396
	286,379	481,994	768,373	820,762
Excess (deficiency) of revenue over expenses	\$ 21	\$ (21,573)	\$ (21,552)	\$ 106,145

See accompanying notes to financial statements.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Statements of Changes in Fund Balances

Year ended March 31, 2014, with comparative figures for 2013

	Restricted Loan and Program Funds (Schedule 2)	Marketing Contingency Fund	Investment in Tangible Capital Assets	General Fund	Total
Fund balances, March 31, 2012	\$ 1,711,485	\$ 19,118	\$ 16,929	\$ -	\$ 1,747,532
Excess (deficiency) of revenue over expenses	165,077	-	(11,160)	(47,772)	106,145
Transfer of fund balances:					
Loan interest transfer	(15,000)	-	-	15,000	-
Transfer of restricted funds to General Fund	(1,161)	-	-	1,161	-
Conditionally repayable contributions	(65,464)	-	-	-	(65,464)
Investment in tangible capital assets	-	-	4,645	(4,645)	-
Fund balances, March 31, 2013	1,794,937	19,118	10,414	(36,256)	1,788,213
Excess (deficiency) of revenue over expenses	21	-	(3,578)	(17,995)	(21,552)
Transfer of fund balances:					
Loan interest transfer	(13,000)	-	-	13,000	-
Transfer of restricted funds to General Fund	-	(19,118)	-	19,118	-
Conditionally repayable contributions	(17,740)	-	-	-	(17,740)
Investment in tangible capital assets	-	-	626	(626)	-
Fund balances, March 31, 2014	\$ 1,764,218	\$ -	\$ 7,462	\$ (22,759)	\$ 1,748,921

See accompanying notes to financial statements.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Statement of Cash Flows

Year ended March 31, 2014 with comparative information for 2013

	Restricted Loan and Program Funds (Schedule 3)	General and Marketing Funds	2014	2013
Cash flows from operating activities:				
Cash receipts from government and other sources	\$ 128,172	\$ 457,749	\$ 585,921	\$ 751,500
Cash paid to employees and suppliers	(130,653)	(494,240)	(624,893)	(805,889)
Interest paid	(28,000)	(66)	(28,066)	(304)
Interest received	158,130	28,000	186,130	143,787
	127,649	(8,557)	119,092	89,094
Cash flows from investing activities:				
Loans receivable issued	(818,553)	-	(818,553)	(757,298)
Repayment of loans receivable	536,987	-	536,987	701,716
Purchase of tangible capital assets		(626)	(626)	(4,664)
	(281,566)	(626)	(282,192)	(60,246)
Cash flows from financing activities:				
Net advances from related party	-	(3,608)	(3,608)	25,105
Net interfund advances	2,831	(2,831)	-	-
	2,831	(6,439)	(3,608)	25,105
Increase (decrease) in cash	(151,086)	(15,622)	(166,708)	53,953
Cash, beginning of year	1,102,391	29,022	1,131,413	1,077,460
Cash, end of year	\$ 951,305	\$ 13,400	\$ 964,705	\$ 1,131,413

See accompanying notes to financial statements.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements

Year ended March 31, 2014

Community Futures Development Corporation, Central Okanagan (the "Corporation") was incorporated under the Society Act (British Columbia) on February 27, 1997 and registered with Industry Canada under the Canada Corporations Act on March 31, 1995 for the purpose of providing loans, advice to regional businesses and assistance to individuals to become self-employed or start their own business. The Company is a non-profit organization under the Income Tax Act, and accordingly, is exempt from income taxes provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations. The Society's significant accounting policies are as follows:

The Corporation follows the restricted fund method of accounting for contributions. The Corporation's financial statements are presented in the following funds:

i) Restricted loan and program funds:

Restricted funds report the assets and liabilities and revenues and expense of the Corporation's restricted loan investment fund and programs established by the Corporation's funding arrangements.

Restricted contributions from the Minister of Western Economic Diversification Canada ("WD") and other contributors that are to be used for specific purposes are reported in the restricted loan investment fund. The restricted loan investment fund includes the following loan investment funds:

- Conditionally repayable investment fund, which was created under the terms of a contribution agreement with WD (note 5). Loans issued from the fund are categorized as follows:
 - WD general loan investment funds, which are used to loan money for high-risk ventures.
 - Disabled entrepreneur loan investment fund, which is used for loans, loan guarantees and equity investments in businesses owned and operated by disabled entrepreneurs.
 - Youth loan investment fund, which is used for loans, loan guarantees and equity investments in businesses owned and operated by youths.
- Community business loan investment fund, which is used to provide loans, business counselling and training to small and medium sized enterprises operating in the following industries: clean and renewable energy, technology, aquaculture, manufacturing, tourism, and exporting. The fund was initially financed by a \$350,000 contribution from the Province of British Columbia.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(a) Basis of Presentation: (continued)

- CFDC general loan investment fund, which the Corporation uses to fund loans for other ventures.
- The Corporation's Youth Means Business program, which provides entrepreneurial training for youth starting a new small business and employment skills training for youth who are not eligible for employment insurance.

ii) General and marketing funds:

Revenues and expenses related to non-specified program delivery and administration are reported in the general fund. Other balances include the Corporation's investment in property and equipment and a marketing contingency fund.

These financial statements do not include the assets, liabilities and results of operations of the Central Okanagan Business Development Centre Association (see note 6(b)).

(b) Tangible capital assets:

Tangible capital assets are recorded at cost, less accumulated amortization. When the Corporation's management determines that certain tangible capital assets no longer contribute to its ability to provide services, their carrying amount is written down to its net recoverable amount. Amortization is provided on a declining balance basis at the following annual rates:

Asset	Rate
Furniture and fixtures	20%
Computer equipment	30 - 55%

(c) Revenue recognition:

Restricted contributions are recognized as revenue of the appropriate fund in the year received and in which the related expenses are incurred. Unrestricted contributions are recognized as revenue of the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized when received or receivable. Interest is not accrued on loans receivable classified as impaired.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(d) Loans receivable:

Loans receivable consists of loans made out of the Corporation's restricted loan investment funds and are measured at amortized cost. The Corporation maintains an allowance for impaired loans as estimated by management based on their assessment of the net recoverable amount of the Corporation loans, which is determined on a loan by loan basis.

(e) Contributed services:

The Corporation receives a significant amount of services from volunteers each year. Because of the difficulty in determining their fair value, these contributed services are not recognized in these financial statements.

(f) Financial instruments:

The Corporation measures cash at fair value and accounts receivable, loans receivable and accounts payable and accrued liabilities and conditionally repayable contributions at amortized cost. Related party financial instruments where fair value is not readily determined are recorded at the transaction amount. Changes in fair value of cash are recognized in the statement of operations in the periods in which they arise.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring management estimates involve the net recoverable amounts of its loans receivable. Management reviews these estimates on a periodic basis and, where necessary, makes adjustments prospectively. Actual results could differ from these estimates.

2. Cash and revolving loan facility:

The Corporation has an available bank revolving loan facility with a limit of \$50,000 which bears interest at the bank's prime rate and is secured by a general security agreement. As at March 31, 2014, the amount drawn on the credit facility is \$nil (2013 - \$nil).

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

3. Loans receivable:

March 31, 2014						
	<u>Conditionally repayable loan investment fund</u>			Community business loan investment fund	CFDC general loan investment fund	Total
	WD General	Disabled Entrepreneur	Youth			
Loan balance	\$ 554,201	\$ 22,119	\$ 130,750	\$ 204,944	\$ 1,288,381	\$ 2,200,395
Accrued interest and charges	2,233	167	595	708	7,770	11,473
	556,434	22,286	131,345	205,652	1,296,151	2,211,868
Less allowance	(27,800)	(7,026)	-	(39,941)	(190,020)	(264,787)
	\$ 528,634	\$ 15,260	\$ 131,345	\$ 165,711	\$ 1,106,131	\$ 1,947,081

March 31, 2013						
	<u>Conditionally repayable loan investment fund</u>			Community business loan investment fund	CFDC general loan investment fund	Total
	WD General	Disabled Entrepreneur	Youth			
Loan balance	\$ 596,873	\$ 27,812	\$ 121,626	\$ 205,194	\$ 1,010,250	\$ 1,961,755
Accrued interest and charges	3,709	45	682	781	4,657	9,874
	600,582	27,857	122,308	205,975	1,014,907	1,971,629
Less allowance	(38,002)	(11,934)	(12,000)	(41,317)	(44,965)	(148,218)
	\$ 562,580	\$ 15,923	\$ 110,308	\$ 164,658	\$ 969,942	\$ 1,823,411

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

3. Loans receivable: (continued)

a) Conditionally repayable loan investment fund:

Loans outstanding in the Corporation's conditionally repayable loan investment fund consist of the following:

- WD general investment fund loans consists of twenty loans outstanding ranging from \$380 to \$145,188 with terms of five years and interest rates varying from 8.5% to 10.75%.
- Disabled entrepreneur loan investment fund consists of two loans of \$7,026 and \$15,094 with terms of five years and interest rates varying from 10.00% and 9.00% respectively.
- Youth loan investment fund consists of seven loans ranging from \$5,781 to \$41,468 with terms of five years and interest rates varying from 8.5% to 9.00%.

b) Community business loan investment fund:

Loans outstanding in the Corporation's Community business loan investment fund consist of seven loans ranging from \$3,815 to \$83,883 with terms of five years and interest rates varying from 8.5% to 10.75%.

c) CFDC general loan investment fund:

Loans outstanding in the Corporation's general loan investment fund consist of twenty-three loans ranging from \$388 to \$150,000 with terms of five years and interest rates varying from 8.5% to 10.50%.

The activity in the allowance for impaired loans has been as follows:

	Conditionally repayable loan investment fund	Community business loan investment fund	CFDC general loan investment fund	2014	2013
Balance, beginning of year	\$ 61,936	\$ 41,317	\$ 44,965	\$ 148,218	\$ 559,997
Current year provision	21,000	-	160,020	181,020	59,827
Prior year provisions - loss recovered	(23,918)	(1,376)	-	(25,294)	(79,079)
Provisions realized during the year	(24,192)	-	(14,965)	(39,157)	(392,527)
Balance, end of year	\$ 34,826	\$ 39,941	\$ 190,020	\$ 264,787	\$ 148,218

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Tangible capital assets:

				2014	2013
	Cost	Accumulated amortization		Net book value	Net book value
Furniture and fixtures	\$ 57,662	\$ 55,837	\$	1,825	\$ 1,932
Computer equipment	33,368	27,731	\$	5,637	8,482
	\$ 91,030	\$ 83,568	\$	7,462	10,414

5. Conditionally repayable contributions:

Conditionally repayable contribution balances consist of WD contributions of \$997,379 (2013 - \$987,715) and Province of British Columbia contributions of \$135,808 (2013 - \$127,676) which are described below.

i) WD

Conditionally repayable contributions with WD are provided pursuant to the Corporation's contribution agreement with WD, which expired on March 31, 2013 and was subsequently extended to March 31, 2014. Conditionally repayable contributions from WD are accumulated in the Corporation's Conditionally Repayable Investment Fund, which includes loans issued from the contribution proceeds and uncommitted cash balances. The Conditionally Repayable Investment Fund balance as at March 31, 2014 was \$1,194,238 (2013 - \$1,153,586). The contribution agreement provides that WD is entitled to take certain actions to recover its contributions if any of the following conditions occur:

- (a) The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this agreement; or
- (b) Based on reviews and evaluations of the operations and the Conditionally Repayable Investment Fund, 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
- (c) In the opinion of WD, the conditionally repayable investment fund is no longer necessary or relevant to the development of the Western Canadian economy; or
- (d) The agreement is terminated as described in the contribution agreement; or
- (e) An event of default occurs, as described in the contribution agreement; or
- (f) WD does not approve terms or conditions to extend the project beyond March 31, 2015.

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

5. Conditionally repayable contributions (continued):

(i) WD (continued)

Pursuant to the terms of contribution agreement, WD may take the following steps to recover its contributions to the Corporation:

- (a) Upon notice by WD, the Corporation agrees to immediately repay the lesser of:
 - (i) the uncommitted cash balance of the Conditionally Repayable Investment Fund, or
 - (ii) the total amount paid by WD for the establishment and maintenance of the Conditionally Repayable Investment Fund.
- (b) Upon notice by WD, the Corporation agrees to immediately give possession to WD all documentation evidencing investments made by the Corporation with the Conditionally Repayable Investment Fund and take immediate steps to assign all of its interest in all debts owing to the fund to WD.
- (c) Upon notice by WD, the Corporation agrees to liquidate all its debts owing to it via sale to a third party satisfactory to the Minister, or via other means satisfactory to the Minister, and to remit the proceeds of liquidation to the Minister.

The WD contribution agreement indicates that the contributions from WD will be deemed to have been fully repaid once the Corporation has repaid to WD, the lesser of the total assets in the Conditionally Repayable Investment Fund or the total conditionally repayable contribution from WD.

ii) Community Business Program

The repayable contributions for the Corporation's Community Business Program, reflects management's estimate of the repayable portion of its contributions under the terms of its contribution agreement. Under the terms and conditions of the Corporation's contribution agreement with the Province of British Columbia, the conditionally repayable contributions are repayable if any of the following conditions occur:

- (a) There is mutual agreement of the parties to terminate;
- (b) Either party giving the other party 90 days written notice of termination; or
- (c) The Province of British Columbia exercising its option to terminate the Agreement upon the occurrence or existence of any other events of default (as per the agreement).

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Related party transactions:

a) Related party transactions:

The Corporation is related to the Central Okanagan Business Development Centre Association ("COBDC"), as the majority of the Corporations directors are also directors of the COBDC.

The amount due to COBDC at year end is \$23,508 (2013 - \$27,611), which is unsecured, non-interest bearing and has no stated terms of repayment. Transactions with COBDC for the year consist of rent expense of \$47,743 (2013 - \$72,314).

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b) COBDC:

COBDC's main activity is the lease and sublease of office premise to the Corporation. COBDC is incorporated under the Society Act (British Columbia). COBDC is a non-profit organization under the Income Tax Act, and accordingly, is exempt from income taxes provided certain requirements of the Income Tax Act are met.

The net assets and results from operations of COBDC are not consolidated in these financial statements. Separate financial statements of COBDC are available upon request. Summarized financial information for COBDC is as follows:

	2014	2013
Statement of financial position		
Total assets	\$ 95,076	\$ 108,757
Total liabilities	4,486	3,420
Fund balances	90,590	105,337
Statement of operations		
Revenues	49,202	76,334
Expenses	63,946	107,906
Statement of cash flows		
Operating activities	(2,080)	(16,904)
Investing activities	-	(28,272)
Financing activities	3,608	(35,617)

COMMUNITY FUTURES DEVELOPMENT CORPORATION, CENTRAL OKANAGAN

Notes to Financial Statements (continued)

Year ended March 31, 2014

7. Economic dependence:

The Corporation receives a significant portion of its annual operating revenues from Western Economic Diversification and from contracts funded by the Province of BC through the Labour Market Development Agreement with the Federal Government. Future operations of the Corporation would be significantly adversely impacted by the discontinuation of this funding.

8. Financial risks:

The Corporation is exposed to interest rate risks with respect to its cash balances and loans receivable. The Company manages interest rate risk through its negotiations in setting the terms of its loans receivable. The maximum credit risk exposure of the Corporation's financial assets is the carrying value of the asset.