Financial Statements of

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.

YEAR ENDED MARCH 31, 2016

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Financial Statements
Year ended March 31, 2016

Contents

Anthony J. Smith

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Celtic Business Development Corporation Inc.

I have audited the accompanying financial statements of the Celtic Business Development Corporation Inc., which comprise the statement of financial position as at March 31, 2016 and the statement of operations, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of the Celtic Business Development Corporation Inc. as at March 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Bay Roberts, Newfoundland and Labrador

June 16, 2016

Anthony Smith
Chartered Professional Accountant

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Financial Position
As at March 31, 2016

	Operating Fund	Investment Fund	FRAM-ED Fund	2016 Total	2015 Total
ASSETS					
Current					
Cash	$ 17,046	$ 419,643	$ 13,991	$ 450,680	$ 1,091,833
HST rebate receivable	2,434	640	-	3,074	3,376
Receivable from ACOA	65,783	-	-	65,783	13,738
Receivable from Province	3,795	-	-	3,795	10,507
Other receivables	4,961	4,225	-	9,186	12,079
Due from Operating fund	-	83,626	-	83,626	34,272
Due from Investment Fund	-	-	-	-	13,005
Due from Fram-Ed Fund	-	563,978	-	563,978	-
Prepaid expenses	2,049	463	-	2,512	2,654
Current portion of loans receivable	-	363,536	111,006	474,542	459,185
	96,068	1,436,111	124,997	1,657,176	1,640,649
Capital assets (note 2)	15,421	-	-	15,421	13,169
Investments (note 3)	-	37,500	-	37,500	37,500
Loans receivable (notes 4 and 5)	-	2,548,416	1,492,986	4,041,402	2,620,461
	$ 111,489	$ 4,022,027	$ 1,617,983	$ 5,751,499	$ 4,311,779
LIABILITIES					
Current					
Payables and accrued liabilities	$ 11,242	$ 2,461	$ -	$ 13,703	$ 9,492
Statutory payroll remittances	1,200	-	-	1,200	448
Due to Fram-Ed Fund	-	-	-	-	13,005
Due to Investment Fund	83,626	-	563,978	647,604	34,272
Current portion of long-term debt	-	337,000	-	337,000	-
	96,068	339,461	563,978	999,507	57,217
Long-term debt (note 6)	-	1,,469,500	-	1,469,500	1,000,000
	96,068	1,808,961	563,978	2,469,007	1,057,217
Contingencies (note 8) Commitment (note 9)					
FUND BALANCES					
Invested in Capital Assets	15,421	-	-	15,421	13,169
Unrestricted surplus	-	-	-	-	46,910
Restricted surplus (notes 4 and 5)	-	1,074,315	204,005	1,278,320	1,205,732
Contributed surplus (notes 4 and 5)	-	1,138,751	850,000	1,988,751	1,988,751
	15,421	2,213,066	1,054,005	3,282,492	3,254,562
	$ 111,489	$ 4,022,027	$ 1,617,983	$ 5,751,499	$ 4,311,779

See accompanying notes to the financial statements

On Behalf of the Board:

Emily L. Reid Director Sharon Topping Director

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Operations and Changes in Fund Balances
For the Year Ended March 31, 2016

	Operating Fund	Investment Fund	FRAM-ED Fund	2016 Total	2015 Total
REVENUE					
ACOA - operating grant	$ 184,989	$ -	$ -	$ 184,989	$ 150,000
Investment income – loan portfolio	-	180,924	96,094	277,018	178,274
Investment income – other interest	169	1,586	189	1,944	3,969
SEA program	70,189	-	-	70,189	68,219
Youth Ventures program	14,000	-	-	14,000	13,000
Entrepreneurial Training fund	-	18,411	-	18,411	12,738
Other income	12,557	-	-	12,557	9,441
	281,904	200,921	96,283	579,108	435,641
EXPENDITURE					
Advertising	15,191	-	-	15,191	15,691
Amortization	4,040	-	-	4,040	3,692
Bank charges and interest	776	1,243	-	2,019	1,399
Entrepreneurial training	-	18,411	-	18,411	12,738
Insurance	2,938	-	-	2,938	2,876
Interest on long-term debt	-	23,181	-	23,181	2,946
Loan loss provision	-	100,325	33,624	133,949	109,593
Meeting costs	5,099	-	-	5,099	5,251
Membership and fees	3,145	-	-	3,145	2,752
Office expenses	9,676	192	-	9,868	11,091
Professional fees	6,523	8,690	-	15,213	12,519
Rent	23,172	-	-	23,172	26,149
Salaries and employee benefits	253,467	-	-	253,467	226,461
Seminars and conferences	7,483	-	-	7,483	10,565
Special events	1,300	-	-	1,300	2,791
Telephone	7,769	-	-	7,769	7,876
Training – Clients	643	-	-	643	3,837
Travel	24,290	-	-	24,290	19,265
	365,512	152,042	33,624	551,178	477,492
Excess of revenue over (under) expenditure	(83,608)	48,879	62,659	27,930	(41,851)
Fund balance, beginning of year	60,079	2,203,137	991,346	3,254,562	3,296,413
Inter-fund transfers	38,950	(38,950)	-	-	-
Fund balance, end of year	$ 15,421	$ 2,213,066	$ 1,054,005	$ 3,282,492	$ 3,254,562

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Cash Flow Statement
As at March 31, 2016

	Operating Fund	Investment Fund	FRAM-ED Fund	2016 Total	2015 Total
Operating activities:					
Excess of revenue over expenditure (expenditure over revenue)	$ (83,608)	$ 48,879	$ 62,659	$ 27,930	$ (41,851)
Items which do not involve cash:					
Amortization	4,040	-	-	4,040	3,692
Bad debts (recovery)	-	100,325	33,624	133,949	109,593
	(79,568)	149,204	96,283	165,919	71,434
Changes in non-cash working capital:					
Accounts receivable	(43,837)	1,699	-	(42,138)	6,066
Due to/from other funds	49,354	(626,337)	576,983	-	-
Prepaid expenses	605	(463)	-	142	1,046
Payables and accrued liabilities	2,502	2,461	-	4,963	(28,139)
Cash provided by (used in) operating activities	(70,944)	(473,436)	673,266	128,886	50,407
Investing activities:					
Purchase of capital assets	(6,292)	-	-	(6,292)	(1,985)
Loans receivable - advances	-	(1,253,273)	(769,374)	(2,022,647)	(1,584,520)
Loans receivable - repayments	-	370,173	96,894	467,067	618,044
Decrease (increase) in accrued interest	-	(7,433)	(7,234)	(14,667)	(39,645)
Cash provided by (used in) investing activities	(6,292)	(890,533)	(679,714)	(1,576,539)	(1,008,106)
Financing activities:					
Inter-fund transfers	38,950	(38,950)	-	-	-
Proceeds from long-term debt	-	806,500	-	806,500	1,000,000
Repayment of long-term debt	-	-	-	-	(1,900)
Cash provided by (used in) financing activities	38,950	767,550	-	806,500	998,100
Increase (decrease) in cash and cash equivalents	(38,286)	(596,419)	(6,448)	(641,153)	40,401
Cash and cash equivalents, beginning of year	55,332	1,016,062	20,439	1,091,833	1,051,432
Cash and cash equivalents, end of year	$ 17,046	$ 419,643	$ 13,991	$ 450,680	$ 1,091,833

Cash equivalents are comprised of cash in bank and temporary investments.

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements
For the Year Ended March 31, 2016

The Celtic Business Development Corporation Inc. (the 'Corporation') is a community-based and community-controlled organization with a mandate to encourage and support economic growth, diversification, job creation and sustainable, self-reliant communities in its region. The Corporation's services to the small business sector include financial assistance, advisory and counseling services, development and growth of the region's youth, and information resources. The Corporation is a not-for-profit organization incorporated under "The Corporations Act" of Newfoundland and Labrador and is exempt from income tax by virtue of Subsection 149(1) of "The Income Tax Act" of Canada.

1. Significant Accounting Policies

Basis of Accounting
These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and are in accordance with Canadian generally accepted accounting principles.

Capital assets
Capital assets are recorded at cost and amortized on the diminishing balance method for furniture and equipment at the rates indicated in note 2 and on the straight-line basis for leasehold improvements over 4 years. Funding agencies may, in some cases, direct the disposition of capital assets which were financed through their contributions to the Corporation.

Contributed services
Contributed services, consisting primarily of time contributed by volunteers, are not recognized in these financial statements due to the difficulty of determining their fair value.

Financial Instruments
The Corporation initially measures its financial assets and financial liabilities at fair value. It subsequently measures all of its financial assets and financial liabilities at amortized cost. The financial assets and liabilities measured at amortized cost include cash, accounts receivable, loans receivable and accounts payable.

Fund accounting
The Corporation follows the restricted fund method of accounting for the Investment fund and the FRAM-ED Fund. These Funds report all restricted resources of the Funds as well as the investment income resulting from investing activities utilizing the fund assets. The Operating Fund accounts for program delivery and administrative activities. This Fund reports unrestricted resources and operating contributions. Expenses of the Operating Fund are limited to those agreed upon in the contribution agreement between the Atlantic Canada Opportunities Agency (ACOA), or other funding partners and the Corporation.

Investments
Investments are recorded at the lower of cost and net realizable value. Provision for loan losses are reported in the Investment Fund and FRAM-ED Fund.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2016

1. Significant Accounting Policies (Continued)

Revenue recognition
The corporation uses the restricted fund method of accounting for contributions. Contributions from funding agencies are recognized when the contributions are due or the funded activity has been completed. Other revenues including interest are recognized when earned.

Use of Accounting Estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in earnings in the period in which they become known. A significant estimate included in these financial statements is the provision for doubtful loans as stated in notes 4 and 5.

2. Capital Assets

				2016	2015
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & equipment	20%	$ 50,175	$ 43,337	$ 6,838	$ 8,547
Computer hardware	30%	24,970	16,387	8,583	4,622
Leasehold improvements	4 yrs s.l	12,780	12,780	-	-
		$ 87,925	$ 72,504	$ 15,421	$ 13,169

3. Investments

Investment Fund
The Corporation has invested $37,500 in the Atlantic Canada Community Business Investment Fund (ACCBIF). The investment is secured by a promissory note, is non-interest bearing, with no set terms of repayment. A determination of fair value for this financial instrument is not considered possible.

4. Loans Receivable - Investment Fund

	2016	2015
Loans receivable	$ 3,204,701	$ 2,314,193
Less: allowance for impaired loans	292,749	192,449
	2,911,952	2,121,744
Less: current portion of loans receivable	363,536	375,135
	$ 2,548,416	$ 1,746,609

Loans receivable includes accrued interest receivable in the amount of $41,471 (2015 - $34,038). There are six impaired loans as of March 31, 2016 totalling $146,817 (2015 - three impaired loans totalling $89,516). The current portion of loans receivable assumes required loan payments will be received during the year.

As defined by ACOA, there were fourteen loans approved during the year and forty-seven loans under management as of March 31, 2016.

The investment fund has externally imposed restrictions on net assets as well as the income earned from those net assets as follows:

	2016	2015
Loan capital contributed	$ 1,138,751	$ 1,138,751
Accumulated surplus	1,074,315	1,064,386
	$ 2,213,066	$ 2,203,137

All investment income earned by the organization from net assets of the investment fund must be reinvested in the fund for business investment purposes unless written consent is obtained from ACOA, including funds lent to or received from ACCBIF.

Investment funds may be transferred to the operating fund to cover an annual operating deficit provided certain conditions have been met, as set out by ACOA.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2016

5. Loans Receivable - Canadian Fisheries Adjustment & Restructuring Initiative (FRAM-ED) Fund

	2016	2015
Loans receivable	$ 1,758,545	$ 1,114,005
Less: allowance for impaired loans	154,553	156,103
	1,603,992	957,902
Less: current portion of loans receivable	111,006	84,050
	$ 1,492,986	$ 873,852

Loans receivable includes accrued interest receivable in the amount of $31,334 (2015 - $24,099). There is one impaired loan as of March 31, 2016 totalling $71,782 (2015 - two impaired loans totalling $89,782). The current portion of loans receivable assumes required loan payments will be received during the year.

As defined by ACOA, there were two loans approved during the year and twelve loans under management as of March 31, 2016.

The FRAM-ED fund has externally imposed restrictions on net assets as well as the income earned from those net assets as follows:

	2016	2015
Loan capital contributed	$ 850,000	$ 850,000
Accumulated surplus	204,005	141,346
	$ 1,054,005	$ 991,346

All investment income earned by the organization from net assets of the FRAM-ED fund must be reinvested in the fund for business investment purposes unless written consent is obtained from ACOA, including funds lent to or received from ACCBIF.

6. Long-term Debt

	2016	2015
Atlantic Canada Community Business Investment Fund Loan for investment purposes, secured by a promissory note, with interest at 1.6% until April 30, 2017 at which time it may be adjusted. Repayable in blended monthly instalments of $30,000 and maturing in June, 2021	$ 1,800,000	$ 1,000,000
Newfoundland and Labrador Association of Community Business Development Corporations – Kickstart Program Loans Loans for investment purposes, unsecured and non-interest bearing, with principal collections from clients repayable semi-annually and interest receipts to be retained by the Corporation	6,500	-
	1,806,500	1,000,000
Less: Estimated portion due next twelve months	337,000	-
	$ 1,469,500	$ 1,000,000

Estimated required principal payments over the next five years are as follows: 2017 - $331,000; 2018 - $337,000; 2019 - $342,000; 2020 - $348,000; 2021 - $353,000.

7. Allowance for Impaired Loans

Impaired loans are recognized on a case by case basis. When a loan is deemed to be impaired, its carrying amount is reduced to its estimated realizable amount. The estimated realizable amount is determined by management based on its assessment of factors including the estimated realizable value of the underlying security, the client's payment history and the nature of the industry in which the client operates. The allowance for impaired loans includes a general 5% reserve applied to the balance of non-impaired loans. Within each investment fund, the change in the loan portfolio's estimated realizable amount is recorded as a bad debt expense.

8. Contingencies

Any surplus of the operating fund may be subject to repayment to the Receiver General of Canada after a review of program expenses and revenues by ACOA. Investment funding provided by government agencies under the FRAM-ED agreement which have not been utilized at the end of the contract period may be subject to repayment at the discretion of the funding agent. Any amounts determined to be repayable will be accounted for in the year that such a determination is made.

9. Commitment

The Corporation leases office space at an annual rate of $21,758 plus HST. The lease expires on March 31, 2017.

10. Economic Dependence

The Corporation receives an annual contribution from the Atlantic Canada Opportunities Agency which partially covers the Corporation's operating expenses. At this time the continued operation of the organization is dependent on the receipt of this annual contribution.

11. Financial Risk Management

Financial risk factors
The Corporation has exposure to credit risk and liquidity risk as a result of holding financial instruments. The Board of Directors has overall responsibility for the oversight of these risks and reviews the Corporation's policies on an ongoing basis to ensure that these risks are appropriately managed. The source of risk exposure and how each is managed is outlined below.

Credit risk
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligation. The Corporation's credit risk is primarily attributable to accounts receivable and loans receivable. Management believes that the credit risk with respect to accounts receivable is remote as the majority is due from government funding agencies. The Corporation's loans receivable are recorded at net realizable value and a determination of fair value for these financial instruments is not considered possible. Management's policies relating to credit risk from loans receivable is discussed in note 7.

Liquidity risk
Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. As at March 31, 2016, the Corporation had unrestricted cash of $17,046, which is sufficient to cover its short-term financial obligations.

12. Comparative Figures

Comparative figures may have been reclassified to conform to the financial statement presentation adopted for the current year.