

ANNUAL REPORT

2017-2018

Investing in the
Entrepreneurial Spirit



Community Business Development Corporation
Corporation au bénéfice du développement communautaire
Northumberland

CBDC Northumberland



CBDC Northumberland Inc. has now completed thirty-two years of operation. In an attempt to summarize our work during the past fiscal year, I will provide an overview of the Corporation's major activities.

During the past twelve (12) month period from April, 2017 to March, 2018, the Corporation received 447 service inquiries from clients approaching the Corporation for the first time. The assistance thus provided, resulted in the creation/maintenance of a minimum of 176 employment positions. As for the number of jobs that were created, I think that it is important to note that CBDC Northumberland Inc. did not create all the above mentioned jobs, but rather these jobs were created by the business people that the Corporation assisted with its technical and/or financial services.

Under the various programs, we deliver on behalf of the Federal and Provincial governments; there were 22 projects that received direct funding from

the Corporation's Investment Fund in the amount of \$1,111,242. Our administration and delivery of the Self Employment Benefit (SEB) Program has resulted in an additional 28 project approvals, resulting in financial assistance of a minimum of \$490,000. Each investment was made with the understanding that it would benefit both the business and the community in their entirety.

The last fiscal year has been satisfying in many ways, and we are undertaking the next fiscal year with determination and enthusiasm. I feel we have within our reach all that is required for continued success: an excellent Board of Directors for the coming year, a good working relationship with the different public and private agencies throughout the region, and finally... the entrepreneurial spirit that is definitely alive on the Miramichi today.

Greg McNulty
General Manager



Community Business Development Corporation
Corporation au bénéfice du développement communautaire
Northumberland

The CBDC Northumberland functions according to its purpose within the boundaries of Northumberland County, with the exception of the Parish of Rogersville, but including that portion of York County that is

included in the provincial electoral constituency of Southwest Miramichi-Bay du Vin.

Investments in the region for the year 2017-2018

Requests processed

Applications received	43
Applications approved	19
Amounts invested	\$1,111,242

Number of business counselling sessions

Number of clients	43
-------------------	----

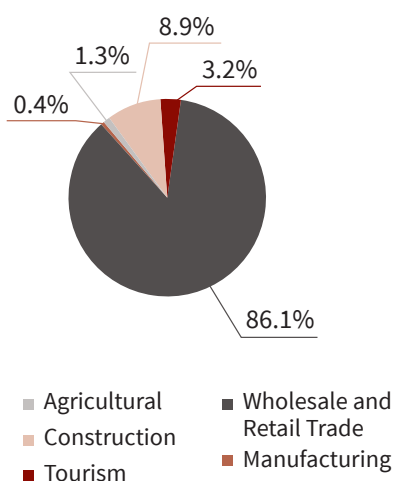
Impact on businesses

New businesses	10
Existing businesses	12
Total	22

Impact on employment

Jobs created	30
Jobs maintained	66
Total	96

Loans by Sector



Training sessions

Number of sessions	3
Amounts granted	\$4,269

Self-Employment Benefit

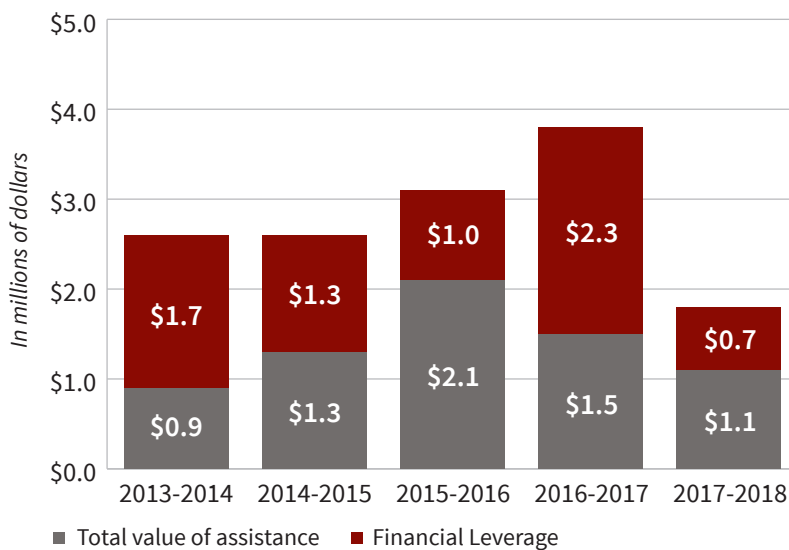
Applications approved	28
Value of assistance	\$490,000

Consulting Advisory Services

Number of clients	3
Amounts granted	\$13,801

Building strong entrepreneurial leverage in the Northumberland region

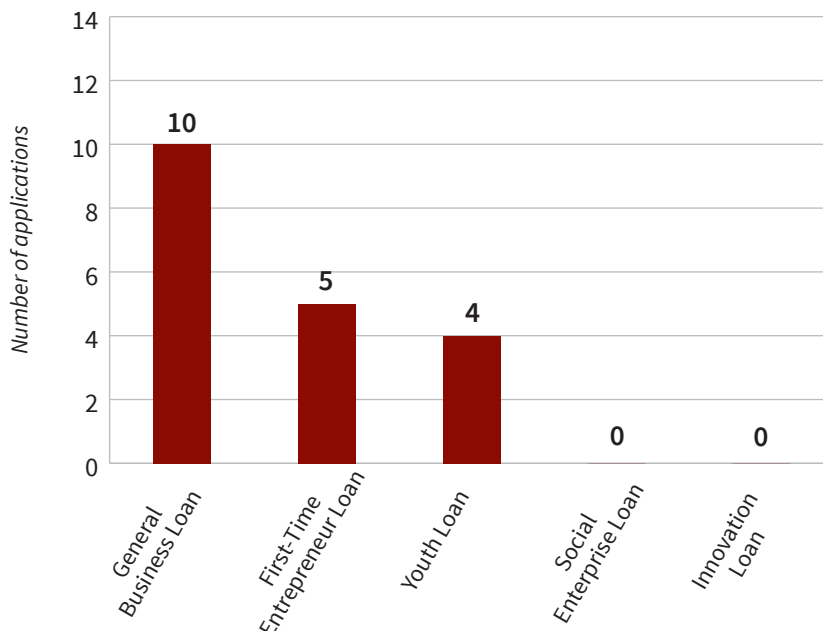
The total value of assistance from the CBDC and financial leverage over the past five years



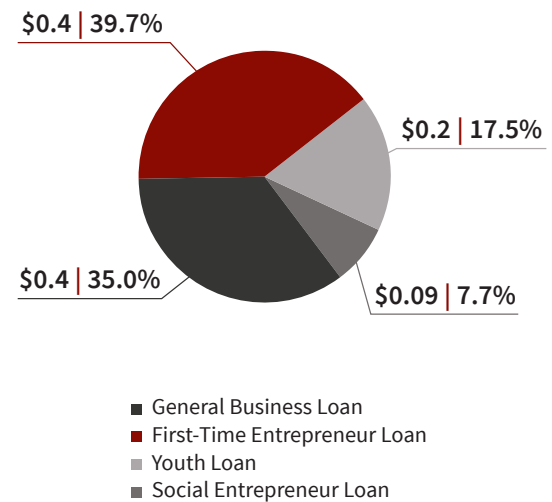
The decrease in loans disbursed compared with the two last years may be caused by a high level of activity during the year 2015-2016. However, CBDC Northumberland maintains investments comparable to the year 2014-2015.

Since inception, the CBDC Northumberland has injected **\$27.7 million dollars** in the community.

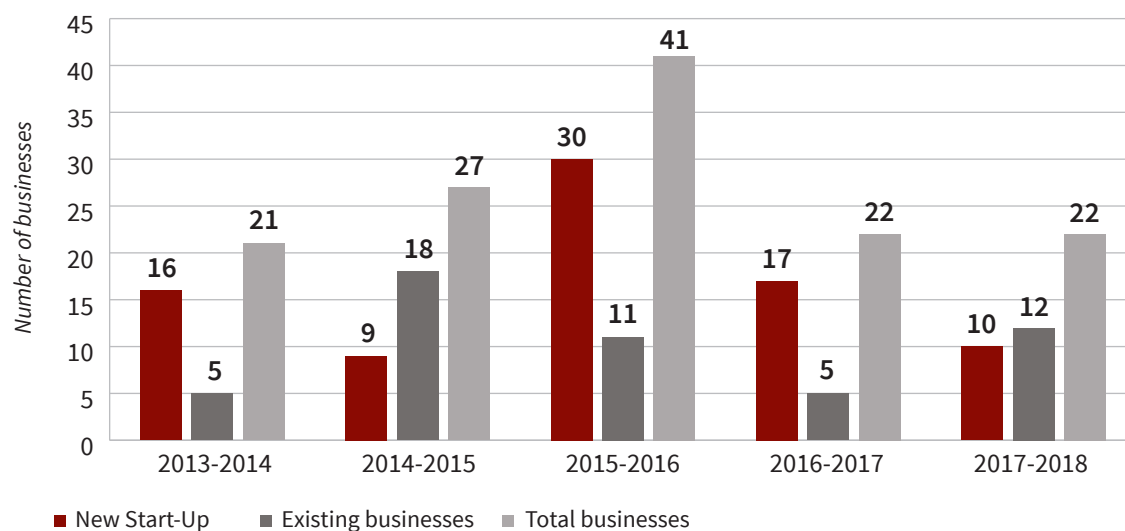
Number of applications approved for each CBDC loan product



Breakdown of amounts disbursed per loan product (in millions of dollars)



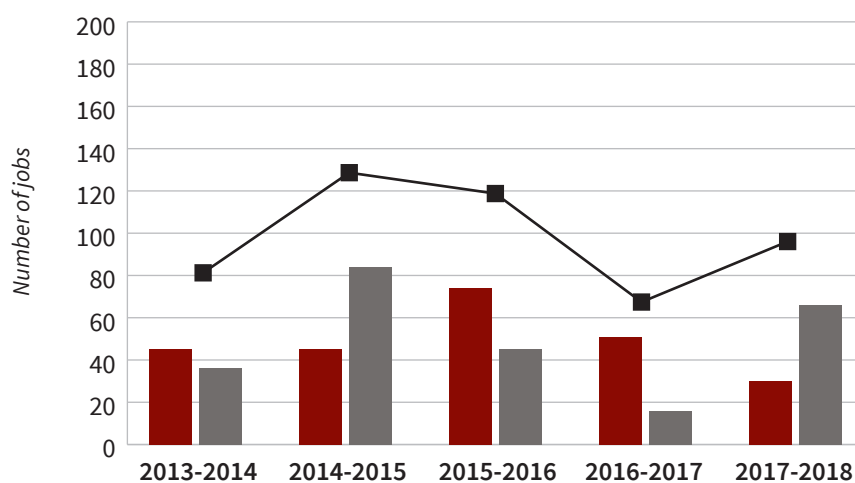
The number of businesses who received financial assistance over the past five years



The number of existing businesses that received financial assistance increased by **140%** compared to the previous year.

An increase of **43%** of jobs created and maintained in comparison with the previous year.

Jobs created and maintained in the community over the last five years



■ Jobs created	45	45	74	51	30
■ Jobs maintained	36	84	45	16	66
– Total	81	129	119	67	96

Celebrating 32nd Anniversary

Since 1985, CBDC Northumberland Inc. has helped potential and existing entrepreneurs in the region to access capital and other business resources. We are a not-for-profit organization run by a team of 12 volunteers from the local business community who firmly believe in improving the economic viability in the region by investing in small and medium-sized enterprises. Investment decisions are made by

our Board of Directors sensitive to the needs of the Northumberland region. These directors are volunteers from the business sector dedicated to making the community a better place in which to live and work. Beyond a doubt, the strength of CBDC Northumberland Inc. is in our volunteer board; they have an intimate knowledge of the local markets, the business environment and the people in their communities.



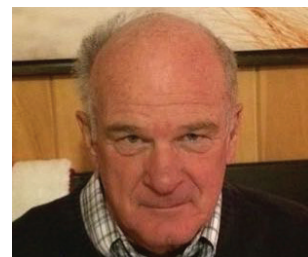
Alphonse Turbide
Chairperson



Wayne Bushey
Vice-Chairperson



Therese Savoie
Secretary



Russell Vye
Treasurer



Sharon Deroche
Director



David Hamilton
Director



Andy Richardson
Director



Clarissa Harris LeBreton
Director



Les Saunders
Director



Marcel Muisse
Director



Tara Ross-Robinson
Director



Lynn O'Neill
Director

As CBDC Northumberland Inc. moves forward after thirty-two years of operation, our focus will continue to be on servicing the business community at an optimal level. This will be accomplished by offering reliable assistance to our clients, by arranging adequate and creative financial packages, and by continuing to improve our relationships with private and public agencies, and thus, encouraging the local entrepreneurs to take advantage of our services.

The past thirty-two years have been satisfying in many ways, and we are undertaking future years with determination and enthusiasm. We believe that we have within our reach all that is required for continued success: an excellent Board of Directors, a good working relationship with the different public and private agencies throughout the region and, finally, the entrepreneurial spirit that is definitely alive on the Miramichi today. CBDC Northumberland Inc. is a

valuable resource for business people and more are utilizing our financial and technical expertise to help start or expand a business. We, through this type of assistance, are fulfilling our mandate to help establish and/or expand businesses.

Our Board of Directors consisting of 12 members are knowledgeable in finance, planning, small business development, insurance, and marketing.

It is worthwhile to congratulate our staff: General Manager - Greg McNulty; Project Analysts - Pauline Tenass, Cheryl Daigle and Michel Arseneau; and Administrative Assistant - Lucie Daigle for their dedication and hard work. And a very big thanks to the CBDC's many clients and the public in general, because we urge you to take advantage of our technical and financial services and to support us in our quest for the economic development of the region.

The CBDC Northumberland's Team



Greg McNulty
General Manager



Pauline Tenass
Project Analyst



Cheryl Daigle
Project Analyst



Michel Arseneau
Project Analyst



Lucie Daigle
Administrative Assistant



A variety of products and services for the success of our entrepreneurs



*Community Business Development Corporation
Corporation au bénéfice du développement communautaire*

Business Management Skills Training

Tailored skills training in special areas such as market development, bookkeeping, feasibility studies, funding sources and business analysis.

Consulting Advisory Services

Assistance provided through an external counselling agent in various fields of expertise to improve business performance. A certain financial contribution is requested from client.

Business Counselling

Business counselling in the form of advice to new and established entrepreneurs.

Self-Employment Benefit Program

Allows participants to continue to receive their Employment Insurance Benefits while they are getting their business up and running. Also offers a weekly allowance for the business start-up if the person has received Employment Insurance Benefits over the past few years (according to the existing policy).

Clean Technology Initiative

Loan or advisory services ideas for a clean technology process, and products or services that reduce negative environmental impacts.

General Business Loan

Business is booming and you need funding for an expansion of your existing premises or have to construct a new building. Perhaps it's time to purchase new equipment and additional materials in order to fulfill increased customer demand for your product. This more flexible loan can even facilitate the acquisition of an existing business.

First-Time Entrepreneur Loan

Offers counselling services for individuals who wish to become a self-sufficient and profitable business owner. This is the perfect loan to put your plans into action.

Youth Loan

Provides start-up capital for youth between the ages of 18 to 34 who experience difficulty obtaining necessary financing.

Social Enterprise Loan

Tailored to social enterprises operating in rural communities where people are able to live, work and enjoy social activities in their region.

Innovation Loan

Helps promote the development of the knowledgebase economy and aids in the adoption or commercialization of new technologies.

Contact Us

For more information on the programs offered by your CBDC, contact us or visit the following link:

 **(506) 778-2121**

 **www.northumberlandcbdc.ca**

 **CBDC Northumberland Inc**

 **CBDCAtlantic / NB CBDC**

 **1773 Water Street, Miramichi, NB E1N 1B2**





Financial Statements

CBDC Northumberland Inc.

March 31, 2018

Contents

	Page
Independent Auditors' Report	1-2
Statement of Revenue and Expenditure and Changes in Fund Balances	3
Statement of Financial Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-12
Schedule of Allowance for Loan Impairment	13

Independent auditor's report

Grant Thornton LLP
135 Henry Street
Miramichi, NB
E1V 2N5
T (506) 622-0637
F (506) 622-5174
www.GrantThornton.ca

To the Board of Directors of CBDC Northumberland Inc.

We have audited the accompanying financial statements of CBDC Northumberland Inc, which comprise the statement of financial position as at March 31, 2018 and the statements of revenue and expenditure and changes in fund balance and cash flows 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 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.

Auditor's 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 the 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 the auditor's 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, 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

Loans receivable have been written down to the estimated net realizable value in accordance with criteria outlined by the Government of Canada as explained in Note 3. Due to uncertainty of the loans and the related security we have not been able to determine if the loans are presented at net realizable value.

The CBDC Northumberland Inc. has not adopted CPA Canada Handbook section 3856 “Financial Instruments.”

The impact of adjustments to revenues, expenses, assets and liabilities for the above departures from Accounting Standards for Not-for-Profit Organizations has not been determined and any adjustments, if necessary, could be material.

Qualified opinion

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of CBDC Northumberland Inc., as at March 31, 2018 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting standards for not-for profit organizations.

Miramichi, New Brunswick

June 14, 2018



Chartered Professional Accountants

CBDC Northumberland Inc. **Statements of Revenue and Expenditure and Changes in** **Fund Balances**

Year Ended March 31

	Operating Fund	Investment Fund	2018 Total	2017 Total
Revenues				
ACOA operating grant	\$ 277,780	\$ -	\$ 277,780	\$ 255,460
Self-Employment Benefit Program	89,131	-	89,131	93,919
Interest income	16	512,791	512,807	527,622
Financial assistance	10,982	-	10,982	16,660
Other revenues	<u>2,115</u>	<u>2,550</u>	<u>4,665</u>	<u>10,571</u>
Total Revenues	380,024	515,341	895,365	904,232
Expenses				
Advertising	9,653	-	9,653	10,344
Amortization	3,119	-	3,119	5,582
Bank charges	2,775	4,527	7,302	8,064
Dues and fees	2,695	-	2,695	2,695
Equipment rental	7,608	-	7,608	9,047
Insurance	3,034	-	3,034	2,530
Interest expense – ACCBIF	-	27,440	27,440	23,199
Loan loss provision (Note 4)	-	108,401	108,401	155,920
Miscellaneous	5,957	-	5,957	7,921
Office supplies	9,096	-	9,096	11,661
Professional fees	9,630	-	9,630	13,303
Rent	35,906	-	35,906	35,193
Repairs and maintenance	12,617	-	12,617	12,482
Self-employment training	2,688	-	2,688	5,418
Telephone	11,105	-	11,105	14,269
Training	1,667	-	1,667	4,308
Travel and board meetings	23,606	-	23,606	16,397
Utilities	4,450	-	4,450	4,128
Wages and benefits	<u>338,072</u>	<u>-</u>	<u>338,072</u>	<u>327,135</u>
Total Expenses	<u>483,678</u>	<u>140,368</u>	<u>624,046</u>	<u>669,594</u>
Excess of revenue over expenditures (expenditures over revenue) before contribution	(103,654)	374,973	271,319	234,638
Contribution to operating from investment fund	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Excess of revenue over expenditures (expenditures over revenue)	<u>\$ (3,654)</u>	<u>\$ 274,973</u>	<u>\$ 271,319</u>	<u>\$ 234,638</u>
Fund balance, beginning of year	\$ (42,969)	\$ 1,507,110	\$ 1,464,141	\$ 1,229,503
Excess of revenue over expenditures (expenditures over revenue)	<u>(3,654)</u>	<u>274,973</u>	<u>271,319</u>	<u>234,638</u>
Fund balance, end of year	<u>\$ (46,623)</u>	<u>\$ 1,782,083</u>	<u>\$ 1,735,460</u>	<u>\$ 1,464,141</u>

See accompanying notes to the financial statements.

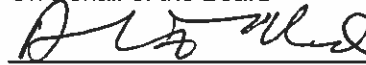
CBDC Northumberland Inc. **Statement of Financial Position**

March 31

	<u>Operating Fund</u>	<u>Investment Fund</u>	<u>2018 Total</u>	<u>2017 Total</u>
Assets				
Current				
Cash and term deposits	\$ (54,723)	\$ 976,784	\$ 922,061	\$ 517,055
Receivables				
Interest & fees	-	58,097	58,097	49,180
Other receivables	40,052	-	40,052	64,173
Prepaid expenses	<u>2,802</u>	<u>-</u>	<u>2,802</u>	<u>2,802</u>
	(11,869)	1,034,881	1,023,012	633,210
 Loans (Note 4)	-	6,439,428	6,439,428	6,412,693
Investments- ACCBIF (Note 5)	-	37,500	37,500	37,500
Capital assets (Note 6)	<u>2,970</u>	<u>-</u>	<u>2,970</u>	<u>6,089</u>
	<u>\$ (8,899)</u>	<u>\$ 7,511,809</u>	<u>\$ 7,502,910</u>	<u>\$ 7,089,492</u>
Liabilities				
Current				
Payable and accrual	\$ 37,724	\$ 1,808	\$ 39,532	\$ 44,872
Current portion of long term debt (Note 10)	<u>-</u>	<u>458,331</u>	<u>458,331</u>	<u>460,706</u>
	37,724	460,139	497,863	505,578
Long term debt (Note 10)	<u>-</u>	<u>1,104,793</u>	<u>1,104,793</u>	<u>954,979</u>
	37,724	1,564,932	1,602,656	1,460,557
Equity				
Fund balances				
Restricted (Note 7)				
Capital contributions	-	4,164,794	4,164,794	4,164,794
Surplus (deficit)	-	1,782,083	1,782,083	1,507,110
Unrestricted	<u>(46,623)</u>	<u>-</u>	<u>(46,623)</u>	<u>(42,969)</u>
	<u>(46,623)</u>	<u>5,946,877</u>	<u>5,900,254</u>	<u>5,628,935</u>
	<u>\$ (8,899)</u>	<u>\$ 7,511,809</u>	<u>\$ 7,502,910</u>	<u>\$ 7,089,492</u>

Commitments (Note 14)

On Behalf of the Board

 Director

 Director

See accompanying notes to the financial statements

CBDC Northumberland Inc.

Statement of Cash Flows

Year Ended March 31

	<u>Operating Fund</u>	<u>Investment Fund</u>	<u>2018 Total</u>	<u>2017 Total</u>
Cash derived from (applied to)				
Operating				
Excess of revenue over expenditures (revenue over expenditures)	\$ (3,654)	\$ 274,973	\$ 271,319	\$ 234,638
Depreciation	3,119	-	3,119	5,582
Loan loss provision	-	108,401	108,401	155,920
	(535)	383,374	382,839	396,140
Change in				
Receivables	24,121	(8,917)	(15,204)	(14,171)
Prepaid expenses	-	-	-	(228)
Payables & accruals	(5,340)	-	(5,340)	3,448
	18,246	374,457	392,703	385,189
Investing				
Purchase of office equipment	-	-	-	(3,299)
Investing in loans	-	(1,111,242)	(1,111,242)	(1,521,000)
Repayment of loans	-	976,106	976,106	1,047,234
	-	(135,136)	(135,136)	(477,065)
Financing				
Borrowings from ACCBIF	-	600,000	600,000	500,000
Repayment of ACCBIF	-	(452,561)	(452,561)	(456,725)
	-	147,439	147,439	43,275
Net increase (decrease) in cash	18,246	386,760	405,006	(48,601)
Cash and term deposits (indebtedness)				
Beginning of year	(72,969)	590,024	517,055	565,656
End of year	\$ (54,723)	\$ 976,784	\$ 922,061	\$ 517,055

See accompanying notes to the financial statements

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

1. Nature of operations

CBDC Northumberland Inc.'s mission statement is to "create sustainable employment through promoting business development in our communities by providing capital and mentoring assistance."

CBDC Northumberland Inc. is a community-based and community controlled corporation with a mandate to provide lending and other investment to small businesses in the Northumberland County of New Brunswick who have had difficulty obtaining financing from conventional sources. CBDC Northumberland Inc. is incorporated as a not-for-profit organization and as such is exempt from income tax by virtue of Paragraph 149(1)(1) of the Income Tax Act.

2. Departure from Accounting Standards for not-for-profit organizations (ASNPO)

CBDC Northumberland Inc. Financial statements have not adopted the CPA Canada Handbook Section 3856- *Financial Instruments*, and as a result, depart from Canadian accounting standards for not-for-profit organizations. The effects of these sections have not been recorded or disclosed in these financial statements.

The Atlantic Canada Opportunities Agency has confirmed, within the 2018 CF agreement to all Atlantic CBDCs, it will accept qualified financial statements from CBDCs when not prepared in full compliance with the CPA Canada Handbook Section 3856-Financial Instruments.

3. Summary of significant accounting policies

Basis of accounting

The Company's financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Fund accounting

CBDC Northumberland Inc. follows the restricted fund method of accounting for the Investment and Operating Fund.

The Operating Fund accounts for the organization's 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) and CBDC Northumberland Inc.

The Investment Fund reports all restricted resources of the Investment fund. The investment income resulting from investing activities is retained in the Investment Fund.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less. Bank borrowings are considered to be financing activities.

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

3. Summary of significant accounting policies (continued)

Tangible capital assets

Tangible capital assets are recorded at cost and depreciation on a straight line basis at the rates indicated in Note 6.

Revenue recognition

Interest income on loans is recorded on an accrual basis at the rate specified in the loan agreement when collection is reasonably assured. Accruals of interest income are not recorded on non-performing loans.

Government funding is recorded when received in the period to which the funding relates in accordance with the agreement with ACOA.

Provision for loan losses

Provision for loan losses are determined based on delinquent loans that are deemed doubtful by management, less estimated amounts recoverable from security, net of estimated costs associated with converting the security into cash.

Category "A" Accounts

Accounts which are entirely satisfactory as to credit risk and performance, i.e. proven or established earnings and management, and on which loan arrears, if any, would represent less than two months' instalments of principal and interest. It should be noted that all accounts are automatically classified as category "A" upon authorization.

Category "B" Accounts

Accounts in which it is expected that, in spite of undesirable developments, the difficulties will be overcome and the loan will in time be recovered, in full without the need to call the loan. Principal and/or interest are no more than 6 months in arrears.

Category "C" Accounts

Accounts in which serious adverse developments have occurred, difficulties are unlikely to be overcome, or there is little or no chance of the loan being repaid from earnings and one or more of the following conditions apply:

- operations have ceased and are unlikely to recommence under existing ownership;
- voluntary liquidation of assets has started with a view to winding up the business;
- other creditors, regardless of rank, may be expected to realize on their security;
- a proposal either formal or informal to secured creditors has been made, or is under preparation; and
- no principal payments have been made for a 6 month period.

Category "D" Accounts

- No recovery is anticipated and application for "Request to Waive Repayment" and loan write-off is in the process of being submitted or awaiting approval.

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

3. Summary of significant accounting policies (continued)

Use of estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Significant estimates are required in recording the provision for loan loss. Actual results could differ from these estimates.

4. Loans	<u>2018</u>	<u>2017</u>
Loans	\$ 6,821,826	\$ 6,884,465
Less provision for loan losses	<u>(382,398)</u>	<u>(471,772)</u>
	<u>\$ 6,439,428</u>	<u>\$ 6,412,693</u>

The loans are at varying interest rates and terms of repayment. Certain loans are in arrears and others are non-active.

Included in the loans receivable at March 31, 2018 are delinquent loans totalling \$740,037 (2017 – \$990,489) of which \$382,398 (2017 - \$471,772) has been allowed for. Management believes the balance of these loans will be collectable.

Loans and Mortgages Receivable	<u>2018</u>	<u>2017</u>
---------------------------------------	--------------------	--------------------

The loans receivable balance is comprised of:

Balance, beginning of year	\$ 6,884,465	\$ 6,763,754
Loans advanced during the year	1,111,242	1,521,000
Loans repaid during the year	(976,106)	(1,047,234)
Loans written-off during the year	<u>(197,775)</u>	<u>(353,055)</u>
Balance, Principal	6,821,826	6,884,465
Allowance for doubtful accounts	<u>(382,398)</u>	<u>(471,772)</u>
Balance, end of year	<u>\$ 6,439,428</u>	<u>\$ 6,412,693</u>

The Activity in the Allowance for Doubtful Loans account is as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 471,772	\$ 668,907
Loans written-off during the year	(197,775)	(353,055)
Recovery of loans written-off in previous periods	(16,301)	(62,299)
Current year's loan loss provision	<u>124,702</u>	<u>218,219</u>
Balance, end of year	<u>\$ 382,398</u>	<u>\$ 471,772</u>

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

5. Investments - ACCBIF

The corporation has made an investment in the Atlantic Canada Community Business Investment Fund which has a duration of nine years. Having contributed to this fund, the corporation is now eligible to borrow from this fund to finance new investment loans in excess of its own cash resources.

6. Capital assets

				2018 Net <u>Book Value</u>	2017 Net <u>Book Value</u>
	<u>Rate</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>		
Computer equipment	3 years	\$ 6,049	\$ 6,049	\$ -	\$ -
Leasehold					
Improvements	10 years	55,819	55,819	-	2,790
Office equipment	5 years	<u>10,783</u>	<u>7,813</u>	<u>2,970</u>	<u>3,299</u>
Total		<u>\$ 72,651</u>	<u>\$ 69,681</u>	<u>\$ 2,970</u>	<u>\$ 6,089</u>

7. Externally restricted funds

Investment Fund

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

	<u>Investment</u>
Restricted for investing in business	
Capital contributions from ACOA, beginning of year	\$ 4,164,794
Capital contribution received during the year	-
Accumulated surpluses	-
End of the year	<u>\$ 4,164,794</u>

9.1 Funds credited to the Investment Fund shall not be used for purposes other than Investment Fund activities without the prior written approval of ACOA. This includes funds lent or received from ACCBIF.

9.2 Notwithstanding (9.1), funds credited to the Investment Fund account may be transferred to the Eligible Costs account of the CBDC where the following conditions are met:

9.2.1 The CBDCs Annual Budget submitted with the Business Plan projects a deficit (the "Deficit") and is accepted by ACOA;

9.2.2 The Deficit was in fact incurred as projected; and,

9.2.3 The CBDC shall provide to ACOA written confirmation of the transfer of the funds from the Investment Fund account to the Eligible Costs account within 90 days of the end of each fiscal year.

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

8. Economic dependence

The corporation receives an annual operating contribution from ACOA to cover a portion of the operating expenses of the Operating fund. The continued operation of the organization currently depends on the receipt of the annual operation contribution.

9. Surplus - operating fund

Certain expenditures from surplus are required to be approved, in advance, by ACOA.

10. Long-term debt – ACCBIF

ACCBIF lends money to CBDCs Investment Funds throughout Atlantic Canada. To be a member, a CBDC must lend \$37,500 to ACCBIF. Loans from ACCBIF carry an interest charge which is set every two years by the ACCBIF Board of Governance.

	<u>2018</u>	<u>2017</u>
Atlantic Canada Community Business Investment term loan, interest at 1.6% per annum, maturing in March 2019. Payable in equal monthly instalments of \$40,000 including interest. Promissory note provided as security.	1,563,124	1,415,685
Less: current portion	<u>458,331</u>	<u>460,706</u>
	<u>\$ 1,104,793</u>	<u>\$ 954,979</u>

Principal repayments for the next four years are expected as follows: 2019- \$458,331, 2020- \$465,718 2021- \$473,224; 2022 - \$166,515.

11. Bank indebtedness

The Company has an authorized line of credit of \$200,000 bearing interest at prime rate plus 1.55%. None was used at year end. The line of credit is secured by a general security agreement over all assets of the Company, except real estate.

The Company has a second authorized line of credit for \$25,000 bearing interest at prime rate plus 3%. The line of credit is unsecured. The Company was granted a temporary increase in the limit to \$75,000 at year end based on the amounts to be received from their government funding partners, ACOA and SEB. The amount utilized at year end was \$56,285.

	<u>Operating Fund</u>	<u>Investment Fund</u>	<u>2018 Total</u>	<u>2017 Total</u>
Cash & term deposits	\$ (54,723)	\$ 976,784	\$ 922,061	\$ 517,055

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

12. Payables and accruals

Included in payables and accruals are government remittances of \$6,787 (2017 - \$6,617).

13. Financial instruments

The types of risk inherent in the Organization's environment in which it operates include credit, liquidity and market rate risk:

Credit risk

Credit risk is the risk that the Organization will incur a loss because the receivables are not recovered. The Organization's financial instruments that are exposed to credit risk include receivables and loans.

The maximum credit risk exposure at March 31, 2018 is equal to the carrying value of the receivables and loans as at the balance sheet date.

Concentrations of credit risk

Concentrations of credit risk exist if a number of borrowers are engaged in similar economic activities or are located in the same geographic region, and indicate the relative sensitivity of the CBDC's performance to developments affecting a particular segment of borrowers or geographic region. Geographic credit risk exists for the CBDC due to most of its activities being primarily provided in Northumberland County.

The exposure to credit risk associated with the non-performance of these borrowers can be directly impacted by a decline in economic conditions which would impair CBDC client's ability to satisfy their obligations to the CBDC. In order to reduce this economic risk, the CBDC has comprehensive credit procedures in place whereby analyses are performed to control the granting of credit to all borrowers. Additionally, CBDC is a member of a Risk Mitigation Fund whereby they will be entitled to receive up to 35% of specified loans losses.

Liquidity risk

Liquidity risk is the risk that the Organization may not have cash available to satisfy financial liabilities as they come due. To mitigate this risk, the Organization is internally monitoring this level of liquidity on a regular basis.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument, that is short-term investments, will fluctuate because of changes in market prices. For purposes of this disclosure, the Organization segregates market risk into two categories: fair value risk and interest rate risk. The Organization is exposed to interest rate risk.

Interest rate risk is the potential for loss arising from changes in interest rates. Financial instruments that potentially subject the Organization to interest rate risk are loans and long term debt. The Organization does not hedge interest rate risk.

CBDC Northumberland Inc.

Notes to the Financial Statements

March 31, 2018

14. Commitments

The company is party to an agreement to lease office space for \$3,135 inclusive of HST per month (\$37,620 per year). The agreement is subject to an escalation clause of up to 3% per year for inflation until 2023.

During the last quarter of the year, all loans approved were advanced. There were no outstanding commitments as of March 31, 2018.

15. Investment loan portfolio

	<u>2018</u>	<u>2017</u>
Investment loans approved during the year	19	24
Total active investment loans under management	135	136

CBDC Northumberland Inc. **Schedule of Allowance for Loan Impairment**

March 31, 2018

	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
	Category A	Category B	Category C	Category D	Total
<u>Investment Fund</u>	\$ 5,185,911	\$ 603,939	\$ 137,652	\$ 350,498	\$ 6,277,999
<u>Youth Fund</u>	323,364	186,214	10,195	24,054	543,827
	<u>\$ 5,509,275</u>	<u>\$ 790,152</u>	<u>\$ 147,847</u>	<u>\$ 374,552</u>	<u>\$ 6,821,826</u>

Allowance for loan impairment

Investment Fund	\$ -	\$ -	\$ 87,652	\$ 260,497	\$ 348,149
Youth Fund	-	-	10,195	24,054	34,249
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,847</u>	<u>\$ 284,551</u>	<u>\$ 382,398</u>

Allowance Percentage

5.6%

	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	Category A	Category B	Category C	Category D	Total
<u>Investment Fund</u>	\$ 5,167,917	\$ 722,876	\$ 308,632	\$ 153,744	\$ 6,363,168
<u>Youth Fund</u>	391,463	91,219	16,868	31,746	514,427
	<u>\$ 5,559,380</u>	<u>\$ 814,095</u>	<u>\$ 325,500</u>	<u>\$ 185,490</u>	<u>\$ 6,884,465</u>

Allowance for loan impairment

Investment Fund	\$ -	\$ -	\$ 276,282	\$ 153,744	\$ 430,026
Youth Fund	-	-	10,000	31,746	41,746
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 286,282</u>	<u>\$ 185,490</u>	<u>\$ 471,772</u>

Allowance Percentage

6.9%