

Financial Statements of

**CELTIC BUSINESS
DEVELOPMENT CORPORATION INC.**

YEAR ENDED MARCH 31, 2019

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Financial Statements
Year ended March 31, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

I have audited the financial statements of the Celtic Business Development Corporation Inc., which comprise the statement of financial position as at March 31, 2019, and the statement of operations and changes in fund balances and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Celtic Business Development Corporation Inc. as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the organization in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian 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.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditor's Responsibilities for the Audit of Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements are as a whole free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Bay Roberts, Newfoundland and Labrador

June 20, 2019



Chartered Professional Accountant


CELTIC BUSINESS DEVELOPMENT CORPORATION INC.**Statement of Financial Position****As at March 31, 2019**

				2019	2018
	Operating Fund	Investment Fund	FRAM-ED Fund	Total	Total
ASSETS					
Current					
Cash	\$ 19,062	\$ 269,403	\$ 345	\$ 288,810	\$ 713,315
HST rebate receivable	2,777	708	-	3,485	4,551
Receivable from Province	500	-	-	500	500
Other receivables	-	1,984	-	1,984	15,771
Due from Operating fund	-	4,049	-	4,049	106,228
Due from Fram-Ed Fund	-	314,900	-	314,900	717,600
Prepaid expenses	515	-	-	515	188
Current portion of loans receivable	-	403,465	219,880	623,345	710,319
	22,854	994,509	220,225	1,237,588	2,268,472
Capital assets (note 2)	14,040	-	-	14,040	14,706
Investments (note 3)	-	37,500	-	37,500	37,500
Loans receivable (notes 4 and 5)	-	3,226,258	1,503,971	4,730,229	4,395,049
	\$ 36,894	\$ 4,258,267	\$ 1,724,196	\$ 6,019,357	\$ 6,715,727
LIABILITIES					
Current					
Payables and accrued liabilities	\$ 17,135	\$ 2,697	\$ -	\$ 19,832	\$ 27,745
Statutory payroll remittances	1,670	-	-	1,670	1,452
Due to Investment Fund	4,049	-	314,900	318,949	823,828
Current portion of long-term debt	-	403,368	-	403,368	396,985
	22,854	406,065	314,900	743,819	1,250,010
Long-term debt (note 6)	-	1,590,302	-	1,590,302	1,990,765
	22,854	1,996,367	314,900	2,334,121	3,240,775
Contingencies (note 8) Commitment (note 9)					
FUND BALANCES					
Invested in Capital Assets	14,040	-	-	14,040	14,706
Restricted surplus (notes 4 and 5)	-	1,123,149	559,296	1,682,445	1,471,495
Contributed surplus (notes 4 and 5)	-	1,138,751	850,000	1,988,751	1,988,751
	14,040	2,261,900	1,409,296	3,685,236	3,474,952
	\$ 36,894	\$ 4,258,267	\$ 1,724,196	\$ 6,019,357	\$ 6,715,727

See accompanying notes to the financial statements

On Behalf of the Board:


 Director


 Director

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Statement of Operations and Changes in Fund Balances
For the Year Ended March 31, 2019

				2019	2018
	Operating Fund	Investment Fund	FRAM-ED Fund	Total	Total
REVENUE					
ACOA - operating grant	\$ 206,006	\$ -	\$ -	\$ 206,006	\$ 195,885
Investment income – loan portfolio	-	219,188	111,958	331,146	409,839
Investment income – other interest	735	5,070	222	6,027	2,688
SEA program	70,235	-	-	70,235	70,235
Youth Ventures program	17,000	-	-	17,000	16,000
Entrepreneurial Training fund	-	12,127	-	12,127	18,940
Application and administration fees	15,059	-	-	15,059	2,720
Other income	1,895	-	-	1,895	5,716
	310,930	236,385	112,180	659,495	722,023
EXPENDITURE					
Advertising	14,201	-	-	14,201	14,548
Amortization	3,886	-	-	3,886	4,397
Bank charges and interest	949	1,517	124	2,590	2,589
Entrepreneurial training	-	12,127	-	12,127	18,940
Insurance	3,319	-	-	3,319	3,512
Interest on long-term debt	-	34,690	-	34,690	40,240
Loan loss provision (recovery)	-	8,295	(21,445)	(13,150)	189,860
Meeting costs	6,308	-	-	6,308	6,532
Membership and fees	2,603	-	-	2,603	3,033
Office expenses	8,470	108	-	8,578	13,025
Professional fees	7,546	-	-	7,546	7,445
Rent	23,390	-	-	23,390	23,390
Salaries and employee benefits	297,798	-	-	297,798	279,118
Seminars and conferences	7,064	-	-	7,064	8,727
Special events	2,898	-	-	2,898	2,666
Telephone	9,356	-	-	9,356	8,773
Training – Clients	786	-	-	786	916
Travel	23,221	-	-	23,221	22,112
Youth Ventures program contribution	2,000	-	-	2,000	2,000
	413,795	56,737	(21,321)	449,211	651,823
Excess of revenue over (under) expenditure	(102,865)	179,648	133,501	210,284	70,200
Fund balance, beginning of year	14,706	2,184,451	1,275,795	3,474,952	3,404,752
Inter-fund transfers	102,199	(102,199)	-	-	-
Fund balance, end of year	\$ 14,040	\$ 2,261,900	\$ 1,409,296	\$ 3,685,236	\$ 3,474,952

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Cash Flow Statement
For the Year Ended March 31, 2019

				2019	2018
	Operating Fund	Investment Fund	FRAM-ED Fund	Total	Total
Operating activities:					
Excess of revenue over expenditure (expenditure over revenue)	\$ (102,865)	\$ 179,648	\$ 133,501	\$ 210,284	\$ 70,200
Items which do not involve cash:					
Amortization	3,886	-	-	3,886	4,397
Loan loss provision	-	8,295	(21,445)	(13,150)	198,429
	(98,979)	187,943	112,056	201,020	273,026
Changes in non-cash working capital:					
Accounts receivable	7,071	7,782	-	14,853	59,139
Due to/from other funds	(102,179)	504,879	(402,700)	-	-
Prepaid expenses	(327)	-	-	(327)	(34)
Payables and accrued liabilities	611	(8,306)	-	(7,695)	12,840
Cash provided by (used in) operating activities	(193,803)	692,298	(290,644)	207,851	344,971
Investing activities:					
Purchase of capital assets	(3,220)	-	-	(3,220)	(1,839)
Loans receivable – principal advances	-	(722,866)	(30,908)	(753,774)	(1,380,470)
Loans receivable – principal repayments	-	386,385	113,141	499,526	957,192
Decrease (increase) in accrued interest	-	7,027	12,165	19,192	(8,682)
Cash provided by (used in) investing activities	(3,220)	(329,454)	94,398	(238,276)	(433,799)
Financing activities:					
Inter-fund transfers	102,199	(102,199)	-	-	-
Proceeds from long-term debt	-	10,000	-	10,000	515,000
Repayment of long-term debt	-	(404,080)	-	(404,080)	(395,417)
Cash provided by (used in) financing activities	102,199	(496,279)	-	(394,080)	119,583
Increase (decrease) in cash and cash equivalents	(94,824)	(133,435)	(196,246)	(424,505)	30,755
Cash and cash equivalents, beginning of year	113,886	402,838	196,591	713,315	682,560
Cash and cash equivalents, end of year	\$ 19,062	\$ 269,403	\$ 345	\$ 288,810	\$ 713,315

Cash equivalents are comprised of cash in bank.

See accompanying notes to the financial statements

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.

Notes to the Financial Statements

For the Year Ended March 31, 2019

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, 2019

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

				2019	2018
	Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture & equipment	20%	\$ 55,083	\$ 45,403	\$ 9,680	\$ 8,478
Computer hardware	30%	20,352	15,992	4,360	6,228
Leasehold improvements		12,780	12,780	-	-
		<u>\$ 88,215</u>	<u>\$ 74,175</u>	<u>\$ 14,040</u>	<u>\$ 14,706</u>

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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2019

4. Loans Receivable - Investment Fund

	2019	2018
Loans receivable, beginning of year	\$ 3,653,206	\$ 3,550,624
Loans advanced during the year	722,866	824,058
Loans repaid during the year	(386,385)	(664,836)
Loans written off during the year	(5,692)	(56,795)
Change in year end accrued interest	(7,027)	155
Loans receivable, end of year	3,976,968	3,653,206
Allowance for impaired loans	(347,245)	(344,642)
	3,629,723	3,308,564
Current portion of loans receivable	(403,465)	(561,944)
	<u>\$ 3,226,258</u>	<u>\$ 2,746,620</u>

Loans receivable includes accrued interest receivable in the amount of \$34,471 (2018 - \$41,498). There are five impaired loans as of March 31, 2019 totalling \$287,580 (2018 - seven impaired loans totalling \$546,027). The current portion of loans receivable assumes required loan payments will be received during the year. There were 18 loans approved during the year and 68 loans under management as of March 31, 2019.

The activity in the allowance for impaired loans account is as follows:

	2019	2018
Allowance, beginning of year	\$ 344,642	\$ 244,632
Loans written off during the year	(5,692)	(56,795)
Current year's loan loss provision	8,295	156,805
	<u>\$ 347,245</u>	<u>\$ 344,642</u>

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

	2019	2018
Loan capital contributed	\$ 1,138,751	\$ 1,138,751
Accumulated surplus	1,123,149	1,045,700
	<u>\$ 2,261,900</u>	<u>\$ 2,184,451</u>

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, 2019

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

	2019	2018
Loans receivable, beginning of year	\$ 1,919,450	\$ 1,646,866
Loans advanced during the year	30,908	556,412
Loans repaid during the year	(113,141)	(292,355)
Change in year end accrued interest	(12,166)	8,527
Loans receivable, end of year	1,825,051	1,919,450
Allowance for impaired loans	(101,200)	(122,646)
	1,723,851	1,796,804
Current portion of loans receivable	(219,880)	(148,375)
	<u>\$ 1,503,971</u>	<u>\$ 1,648,429</u>

Loans receivable includes accrued interest receivable in the amount of \$22,810 (2018 - \$34,975). There is one impaired loan as of March 31, 2019 totalling \$29,180 (2018 - two impaired loans totalling \$168,280). The current portion of loans receivable assumes required loan payments will be received during the year. There was one loan approved during the year and 17 loans under management as of March 31, 2019.

The activity in the allowance for impaired loans account is as follows:

	2019	2018
Allowance, beginning of year	\$ 122,645	\$ 81,020
Loans written off during the year	-	-
Current year's loan loss provision (recovery)	(21,445)	41,625
	<u>\$ 101,200</u>	<u>\$ 122,645</u>

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

	2019	2018
Loan capital contributed	\$ 850,000	\$ 850,000
Accumulated surplus	559,296	425,795
	<u>\$ 1,409,296</u>	<u>\$ 1,275,795</u>

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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2019

6. Long-term Debt

	<u>2019</u>	<u>2018</u>
Atlantic Canada Community Business Investment Fund		
Loan for investment purposes, with interest at 1.6%, repayable in blended monthly instalments of \$36,000, maturing in December, 2023 and secured by a promissory note and a negative pledge	\$ 1,969,841	\$ 2,366,612
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	<u>23,829</u>	<u>21,138</u>
	1,993,670	2,387,750
Less: Estimated portion due next twelve months	<u>403,368</u>	<u>396,985</u>
	\$ <u>1,590,302</u>	\$ <u>1,990,765</u>

Estimated required principal payments over the next five years are as follows: 2020 - \$403,368; 2021 - \$409,969; 2022 - \$416,529; 2023 - \$423,242; 2024 - \$316,733.

7. Allowance for Impaired Loans

Impaired loans are recognized on a case by case basis. When a loan is deemed to be impaired, it's 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.

CELTIC BUSINESS DEVELOPMENT CORPORATION INC.
Notes to the Financial Statements (Continued)
For the Year Ended March 31, 2019

9. Commitment

The Corporation leases office space at an annual rate of \$21,758 plus HST. The lease expires on March 31, 2020.

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 Board of Directors has overall responsibility for the oversight and management of financial risk factors which arise from holding financial instruments. The Board reviews the Corporation's policies on an ongoing basis to ensure that these risks are appropriately managed. The primary sources of risk exposure for the Corporation and how each is managed is outlined below.

Credit risk

The Corporation has exposure to credit risk as a result of holding financial instruments. 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.