

COMMUNITY FORESTS INTERNATIONAL

Financial Statements

Year Ended October 31, 2017

COMMUNITY FORESTS INTERNATIONAL

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Year Ended October 31, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Members of Community Forests International

We have audited the accompanying financial statements of Community Forests International, which comprise the statement of financial position as at October 31, 2017 and the statements of revenues and expenditures, changes in net assets 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 qualified audit opinion.

Opinion

In common with many not-for-profit organizations, Community Forests International derives revenue from donations and fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Community Forests International. Therefore, we were not able to determine whether any adjustments might be necessary to donation and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the year ended October 31, 2017, current assets and net assets as at October 31, 2017.

Qualified Opinion

(continues)

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Community Forests International as at October 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Teed Saunders Doyle

Fredericton, New Brunswick
January 11, 2018

CHARTERED PROFESSIONAL ACCOUNTANTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Financial Position

October 31, 2017

	2017	2016
ASSETS		
CURRENT		
Cash	\$ 173,794	\$ 156,101
Accounts receivable	10,000	18,824
HST receivable	4,936	2,607
Prepaid expenses	1,200	1,200
Deposit on land	-	5,100
	189,930	183,832
PROPERTY AND EQUIPMENT <i>(Note 5)</i>	407,623	357,035
	\$ 597,553	\$ 540,867
LIABILITIES AND NET ASSETS		
CURRENT		
Accounts payable	\$ 36,591	\$ 12,040
Government remittances payable	3,513	4,748
Deferred revenue <i>(Note 8)</i>	33,644	18,494
Current portion of long term debt <i>(Note 6)</i>	14,130	28,500
	87,878	63,782
LONG TERM DEBT <i>(Note 6)</i>	-	14,130
DEFERRED CAPITAL CONTRIBUTIONS <i>(Note 9)</i>	31,352	31,721
	119,230	109,633
NET ASSETS		
General fund	365,448	309,390
Pemba fund	54,225	121,844
Stewardship Endowment fund	58,650	-
	-	-
	478,323	431,234
	\$ 597,553	\$ 540,867

ON BEHALF OF THE BOARD

_____ *Director*

_____ *Director*

COMMUNITY FORESTS INTERNATIONAL

Statement of Changes in Net Assets

Year Ended October 31, 2017

	General Fund	Pemba Fund (Schedule 1)	Stewardship Endowment Fund (Schedule 2)	2017	2016
NET ASSETS - BEGINNING OF YEAR	\$ 309,390	\$ 121,844	\$ -	\$ 431,234	\$ 300,228
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	51,384	(67,619)	2,324	(13,911)	87,006
CONTRIBUTIONS TO ACQUIRE LAND <i>(Note 10)</i>	10,000	-	51,000	61,000	44,000
INTERFUND TRANSFERS	(5,326)	-	5,326	-	-
NET ASSETS - END OF YEAR	\$ 365,448	\$ 54,225	\$ 58,650	\$ 478,323	\$ 431,234

COMMUNITY FORESTS INTERNATIONAL

Statement of Revenues and Expenditures

Year Ended October 31, 2017

	2017	2016
REVENUE		
Donations <i>(Note 12)</i>	\$ 144,964	\$ 160,801
Grants <i>(Note 11)</i>	152,865	90,848
Pemba Fund <i>(Schedule 1)</i>	89,450	104,165
Consulting	41,043	33,173
Carbon offsets	63,534	44,460
	<u>491,856</u>	<u>433,447</u>
EXPENSES		
Advertising and promotion	2,767	2,596
Fundraising	-	329
Insurance	1,600	1,573
Interest and bank charges	1,307	1,760
Interest on long term debt	1,159	3,319
Memberships	2,138	1,201
Office	6,545	7,085
Pemba Fund <i>(Schedule 1)</i>	157,069	45,386
Professional fees	24,711	9,867
Projects and workshops	3,847	15,810
Property taxes	2,509	2,140
Rent <i>(Note 7)</i>	12,000	12,000
Repairs and maintenance	6,238	2,895
Salaries and wages	258,745	203,747
Training and conventions	255	10,950
Travel	17,113	19,174
Wood purchases	1,960	1,750
	<u>499,963</u>	<u>341,582</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES FROM OPERATIONS	<u>(8,107)</u>	<u>91,865</u>
OTHER REVENUE (EXPENSES)		
Loss on disposal of assets	-	(2,298)
Amortization	(10,413)	(10,083)
Amortization of deferred capital contributions	3,369	1,177
Other	1,240	6,345
	<u>(5,804)</u>	<u>(4,859)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (13,911)</u>	<u>\$ 87,006</u>

COMMUNITY FORESTS INTERNATIONAL

**Statement of Cash Flows
Year Ended October 31, 2017**

	2017	2016
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ (13,911)	\$ 87,006
Items not affecting cash:		
Amortization	10,413	10,083
Amortization of deferred capital contributions	(3,369)	(1,177)
Loss on disposal of assets	-	2,298
	<u>(6,867)</u>	<u>98,210</u>
 Changes in non-cash working capital:		
Accounts receivable	8,824	5,074
HST receivable	(2,329)	62
Accounts payable	24,550	(869)
Government remittances payable	(1,235)	(1,568)
Deferred revenue	15,150	18,494
Prepaid expenses	-	(27)
Deposit on land	5,100	(5,100)
	<u>50,060</u>	<u>16,066</u>
	<u>43,193</u>	<u>114,276</u>
 INVESTING ACTIVITY		
Purchase of property and equipment	<u>(61,000)</u>	<u>(61,652)</u>
 FINANCING ACTIVITIES		
Deferred capital contributions	3,000	22,450
Contributions to acquire land	61,000	44,000
Repayment of long term debt	<u>(28,500)</u>	<u>(26,200)</u>
	<u>35,500</u>	<u>40,250</u>
 INCREASE IN CASH	 17,693	 92,874
CASH- BEGINNING OF YEAR	<u>156,101</u>	<u>63,227</u>
CASH - END OF YEAR	<u>\$ 173,794</u>	<u>\$ 156,101</u>

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

1. PURPOSE OF THE ORGANIZATION

Community Forests International (the "organization") is a not-for-profit organization incorporated federally under the Canada Not-for-profit Corporations Act. The purpose of this organization is to foster environmental stewardship internationally by establishing community forests, promoting sustainable forestry techniques and initiating environmental education. As a registered charity the organization is exempt from the payment of income tax under Section 149(1) of the Income Tax Act.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations (ASNFPO).

Cash

The company considers cash on hand, short-term deposits and balances with banks, net of overdrafts as cash.

Revenue recognition

Community Forests International follows the restricted fund method of accounting for contributions.

Restricted contributions related to general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. Costs incurred in the administration of the organization and for projects and workshops are expensed in this Fund. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

The Pemba Fund recognizes as income restricted donations made to support the organization's assistance of Community Forests Pemba. Donations of cash and materials to Community Forests Pemba and travel costs are expensed in this Fund.

The Stewardship Endowment Fund recognizes as income restricted grants made to support the organization's acquisition and maintenance of the Pace property. Federal government grants recognized as revenue must be matched 2:1 by other non-federal government sources. A requirement for the Stewardship Endowment Fund is to maintain a balance of \$7,650 (15% of the value of the property), the income from which is to be used for stewardship of the land.

Unrestricted contributions are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Revenue from carbon offsets is recognized in the same period the offsets are retired. In order for a carbon offset to be retired it must have been created through appropriate activities and then retired by application to a purchase contract. Carbon offsets cannot be retired more than once.

Revenue from consulting is recorded in the period it is earned and when collection is reasonably assured.

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COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Donated goods and services

Donated property, marketable securities and other non-cash donations are recorded as contributions at their estimated fair market value at the date of the donation.

Volunteers contribute a significant amount of their time each year. Because of the difficulty in determining their fair value, contributed services are not recognized in the financial statements.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates are periodically reviewed and any adjustments necessary are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

Financial instruments policy

The organization considers any contracts a financial asset, liability, or equity instrument as a financial instrument, except in certain limited circumstances. The organization accounts for the following as financial instruments:

1. Cash and cash equivalents
2. Trade and other receivables
3. Payables and accruals
4. Long term debt

A financial asset or liability is recognized when the organization becomes party to contractual provisions of the instrument.

The organization initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

Financial assets or liabilities obtained in related party transactions are measured in accordance with the accounting policy for related party transactions except for those transactions that are with a person or entity whose sole relationship with the organization is in the capacity of management in which case they are accounted for in accordance with financial instruments.

The organization subsequently measures its financial assets and financial liabilities at cost or amortized cost less any reduction for impairment.

The organization removes financial liabilities, or a portion of, when the obligation is discharged, cancelled, or expires.

(continues)

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Property and equipment are stated at cost or deemed cost less accumulated amortization. Property and equipment are amortized over their estimated useful lives at the following rates and methods:

Land		non-amortizable
Buildings	10%	declining balance method
Farm equipment	20%	declining balance method
Office equipment	20%	declining balance method

The organization regularly reviews its property and equipment to eliminate obsolete items.

3. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the organization's risk exposure and concentration as of October 31, 2017.

Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The organization is exposed to credit risk from funding agencies. The organization has a significant number of funding agencies which minimizes concentration of credit risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The organization is exposed to this risk mainly in respect of its receipt of funds from its funding agencies, and other related sources, long-term debt, and accounts payable.

Currency risk

Currency risk is the risk to the company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The organization is exposed to foreign currency exchange risk on grants and consulting revenue in U.S. dollars and Euros from Community Forests Pemba. The organization does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the organization manages exposure through its normal operating and financing activities. The organization is exposed to interest rate risk primarily through its credit facilities.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

4. GRANTS AND OTHER RECEIVABLES

	2017	2016
Government grants	\$ 10,000	\$ 12,300
Other receivables	-	6,524
	\$ 10,000	\$ 18,824

There is no allowance for doubtful accounts in 2017 or 2016. All receivables have either been received subsequent to year end, or arrangements have been made for collection.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated amortization	2017 Net book value	2016 Net book value
Land	\$ 329,583	\$ -	\$ 329,583	\$ 268,583
Buildings	101,390	35,890	65,500	72,778
Farm equipment	26,380	18,540	7,840	9,800
Office equipment	2,187	1,564	623	778
Computers	7,078	3,001	4,077	5,096
	\$ 466,618	\$ 58,995	\$ 407,623	\$ 357,035

6. LONG TERM DEBT

	2017	2016
Private mortgage bearing interest at prime plus 1% per annum, repayable in monthly blended payments of \$2,472, with one monthly payment to be paid by delivery of 12 cords of hardwood. The mortgage matures in April 2018 and is secured by land with a book value of \$204,151.	\$ 14,130	\$ 42,630
Amounts payable within one year	(14,130)	(28,500)
	\$ -	\$ 14,130

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

7. RELATED PARTY TRANSACTIONS

Community Forests Pemba was established to act as an agent for Community Forests International in Pemba, Zanzibar, Tanzania. The organization was incorporated under the Laws of Zanzibar as a Non-Government Organization. The net assets of the Pemba Fund are to be transferred to Community Forests Pemba on an as-needed basis and used for purposes to be agreed upon by Community Forests International and Community Forests Pemba. The organization received consulting revenue of \$41,043 (2016 - \$33,173) for services provided to Community Forests Pemba. A grant of \$13,709 was recorded in the Pemba Fund as reimbursement for travel to Pemba (2016 - \$11,313).

A donation of \$10,000 (2016 - \$36,000) was received from Community Forests Canada (operating as Ecoscape), a private company in which the organization's Chairperson has share ownership. The donation was restricted for the acquisition of land and was recorded as a direct increase in net assets of the General Fund. Community Forests Canada also provided services at a cost of \$3,393 (2016 - \$9,185) which is recorded in contract workers expense.

The organization leases office space from the Chairperson at a cost of \$1,000 per month or \$12,000 annually (2016 - \$12,000). The lease is renewed annually with the most recent one expiring October 31, 2018.

All related party transactions are recorded at fair market value.

8. DEFERRED REVENUE

	<u>2017</u>	<u>2016</u>
Opening balance	\$ 18,494	\$ -
Amounts received	68,333	62,500
Recognized as revenue	<u>(53,183)</u>	<u>(44,006)</u>
	<u>\$ 33,644</u>	<u>\$ 18,494</u>

9. DEFERRED CAPITAL CONTRIBUTIONS

	<u>Opening balance</u>	<u>Amounts received</u>	<u>Recognized as revenue</u>	<u>2017</u>
Tree Nursery (Shed)	\$ 1,407	\$ -	\$ 141	\$ 1,266
Waelghinbran Farm (Building & Equipment)	7,864	-	983	6,881
Nature Cabin (Building)	22,450	-	2,245	20,205
Waelghinbran Farm (Bridge)	-	3,000	-	3,000
	<u>\$ 31,721</u>	<u>\$ 3,000</u>	<u>\$ 3,369</u>	<u>\$ 31,352</u>

Government grants and other contributions applicable to depreciable capital assets (excludes land) are deferred and amortized to income on the same basis as the corresponding assets acquired.

10. CONTRIBUTIONS TO ACQUIRE LAND

Government grants and other contributions applicable to the acquisition of land and other non-depreciable capital assets are recorded as a credit to the General Fund on the Statement of Changes in Net Assets.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2017

11. GRANTS

	<u>2017</u>	<u>2016</u>
Federal grant	\$ 56,618	\$ 47,734
Provincial grant	80,390	28,837
Other grants	<u>15,857</u>	<u>14,277</u>
	<u>\$ 152,865</u>	<u>\$ 90,848</u>

12. DONATIONS

The organization received a donation of investments with an aggregate market value on the date of the donation of \$121,590 (2016 - \$131,892) from a single donor.

13. COMPARATIVE FIGURES

The prior year comparative figures were audited by another firm of chartered professional accountants.

COMMUNITY FORESTS INTERNATIONAL

Pemba Fund

(Schedule 1)

Year Ended October 31, 2017

	2017	2016
REVENUES		
Donations	\$ 75,741	\$ 37,071
Grants	<u>13,709</u>	<u>67,094</u>
	<u>89,450</u>	104,165
EXPENSES		
Conferences	-	1,488
Contributions	147,232	28,347
Travel	<u>9,837</u>	<u>15,551</u>
	<u>157,069</u>	45,386
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	<u>\$ (67,619)</u>	<u>\$ 58,779</u>

COMMUNITY FORESTS INTERNATIONAL

Nature Conservancy Grant (OQO)

(Schedule 2)

Year Ended October 31, 2017

	2017	2016
REVENUES		
Mountain Equipment Cooperative	\$ 35,495	\$ -
Nature Conservancy Canada	21,500	-
	<u>56,995</u>	-
CAPITAL PURCHASES		
Land	51,000	-
	<u>5,995</u>	-
OPERATING EXPENSES		
Bank fees	8	-
Legal fees	1,057	-
Office expenses	31	-
Professional fees	2,473	-
Property taxes	62	-
Repairs and maintenance	40	-
	<u>3,671</u>	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>\$ 2,324</u>	<u>\$ -</u>

The organization is in compliance with the 2:1 match ratio for Stewardship Endowment Funds (Nature Conservancy Canada) vs. Matching Funds (Mountain Equipment Co-operative) that is required to receive the final installment of the Nature Conservancy Grant (OQO).