

COMMUNITY FORESTS INTERNATIONAL
Financial Statements
Year Ended October 31, 2015

COMMUNITY FORESTS INTERNATIONAL

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Year Ended October 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Directors 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, 2015 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.

Basis for Qualified Opinion

In common with many not-for-profit organizations, Community Forests International derives revenue from donations, memberships and fundraising, 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 donations and memberships and fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended October 31, 2015 and 2014, current assets as at October 31, 2015 and 2014, and net assets as at November 1 and October 31 for both 2015 and 2014. Our audit opinion on the financial statements for the year ended October 31, 2014 was modified accordingly because of the possible effects of this limitation in scope.

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Independent Auditor's Report to the Directors of Community Forests International *(continued)*

Qualified Opinion

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, 2015 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.

A handwritten signature in blue ink that reads "McIsaac Darragh". The signature is written in a cursive, flowing style.

Amherst, Nova Scotia
February 8, 2016

CHARTERED ACCOUNTANTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Financial Position

October 31, 2015

	General Fund 2015	Pemba Fund 2015	Total 2015	Total 2014
ASSETS				
CURRENT				
Cash	\$ 63,227	\$ -	\$ 63,227	\$ 13,698
Grants and other receivables (Note 3)	17,122	6,776	23,898	-
HST receivable	3,773	-	3,773	2,621
Prepaid expenses	1,173	-	1,173	1,193
Due between funds	(51,194)	51,194	-	-
	<u>34,101</u>	<u>57,970</u>	<u>92,071</u>	<u>17,512</u>
LAND, BUILDINGS AND EQUIPMENT (Note 4)	<u>299,097</u>	<u>6,370</u>	<u>305,467</u>	<u>291,093</u>
	<u>\$ 333,198</u>	<u>\$ 64,340</u>	<u>\$ 397,538</u>	<u>\$ 308,605</u>
LIABILITIES AND NET ASSETS				
CURRENT				
Accounts payable	\$ 10,518	\$ -	\$ 10,518	\$ 5,418
Government remittances payable	6,316	-	6,316	4,752
Deferred revenue (Note 5)	-	-	-	6,100
Related party loan (Note 6)	-	-	-	10,000
Current portion of long term debt (Note 7)	27,400	-	27,400	26,300
	<u>44,234</u>	<u>-</u>	<u>44,234</u>	<u>52,570</u>
LONG TERM DEBT (Note 7)	42,630	-	42,630	70,020
DEFERRED CAPITAL CONTRIBUTIONS (Note 9)	10,448	-	10,448	11,792
	<u>97,312</u>	<u>-</u>	<u>97,312</u>	<u>134,382</u>
NET ASSETS				
General fund	235,886	-	235,886	142,941
Pemba fund	-	64,340	64,340	31,282
	<u>235,886</u>	<u>64,340</u>	<u>300,226</u>	<u>174,223</u>
	<u>\$ 333,198</u>	<u>\$ 64,340</u>	<u>\$ 397,538</u>	<u>\$ 308,605</u>

LEASE COMMITMENT (Note 6)

ON BEHALF OF THE BOARD

_____ Director

_____ Director

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Revenues and Expenditures

Year Ended October 31, 2015

	General Fund 2015	Pemba Fund 2015	2015	2014
REVENUES				
Donations and memberships (Note 8)	\$ 168,625	\$ 26,997	\$ 195,622	\$ 197,152
Grants (Notes 5, 6, 10)	40,461	33,499	73,960	10,739
Workshop fees	780	-	780	2,510
Fundraising	1,076	-	1,076	1,644
Other revenue	15,494	-	15,494	736
Consulting (Note 6)	30,830	-	30,830	-
	<u>257,266</u>	<u>60,496</u>	<u>317,762</u>	<u>212,781</u>
EXPENSES				
Advertising and promotion	3,992	-	3,992	9,626
Fundraising expense	-	-	-	322
Insurance	1,581	-	1,581	1,660
Interest and bank charges	1,021	-	1,021	805
Interest on long term debt	2,669	-	2,669	4,671
Memberships	1,037	-	1,037	1,269
Office	4,562	-	4,562	5,724
Pemba contributions	-	-	-	10,201
Professional fees	14,143	-	14,143	11,541
Projects and workshops	8,791	11,343	20,134	3,851
Property taxes	1,452	-	1,452	1,823
Rent (Note 6)	12,000	-	12,000	11,200
Repairs and maintenance	3,419	-	3,419	1,834
Salaries and wages	204,428	-	204,428	165,177
Travel	12,586	15,387	27,973	16,646
	<u>271,681</u>	<u>26,730</u>	<u>298,411</u>	<u>246,350</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	<u>(14,415)</u>	<u>33,766</u>	<u>19,351</u>	<u>(33,569)</u>
OTHER INCOME (EXPENSES)				
Amortization of deferred capital donations (Note 9)	1,344	-	1,344	2,117
Carbon offsets	103,755	-	103,755	10,259
Gain (loss) on sale of donated investments	1,080	-	1,080	(2,555)
Amortization	(9,419)	(708)	(10,127)	(10,102)
Loss on disposal of capital asset	-	-	-	(475)
	<u>96,760</u>	<u>(708)</u>	<u>96,052</u>	<u>(756)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>\$ 82,345</u>	<u>\$ 33,058</u>	<u>\$ 115,403</u>	<u>\$ (34,325)</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Changes in Net Assets

Year Ended October 31, 2015

	General Fund	Pemba Fund	2015	2014
NET ASSETS - BEGINNING OF YEAR	\$ 142,941	\$ 31,282	\$ 174,223	\$ 208,548
Excess of revenues over expenses	82,345	33,058	115,403	(34,325)
Contribution to acquire land (Note 6)	10,600	-	10,600	-
NET ASSETS - END OF YEAR	<u>\$ 235,886</u>	<u>\$ 64,340</u>	<u>\$ 300,226</u>	<u>\$ 174,223</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

COMMUNITY FORESTS INTERNATIONAL

Statement of Cash Flows

Year Ended October 31, 2015

	2015	2014
OPERATING ACTIVITIES		
Cash receipts from customers, donors and fundraising	\$ 228,265	\$ 100,470
Cash paid to suppliers and employees	(291,728)	(267,351)
Cash received from government funding	21,824	12,339
	<u>(41,639)</u>	<u>(154,542)</u>
Cash flow used by operating activities		
INVESTING ACTIVITIES		
Purchase of land, buildings and equipment	(24,500)	(16,597)
Contribution to acquire land	10,600	-
Grant for purchase of equipment	7,078	-
Proceeds from sale of donated shares	133,080	142,525
	<u>126,258</u>	<u>125,928</u>
Cash flow from investing activities		
FINANCING ACTIVITIES		
Proceeds from (repayment of) related party short term loan	(10,000)	10,000
Repayment of long term debt	(25,090)	(24,088)
	<u>(35,090)</u>	<u>(14,088)</u>
Cash flow used by financing activities		
INCREASE (DECREASE) IN CASH FLOW	49,529	(42,702)
Cash - beginning of year	<u>13,698</u>	<u>56,400</u>
CASH - END OF YEAR	\$ 63,227	\$ 13,698

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

1. DESCRIPTION OF OPERATIONS

Community Forests International was incorporated under the Canada Corporations Act. The purpose of the organization is to foster environmental stewardship internationally by establishing community forests, promoting sustainable forestry techniques and initiating environmental education. The organization is a registered charity and as such is exempt from income tax under section 149 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 and include the following significant accounting policies:

Revenue recognition and fund accounting

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

The General Fund recognizes as income undesignated donations and fundraising. Costs incurred in the administration of the organization and for projects and workshops are expensed in this Fund. Undesignated funds may be allocated at the discretion of the Board.

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.

Restricted contributions and grants related to general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund. Restricted contributions received for the purchase of assets not subject to amortization are a direct increase to net assets in the year of purchase or the year received if the assets were previously purchased.

Unrestricted contributions and grants 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.

Fundraising revenue is recognized in the period it is earned.

Membership revenue is from the sale of annual memberships and is recognized in the general fund when payment is received.

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.

Workshop fees and tree planting and nursery services revenue are recognized in the General Fund when the service is provided.

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COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

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

Donated goods and services

Donated goods are recorded at the time of donation when the fair market value can be readily determined and the goods would otherwise be purchased for use in the normal course of operations. During the year the total value of donated goods was \$nil (2014 - \$73).

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.

Land, buildings and equipment

Land, buildings and equipment are stated at cost or deemed cost less accumulated amortization. Buildings 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 land, buildings and equipment to eliminate obsolete items.

Land, buildings and equipment acquired during the year but not placed into use are not amortized until placed into use.

Measurement uncertainty

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 include the collectibility of accounts receivable, providing for amortization of buildings and equipment and the amount of carbon offsets retired to earn revenue. Actual results could differ from these estimates.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

3. GRANTS AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
General Fund		
Government grants receivable	\$ 5,534	\$ -
Other receivables	<u>11,588</u>	<u>-</u>
	<u>17,122</u>	<u>-</u>
Pemba Fund		
Other receivables	<u>6,776</u>	<u>-</u>
Grand total	<u>\$ 23,898</u>	<u>\$ -</u>

There is no allowance for doubtful accounts in 2015. All receivables have either been received subsequent to year end, or arrangements have been made for collection.

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	2015 Net book value	2014 Net book value
Land	\$ 224,226	\$ -	\$ 224,226	\$ 213,621
Buildings	84,095	22,447	61,648	60,944
Farm equipment	26,380	14,130	12,250	15,312
Office equipment	9,265	1,922	7,343	1,216
	<u>\$ 343,966</u>	<u>\$ 38,499</u>	<u>\$ 305,467</u>	<u>\$ 291,093</u>

5. DEFERRED REVENUE

Grants and donations restricted for specific purposes are recognized as revenue in the same period the related expenses are recorded. Unspent portions of the funds received are deferred.

	Opening balance	Received	Recognized as revenue	2015
General Fund - Restoration Orchard	\$ 6,100	\$ -	\$ 6,100	\$ -

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

6. 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 Tanzanian Law 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 \$30,830 (2014 - \$nil) for services provided to Community Forests Pemba. A grant of \$33,499 was recorded in the Pemba Fund as reimbursement for travel, equipment and supplies brought to Pemba (2014 - \$nil). Of this amount, \$6,776 was receivable at year end.

In July 2014, the Community Forests International's Executive Director made a non-interest bearing loan of \$10,000 to the organization. This was repaid in January 2015.

A donation of \$10,600 (2014 - \$9,489) was received from Community Forests Canada (operating as Ecoscape), a company in which the organization's Executive Director has share ownership. This donation was restricted for the acquisition of land and was recorded as a direct increase in net assets of the General Fund.

The organization leases office space from the Executive Director at a cost of \$1,000 per month or \$12,000 annually (2014 - \$11,200). The lease on year lease expires January 1, 2016.

All related party transactions are recorded at fair market value.

7. LONG TERM DEBT

	<u>2015</u>	<u>2014</u>
Private mortgage bearing interest at prime plus 1%; repayable in monthly blended payments of \$2,471, 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.	\$ 70,030	\$ 96,320
Amounts payable within one year	<u>(27,400)</u>	(26,300)
	<u>\$ 42,630</u>	<u>\$ 70,020</u>

Principal repayment terms are approximately:

2016	\$ 27,400
2017	28,500
2018	<u>14,130</u>
	<u>\$ 70,030</u>

8. DONATIONS

The organization received donations totaling \$132,000 (2014 - \$145,080) in cash and investments from a single donor.

COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

9. DEFERRED CAPITAL CONTRIBUTIONS

	Opening balance	Contributions received	Recognized as revenue	2015
Shed and tree nursery	\$ 1,737	\$ -	\$ 174	\$ 1,563
Whaelghinbran Farm	10,055	-	1,170	8,885
	<u>\$ 11,792</u>	<u>\$ -</u>	<u>\$ 1,344</u>	<u>\$ 10,448</u>

A grant was received in 2011 to assist with the costs of building a shed and tree nursery. The grant is being deferred and recognized as revenue at the same rate the buildings are amortized.

Restricted donations were received in 2011 and 2012 to assist with the purchase of Whaelghinbran Farm, which took place in 2012. The portion of the donations used for the land purchase were credited directly to net assets. The portion related to the purchase of buildings and equipment is recognized as revenue at the same rate the assets are amortized.

10. GRANTS

	2015	2014
Federal grants	\$ 8,386	\$ 6,606
Provincial grant	18,972	2,133
Other grant	13,103	2,000
	<u>40,461</u>	10,739
General Fund	33,499	-
Pemba - other grants	<u>\$ 73,960</u>	<u>\$ 10,739</u>

11. FINANCIAL INSTRUMENTS

The organization is exposed to various risks through its financial instruments. The following analysis provides information about the organization's risk exposure and concentration as of October 31, 2015.

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 the timing and amount of receipt of funds from donors, funding agencies and other related sources, and payment of long-term debt and accounts payable.

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COMMUNITY FORESTS INTERNATIONAL

Notes to Financial Statements

Year Ended October 31, 2015

11. FINANCIAL INSTRUMENTS (*continued*)

Currency risk

Currency risk is the risk to the organization'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, consulting revenue and accounts receivable in U.S. dollars 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 floating interest rate long term debt.
