

CANADIAN WORKER CO-OPERATIVE FEDERATION
Financial Statements
Year Ended August 31, 2016

CANADIAN WORKER CO-OPERATIVE FEDERATION

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Year Ended August 31, 2016

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Bishop & Company

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INDEPENDENT AUDITORS' REPORT

To the Members of Canadian Worker Co-operative Federation

We have audited the accompanying financial statements of Canadian Worker Co-operative Federation, which comprise the statement of financial position as at August 31, 2016 and the statements of revenues and expenditures, general reserve and cash flow 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.

Auditors' 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 auditors' 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 auditors consider 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.

(continues)

"Helping businesses succeed since 1982"

Gregory K. Miller, CPA, CA

Loretta Kalkman, CPA, CA

Marcel Godbout, CPA, CA

Independent Auditors' Report to the Members of Canadian Worker Co-operative Federation *(continued)*

Basis for Qualified Opinion

The Canadian Worker Co-operative Federation derives income from Worker Co-operatives and related organizations in the form of donations and dues. Due to their nature, donations are not susceptible to complete audit verification and as the nature of the dues collected is non-contracted, dues are also not susceptible to complete audit verification. Accordingly, our verification of revenue from these sources was limited to accounting for the amounts recorded in the records of the Canadian Worker Co-operative Federation. We were not able to determine whether any adjustments might be necessary to donation revenue, dues, net income, assets and equity.

Qualified Opinion

In our opinion, except for the effects of the adjustments which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenue, as described in the preceding paragraph, the financial statements present fairly, in all material respects the financial position of Canadian Worker Co-operative Federation as at August 31, 2016 and the results of its operations and its cash flow for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Bishop & Company

Wolfville, NS
October 24, 2016

CHARTERED PROFESSIONAL ACCOUNTANTS

CANADIAN WORKER CO-OPERATIVE FEDERATION

Statement of Financial Position

August 31, 2016

	Federation Operations 2016	Tenacity Works Fund 2016	Total 2016	Total 2015
ASSETS				
CURRENT				
Cash	\$ 140,872	\$ 412,719	\$ 553,591	\$ 478,084
GIC (Note 3)	-	14,114	14,114	-
Accounts receivable (Note 4)	36,882	1,310	38,192	60,759
Harmonized sales tax recoverable	-	-	-	1,270
Prepaid expenses	3,005	-	3,005	3,500
	180,759	428,143	608,902	543,613
EQUIPMENT (Note 5)	1,376	-	1,376	1,932
LONG TERM INVESTMENTS (Note 6)	1,061	686	1,747	1,719
RESTRICTED CASH / INVESTMENTS (Note 7)	1,074,953	46,129	1,121,082	838,225
INTERFUND BALANCE (Note 8)	5,354	(5,354)	-	-
INVESTMENT IN WORKER CO- OPERATIVES (Note 9)	-	42,744	42,744	78,890
	\$ 1,263,503	\$ 512,348	\$ 1,775,851	\$ 1,464,379

LIABILITIES AND MEMBERS' EQUITY

CURRENT				
Accounts payable (Note 11)	\$ 15,157	\$ 1,500	\$ 16,657	\$ 10,987
Harmonized sales tax payable	5,693	-	5,693	-
Deferred income (Note 12)	2,995	-	2,995	7,777
	23,845	1,500	25,345	18,764
MARK GOLDBLATT FUND (Note 13)	25,000	-	25,000	-
TRUST FUNDS PAYABLE (Note 14)	1,049,929	-	1,049,929	777,982
	1,098,774	1,500	1,100,274	796,746
MEMBERS' EQUITY General reserve (Note 15)	164,729	510,848	675,577	667,633
	\$ 1,263,503	\$ 512,348	\$ 1,775,851	\$ 1,464,379

CONTINGENT LIABILITIES (Note 17)

COMMITMENTS (Note 18)

ON BEHALF OF THE BOARD

_____ Director

_____ Director

CANADIAN WORKER CO-OPERATIVE FEDERATION

Statement of Revenues and Expenditures

Year Ended August 31, 2016

	Federation Operations 2016	Tenacity Works Fund 2016	Total 2016	Total 2015
REVENUE				
Annual general meeting	\$ 29,832	\$ -	\$ 29,832	\$ 33,757
Insurance marketing and finder's fees	1,120	-	1,120	1,365
CoopZone (Note 20)	10,708	-	10,708	9,960
Dues (Note 21)	28,654	-	28,654	28,989
Fee for service	-	-	-	9,092
Interest	3,628	14,242	17,870	19,550
Loyalty payment Co-operators	66,782	-	66,782	54,951
RRSP fees	151,226	-	151,226	119,981
	<u>291,950</u>	<u>14,242</u>	<u>306,192</u>	<u>277,645</u>
EXPENSES				
Amortization	556	-	556	483
Annual general meeting	27,647	-	27,647	29,228
Bad debts	11,356	-	11,356	4,613
Board and committee	3,774	3,000	6,774	5,478
Bookkeeping	12,767	500	13,267	8,000
CoopZone (Note 20)	11,295	-	11,295	9,252
Donations	500	-	500	5,000
Dues and insurance	6,400	1,206	7,606	8,627
Interest and bank charges	2,588	298	2,886	1,679
Member engagement project	440	-	440	3,553
Office and communications	9,173	973	10,146	13,747
Professional fees	12,225	2,000	14,225	8,000
RRSP Program	78,925	-	78,925	58,524
Rental	5,982	-	5,982	4,886
Salaries and wages (Note 22)	73,776	10,500	84,276	87,085
Special projects	4,495	-	4,495	-
TFSA Program	8,211	-	8,211	2,000
Technical assistance grants	2,000	-	2,000	2,260
Travel	8,411	1,000	9,411	8,532
	<u>280,521</u>	<u>19,477</u>	<u>299,998</u>	<u>260,947</u>
INCOME (LOSS) FROM OPERATIONS	11,429	(5,235)	6,194	16,698
Recovery on write-down of investment	-	1,750	1,750	1,667
NET INCOME (LOSS)	<u>\$ 11,429</u>	<u>\$ (3,485)</u>	<u>\$ 7,944</u>	<u>\$ 18,365</u>

See accompanying notes
Subject to audit engagement report dated October 24, 2016

CANADIAN WORKER CO-OPERATIVE FEDERATION**Statement of General Reserve****Year Ended August 31, 2016**

	Federation Operations 2016	Tenacity Works Fund 2016	Total 2016	Total 2015
GENERAL RESERVE - BEGINNING OF YEAR	\$ 153,300	\$ 514,333	\$ 667,633	\$ 649,268
Net income (loss)	11,429	(3,485)	7,944	18,365
GENERAL RESERVE - END OF YEAR	\$ 164,729	\$ 510,848	\$ 675,577	\$ 667,633

CANADIAN WORKER CO-OPERATIVE FEDERATION**Statement of Cash Flow****Year Ended August 31, 2016**

	2016	2015
OPERATING ACTIVITIES		
Cash receipts from operations	\$ 294,750	\$ 218,072
Cash paid to suppliers and employees	(277,284)	(248,839)
Interest	17,870	19,550
Interest paid	(2,885)	(1,681)
Harmonized sales tax	6,962	(6,708)
	<hr/>	<hr/>
Cash flow from (used by) operating activities	39,413	(19,606)
INVESTING ACTIVITIES		
Purchase of equipment	-	(1,414)
Net change in Investment in Worker Co-operatives	36,146	52,716
Purchase of long term investments	(28)	(37)
Increase in Trust Funds payable	271,947	55,151
Increase in the Mark Goldblatt Fund	25,000	-
Repayment of loans and notes receivable	-	1,500
	<hr/>	<hr/>
Cash flow from investing activities	333,065	107,916
INCREASE IN CASH FLOW	372,478	88,310
Cash - beginning of year	1,316,309	1,227,999
	<hr/>	<hr/>
CASH - END OF YEAR	\$ 1,688,787	\$ 1,316,309
CASH CONSISTS OF:		
Cash	\$ 553,591	\$ 478,084
GIC	14,114	-
Restricted cash / investments	1,121,082	838,225
	<hr/>	<hr/>
	\$ 1,688,787	\$ 1,316,309

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

1. NATURE OF OPERATIONS

The Federation, incorporated under the Canada Co-operative Association Act, is a Not-for-Profit co-operative whose objective is to work for the development and expansion of employee owned businesses organized according to co-operative principles.

The Federation is exempted from income tax under Section 149(1)(l) of the Canadian Income Tax Act which deals with Not-for-Profit Organizations.

The Federation Operations manages the operations of the Federation, provides service for funding received in the form of service contracts, and manages the RRSP and TFSA contributions of employees and investors of member co-operatives and other organizations.

The Tenacity Works Fund manages capital held by the Canadian Worker Co-operative Federation to provide funding to member co-operatives as well as capital issued to member co-operatives in the form of term loans.

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 (ASNPO).

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and short term Guaranteed Investment Certificates.

Financial instruments policy

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, investments in equity instruments that are quoted in an active market are reported at fair value, with any unrealized gains and losses reported in income. All other financial instruments are subsequently reported at amortized cost, and tested for impairment when there are indicators of impairment.

Transaction costs on the acquisition, sale, or issue of financial instruments which are subsequently reported at fair value are expensed when incurred. Transaction costs on the acquisition, sale, or issue of financial instruments which are subsequently reported at amortized cost are amortized over the expected life of the instrument.

Financial assets measured at amortized cost include cash, guaranteed investment certificates, accounts receivable, long term investments, restricted cash, and investments in worker co-operatives.

Financial liabilities measured at amortized cost include accounts payable and trust funds payable.

(continues)

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

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

Equipment

Equipment is stated at cost. Amortization is provided annually on the diminishing balance basis at rates calculated to write off the assets over their estimated useful lives as follows:

Equipment	30%
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The Federation regularly reviews its equipment to eliminate obsolete items. Equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Government grants are treated as a reduction of equipment cost.

Revenue recognition

- a) The value of donated materials and services are not recorded in these financial statements.
- b) Funds received under various grant programs are recognized as income in the period in which they are utilized for approved grant purposes. Unused funds are reflected on the balance sheet as deferred income.
- c) The Federation follows the deferral method of accounting for contributions.
- d) Revenue from Federation programs are recognized as services are performed and ultimate collection is reasonably assured.
- e) Investment income is recognized as revenue in the year in which it is earned.
- f) Donations are recognized in the year received.

Allocation of expenses

The Federation allocates certain salaries and wages proportionately on the basis of the time spent to the various projects listed on the Statement of Revenues and Expenditures for which funding has been specifically provided. The allocation of the salaries and wages does not exceed the revenue received and/or receivable for each project. Similarly, salaries and wages are allocated to the Tenacity Works Fund in proportion to the time spent.

The basis of allocation is applied consistently each year.

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.

Most notable, the Tenacity Works Fund extends loans to qualifying co-operative businesses. The Fund's management has estimated the allowance for loan impairment based upon six criteria as follows: 1) whether the Co-op has achieved its revenue and expense projections, 2) if revenue and expense projections are not met, review of a financial plan demonstration potential to repay, 3) level of security vis a vis other creditors, 4) commitment level of members to achieve success, 5) payment history and 6) length of term until full payment is due. Significant changes in these factors could result in a material impairment of the investments in worker co-operatives.

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.

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

3. GUARANTEED INVESTMENT CERTIFICATE (GIC)

The Guaranteed Investment Certificate (GIC) earned interest at 0.90% and was redeemed on September 12, 2016.

4. ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	\$ 43,150	\$ 68,787
Trade accounts receivable from related party	1,290	4,538
Allowance for doubtful accounts	(6,248)	(12,566)
	<u>\$ 38,192</u>	<u>\$ 60,759</u>

Trade accounts receivable from the related party, CoopZone, is subject to normal trade terms. Transaction details are disclosed in *Note 20*.

5. EQUIPMENT

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Equipment	\$ 7,920	\$ 6,544	\$ 1,376	\$ 1,932

6. LONG TERM INVESTMENTS

	2016	2015
Alberta Community and Co-operative Association	\$ 50	\$ 50
British Columbia Co-operative Association	10	10
Co-operators Group	1	1
Co-operative Management Education Co-operative	1,000	1,000
First Calgary Financial	686	658
	<u>\$ 1,747</u>	<u>\$ 1,719</u>

7. RESTRICTED CASH / INVESTMENTS

	2016	2015
Restricted cash	\$ 1,074,953	\$ 777,982
Restricted investments	46,129	60,243
	<u>\$ 1,121,082</u>	<u>\$ 838,225</u>

Restricted cash represents amounts held in trust for RRSP deposits, the Mark Goldblatt Fund, and deposits for the Federation of Worker Co-ops of British Columbia.

Restricted investments is an investment in a GIC which has been provided as security for a loan issued by the Bank of Montreal to Planet Bean Inc. The GIC is held by the Bank of Montreal, it bears interest at 0.90% and matures August 28, 2017.

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

8. INTERFUND BALANCE

Interfund balances are non-interest bearing, unsecured and have no set terms of repayment.

9. INVESTMENT IN WORKER CO-OPERATIVES

	<u>2016</u>	<u>2015</u>
Term loans	\$ 22,573	\$ 50,470
Preferred loans	21,000	31,000
Allowance for loan impairment	(829)	(2,580)
	<u>\$ 42,744</u>	<u>\$ 78,890</u>

Pursuant to the terms of the HRDC Pilot Project, loans are extended to qualifying co-operative businesses. Term loans bear interest at varying rates and are repayable in blended monthly installments over a five year term. Preferred loans bear interest at varying rates which accrue over the five year term of the loan. Accrued interest and principal are due and payable at the end of the term. There is a registered security agreement covering each loan.

10. CREDIT FACILITY

The bank operating loan with Valley Credit Union is limited to \$20,000, bears interest at prime plus 1.75% and is secured by a general security agreement on the funds held in deposit at the Credit Union. At the balance sheet date, there are no advances on the credit facility.

11. ACCOUNTS PAYABLE

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 13,766	\$ 10,779
Employee deductions payable	2,891	208
	<u>\$ 16,657</u>	<u>\$ 10,987</u>

12. DEFERRED INCOME

	<u>2016</u>	<u>2015</u>
Annual conference	\$ 2,895	\$ 6,957
Other	100	820
	<u>\$ 2,995</u>	<u>\$ 7,777</u>

Other deferred income consists of amounts paid by various parties for retainer of services and future membership dues.

13. MARK GOLDBLATT FUND

The Mark Goldblatt Fund is a bequest received during the year which is restricted for use in a cultural project.

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

14. TRUST FUNDS PAYABLE

	2016	2015
RRSP deposits	\$ 1,047,361	\$ 775,414
FWCBC deposits	2,568	2,568
	<u>\$ 1,049,929</u>	<u>\$ 777,982</u>

The FWCBC funds are being held in trust by the Canadian Worker Co-operative Federation until such time as the BC organization resumes operations. The RRSP deposits represent uninvested cash held on behalf of members.

15. GENERAL RESERVE

Pursuant to the Federation's Articles of Association, any surplus of the Federation is to be retained as a reserve and used only for the objects for which the Federation is established. No part of the reserve shall be payable to, or otherwise be available for, the personal benefit of any member of the Federation.

16. SHARE CAPITAL

Pursuant to the Federation's Articles of Association there is no legal share capital. The relationship among the members is that of a membership bond with rights and attendant limitations from time to time embodied in the bylaws of the Federation.

17. CONTINGENT LIABILITIES

The Federation has provided a loan guarantee in the amount of \$46,129 (2015 - \$60,243) on behalf of Planet Bean Inc. This loan guarantee is secured by investments which are disclosed as restricted per *Note 7*. Guarantor fees in the amount of \$2,339 (2015 - \$2,339) were received during the year.

18. COMMITMENTS

Subject to certain conditions, the Federation has made investment pledges from the Tenacity Works Fund totaling \$250,000 to the National Co-op Investment Fund (NCIF) over a three-year period.

The Federation has a lease with respect to its office premises which expires in December 2016. The future minimum lease payments (including HST) as at August 31, 2016 are \$1,898.

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

19. FINANCIAL INSTRUMENTS

The Federation is exposed to various risks through its financial instruments and has a comprehensive risk management framework to monitor, evaluate and manage these risks. It is management's opinion that the organization is not exposed to significant currency risk from its financial instruments. The following analysis provides information about the Federation's risk exposure and concentration as of August 31, 2016.

Credit risk

The Federation is exposed to credit risk in connection with the collection of its accounts receivable. The Federation mitigates this risk by performing credit checks and therefore does not anticipate significant loss for non-collection. An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Federation has a comprehensive plan in place to meet their obligations as they come due - primarily from cash flow from operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk. The Federation is mainly exposed interest rate 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. The Federation is exposed to interest rate risk on its fixed and floating rate interest bearing financial instruments which includes bank indebtedness, trust fund payable, investment in guaranteed investment certificates, and investments in worker co-operatives. Changes in the bank lending rates can cause fluctuations in cash flows and interest expense. The Federation does not use any derivatives to manage this risk.

CANADIAN WORKER CO-OPERATIVE FEDERATION

Notes to Financial Statements

Year Ended August 31, 2016

20. RELATED PARTY TRANSACTIONS

	<u>2016</u>	<u>2015</u>
CoopZone		
<i>CoopZone is related to the Federation by way of common significant influence in the form of common management.</i>		
Service contract revenue	\$ 10,708	\$ 9,960
Expenses related to service contract	11,295	9,252
Donation made to CoopZone	500	4,500
Payments to member Co-operatives for contracts awarded		
Devco co-operative development	\$ 2,250	\$ -
Neechi Commons	1,354	-
Coopérative de recherche et de conseil Orion	-	360

The transactions with CoopZone are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Federation regularly engages in transactions with its members who are considered related parties. Most of these transactions are undertaken in the normal course of operations, are reflected at the exchange amount and are not disclosed separately. Payments to member Co-operatives for contracts awarded are disclosed above. The Board of Directors has procedures in place to ensure that any relationship for contracts awarded to a member is equitable, legal, and financially responsible to both the Federation and the member co-operative.

21. DUES

	<u>2016</u>	<u>2015</u>
Regular	\$ 18,663	\$ 18,482
Associate	8,700	8,900
Regional Federation	1,291	1,607
	<u>\$ 28,654</u>	<u>\$ 28,989</u>

22. ALLOCATION OF SALARIES AND WAGES

As described in *Note 2*, salaries and wages are allocated proportionately on the basis of time spent.

	<u>2016</u>	<u>2015</u>
Total salaries and wages	\$ 149,792	\$ 137,445
Allocation to projects	(65,516)	(50,360)
	<u>\$ 84,276</u>	<u>\$ 87,085</u>

23. COMPARATIVE FIGURES

Certain prior year comparative figures have been reclassified in order to conform with the financial statement presentation adopted for the current year.