

**Peace Country Development
Corporation**

Financial Statements

March 31, 2007

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Auditors' Report

To the Board of Directors of
Peace Country Development Corporation

We have audited the balance sheet of Peace Country Development Corporation as at March 31, 2007 and the statements of income and changes in general and restricted fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Morris Penny LLP

Peace River, Alberta
May 14, 2007

Chartered Accountants

Peace Country Development Corporation Balance Sheet

March 31,

	General Fund	Loan Repayable	Investment Non-Repay	Funds Disabled	2007 Total	2006 Total
Assets						
Current						
Cash in bank	\$ 87,272	\$ 150,541	\$ 107,129	\$ 220,252	\$ 565,194	\$ 637,799
Accounts receivable	27,781	10,426	6,952	-	45,159	29,917
Prepaid expenses	7,468	-	-	-	7,468	6,518
Current portion of loans	-	358,208	129,384	-	487,592	394,876
	122,521	519,175	243,465	220,252	1,105,413	1,069,110
Property and equipment (Note 3)	32,199	-	-	-	32,199	41,814
Investment loans receivable, net of allowance for credit loss (Note 4, 5)	-	1,037,793	466,583	-	1,504,376	1,316,022
Less: current portion	-	358,208	129,384	-	487,592	394,876
	-	679,585	337,199	-	1,016,784	921,146
Total assets	154,720	1,198,760	580,664	220,252	2,154,396	2,032,070
Liabilities and fund balances						
Current						
Accounts payable	\$ 23,326	\$ -	\$ -	\$ -	\$ 23,326	\$ 53,801
Fund Balances						
Invested in property and equipment	32,199	-	-	-	32,199	41,814
Externally restricted (Note 6)	-	1,198,760	580,664	220,252	1,999,676	1,905,980
Unrestricted	99,195	-	-	-	99,195	30,475
	131,394	1,198,760	580,664	220,252	2,131,070	1,978,269
Total liabilities and fund balances	154,720	1,198,760	580,664	220,252	2,154,396	2,032,070

On behalf of the Board _____ Director _____ Director

See accompanying notes to the financial statements.

Peace Country Development Corporation Statement of Income and Changes in General Fund Balance

Year ended March 31,

	2007	2006
Revenue		
WD Contribution	\$ 292,950	\$ 272,500
Bank interest	506	222
Program revenues (Note 8)	199,349	200,050
Special Project RCED	21,425	-
Loan and technical fees	5,500	5,250
Rental income	6,420	6,420
Other revenues	558	1,044
	526,708	485,486
Operating expenses		
<u>Salaries and benefits</u>	270,436	280,315
<u>Administration</u>		
Advertising and promotion	16,227	16,058
Bank charges	1,074	1,002
Board members expenses	10,348	8,156
Books and publications	437	342
Contractor expenses	2,027	51,445
Computers, equipment and improvements	2,094	4,283
Insurance and memberships	5,060	5,335
Janitorial	8,508	8,363
Legal and audit fees	6,250	5,680
Loan expenses	675	1,165
Meeting expenses	3,005	3,932
Non-refundable GST	4,381	6,471
Office rent	30,877	28,476
Office supplies and postage	12,419	12,361
CED expenses	7,133	22,819
Property taxes	5,261	7,067
Repairs and maintenance	351	1,202
Small equipment and furniture	1,175	986
Special Project RCED	21,425	-
Staff development	11,306	9,053
Staff travel	19,535	17,992
Utilities	17,984	15,771
	457,988	508,274
Income (loss) before the following items	68,720	(22,788)
Add back: Computers, equipment and improvements capitalized	2,094	4,283
Proceeds on disposal of equipment	-	300
Less: Amortization	(11,708)	(13,726)
Net income (loss) for the year	59,106	(31,931)
General fund balance, beginning of year	30,475	40,053
Transfer from restricted fund	-	12,910
<u>Transfer from (to) capital fund</u>	9,614	9,443
General fund balance, end of year	\$ 99,195	\$ 30,475

See accompanying notes to the financial statements.

Peace Country Development Corporation Statement of Income and Changes in Restricted Fund Balances

	Loan Investment Funds			Year Ended March 31,	
	Repayable	Non-Repay	Disabled	2007 Total	2006 Total
Revenue					
Interest and fees on investments and bank account	\$ 11,515	\$ 3,014	\$ 7,708	\$ 22,237	\$ 12,078
Investment fees	143	-	-	143	-
Interest on loans	79,465	47,067	-	126,532	129,478
	<u>91,123</u>	<u>50,081</u>	<u>7,708</u>	<u>148,912</u>	<u>141,556</u>
Expenses					
Bank and investment charges	81	-	-	81	2,638
Bad debts	13,148	41,987	-	55,135	18,977
GST expense	-	-	-	-	75
	<u>13,229</u>	<u>41,987</u>	<u>-</u>	<u>55,216</u>	<u>21,690</u>
Net income for the year	77,894	8,094	7,708	93,696	119,866
Transfer to general fund	-	-	-	-	(12,910)
Fund balance, beginning of year (Note 6)	283,366	222,570	12,544	518,480	411,524
Fund balance, end of year (Note 6)	361,260	230,664	20,252	612,176	518,480

See accompanying notes to the financial statements.

Peace Country Development Corporation
Statement of Cash Flow

Year Ended March 31,

	General	Loan Investment Funds			2007	2006
	Fund	Repayable	Non-Repay	Disabled	Total	Total
Sources of Cash						
WD Contribution	292,950	-	-	-	292,950	272,500
Interest received	506	85,735	48,658	7,708	142,607	134,935
Other revenues	224,678	143	-	-	224,821	212,990
Proceeds on disposal of equipment	-	-	-	-	-	300
Transfer in	-	-	-	-	-	12,910
Investment loan repayments	-	383,066	158,045	-	541,111	422,017
	518,134	468,944	206,703	7,708	1,201,489	1,055,652
Uses of Cash						
Salaries & benefits	270,436	-	-	-	270,436	280,315
Materials & services	215,809	-	-	-	215,809	199,534
Interest paid	1,074	81	-	-	1,155	3,640
Purchase of property and equipment	2,094	-	-	-	2,094	4,283
Transfer out	-	-	-	-	-	12,910
Investment loan advances	-	615,000	169,600	-	784,600	682,000
	489,413	615,081	169,600	-	1,274,094	1,182,682
Net (decrease) increase in cash	28,721	(146,137)	37,103	7,708	(72,605)	(127,030)
Cash, beginning of year	58,551	296,678	70,026	212,544	637,799	764,829
Cash, end of year	87,272	150,541	107,129	220,252	565,194	637,799

See accompanying notes to the financial statements.

Peace Country Development Corporation

Notes to the Financial Statements

March 31, 2007

1. Purpose of the organization

Peace Country Development Corporation is a community-based organization that provides loans and financial services to small businesses that are otherwise unable to obtain financing. The Corporation is incorporated under the Alberta Companies Act as a non-profit organization. It is exempt from income taxes under the Income tax Act as a non-profit organization.

2. Significant accounting policies

Revenue Recognition – Restricted Fund Method

Peace Country Development Corporation follows the restricted method of accounting for contributions.

The General Fund accounts for the organization's operating costs and general revenues. This fund reports unrestricted resources and restricted operating grants.

The Investment Fund reports restricted resources that are to be used for assistance to small businesses and entrepreneurs in the form of loans, loan guarantees or equity participation. Loans from Investment Fund for the Disabled are limited to businesses owned and operated by disabled entrepreneurs. The organization is restricted in the types of loans that can be made according to its agreement with the federal government.

Property and equipment

Property and equipment acquisitions over \$1,000 are recorded at cost and are expensed in the General Fund and then added back as a contribution from the General Fund in the Capital Fund.

Property and equipment are being amortized on a straight-line basis over their estimated useful lives as follows;

Computer equipment	4 years
Equipment between \$1,000 and \$5,000	5 years
Equipment over \$5,000	10 years
Leasehold improvements	10 years

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.

Measurement Uncertainty

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 revenues and expenses during the reporting period.

Peace Country Development Corporation Notes to the Financial Statements

March 31, 2007

3. Property and equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2007 Net Book Value</u>	<u>2006 Net Book Value</u>
Computer equipment	\$ 46,310	\$ 43,207	\$ 3,103	\$ 2,300
Equipment \$1,000 - \$5,000	27,582	24,429	3,153	5,219
Equipment over \$5,000	28,653	23,991	4,662	7,528
Leasehold improvements	54,865	33,584	21,281	26,767
	<u>\$ 157,410</u>	<u>\$ 125,211</u>	<u>\$ 32,199</u>	<u>\$ 41,814</u>

4. Allowance for Credit Loss

An allowance for losses on investment loans is made based on expected loan default rates, potential loss ratios and review of loan portfolios, as determined by management, as follows:

	<u>2006 Ending Balance</u>	<u>Written Off</u>	<u>Collected</u>	<u>Provision for Credit Losses</u>	<u>2007 Ending Balance</u>
Loan Investment Fund - Repayable	\$ 106,603	(44,796)	\$ -	\$ 11,515	\$ 73,322
- Non-Repayable	26,159	-	-	39,407	65,566
	<u>\$ 132,762</u>	<u>\$ (44,796)</u>	<u>\$ -</u>	<u>\$ 50,922</u>	<u>\$ 138,888</u>

Actual write-offs, net of recoveries, will be deducted from the allowance for credit losses. The provision for credit losses in the statement of income and changes in fund balances is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

5. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 7.5% to 10% with monthly principal and interest repayments amortized for terms between 14 and 60 months. Security is taken on these loans as appropriate to the situation, and includes personal guarantees, general security agreements covering business assets and mortgages on land and building. This security is usually subordinated to those of a primary lender.

	<u>Repayable</u>	<u>Non-Repay</u>	<u>Disability</u>	<u>2007 Total</u>	<u>2006 Total</u>
Investment loans receivable	\$ 1,111,115	\$ 532,149	\$ -	\$ 1,643,264	\$ 1,448,784
Less: Allowance for credit loss	73,322	65,566	-	138,888	132,762
	<u>\$ 1,037,793</u>	<u>\$ 466,583</u>	<u>\$ -</u>	<u>\$ 1,504,376</u>	<u>\$ 1,316,022</u>

Peace Country Development Corporation Notes to the Financial Statements

March 31, 2007

6. Externally Restricted Fund Balance

Major categories of externally imposed restrictions on fund balances are as follows:

	<u>2007</u>	<u>2006</u>
<u>Loan Investment Funds</u>		
Loan Investment Funds restricted to loans and Equity investments to entrepreneurs		
- Repayable – contributions	837,500	837,500
- Repayable – earned	<u>361,260</u>	<u>283,366</u>
	1,198,760	1,120,866
<hr/>		
- Non-Repayable – contributions	350,000	350,000
- Non-Repayable – earned	<u>230,664</u>	<u>222,570</u>
	580,664	572,570
<hr/>		
- Disabled – contributions	200,000	200,000
- Disabled – earned	<u>20,252</u>	<u>12,544</u>
	220,252	212,544
<hr/>		
	1,999,676	1,905,980

Under the terms and conditions of the contribution agreement between the Corporation and the Department of Western Economic Diversification, the Conditionally Repayable Loan Funds are repayable if any of the following conditions occur:

- i. The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this Agreement; or
- ii. Based on reviews and evaluations of the operations and the Conditionally Repayable Investment Fund of the Corporation, the Conditionally Repayable Investment Fund is not providing a satisfactory level of benefits in terms of employment creation, the development of Community-owned or controlled businesses, and strengthening of the western Canadian economy; or
- iii. In the opinion of the Minister, the Conditionally Repayable Investment Fund is no longer necessary or relevant to the development of the western Canadian economy; or
- iv. The Agreement is Terminated as described in Section 16; or
- v. An event of default occurs, as described in Section 17 of the Agreement; or
- vi. The Minister does not approve terms and conditions to extend the project beyond March 31, 2007.

Peace Country Development Corporation Notes to the Financial Statements

March 31, 2007

7. Commitments

Rental of office premises is covered by a three-year lease that expires in October 2008. Minimum annual lease payments are \$30,878 under this agreement. There is a 5 month buy-out clause in the agreement.

As of March 31, 2007, the corporation had approved and committed to disburse funds for five new loans in the amount of \$251,000. Subsequent to year-end \$165,000 of these loans had been disbursed.

8. Program revenues

	<u>2007</u>	<u>2006</u>
Self Employment Program (Alberta HR&E)	\$ 27,189	\$ 34,000
Youth Connections Program (Alberta HR&E)	164,910	161,050
PREDA	4,230	4,200
Special Projects	3,020	800
	<hr/> \$ 199,349	<hr/> \$ 200,050

9. Financial Instruments

The corporation's financial assets and liabilities at March 31, 2007 include all current assets, investment loans receivable, accrued liabilities and long-term liabilities. Due to the short-term nature of these items, carrying amounts are considered to approximate fair value.

10. Subsequent Events

Effective April 1, 2007, the Corporation legally had its name changed to Community Futures Peace Country.

For the 2008 fiscal year, the corporation lost the contract for providing the Youth Connections Program through Alberta Human Resources and Employment. This will have a significant impact on the General Fund Operations which will experience significant a loss to its revenue sources as well a reduction to the corresponding expenses.