

**Peace Country Development  
Corporation  
Financial Statements**  
March 31, 2006

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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, 2006 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, 2006 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

*Meyers Norris Penny LLP*

Peace River, Alberta  
June 12, 2006

Chartered Accountants

## Peace Country Development Corporation Balance Sheet

March 31,

	General Fund	Loan Repayable	Investment Funds Non-Repay	Disabled	2006 Total	2005 Total
<b>Assets</b>						
<b>Current</b>						
Cash in bank	\$ 58,551	\$ 296,678	\$ 70,026	\$ 212,544	\$ 637,799	\$ 764,829
Accounts receivable	19,207	5,181	5,529	-	29,917	23,300
Prepaid expenses	6,518	-	-	-	6,518	7,470
Current portion of loans	-	235,135	159,741	-	394,876	326,879
	84,276	536,994	235,296	212,544	1,069,110	1,122,478
Property and equipment (Note 3)	41,814	-	-	-	41,814	51,256
Investment loans receivable, net of allowance for credit loss (Note 4, 5)	-	819,007	497,015	-	1,316,022	1,104,641
Less: current portion	-	235,135	159,741	-	394,876	326,879
	-	583,872	337,274	-	921,146	777,762
<b>Total assets</b>	126,090	1,120,866	572,570	212,544	2,032,070	1,951,496
<b>Liabilities and fund balances</b>						
<b>Current</b>						
Accounts payable	\$ 53,801	\$ -	\$ -	\$ -	\$ 53,801	\$ 61,163
<b>Fund Balances</b>						
Invested in property and equipment	41,814	-	-	-	41,814	51,256
Externally restricted (Note 6)	-	1,120,866	572,570	212,544	1,905,980	1,799,024
Unrestricted	30,475	-	-	-	30,475	40,053
	72,289	1,120,866	572,570	212,544	1,978,269	1,890,333
<b>Total liabilities and fund balances</b>	126,090	1,120,866	572,570	212,544	2,032,070	1,951,496

On behalf of the Board \_\_\_\_\_ Director \_\_\_\_\_ Director

See accompanying notes to the financial statements.

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

Year ended March 31,

	2006	2005
<b>Revenue</b>		
WD Contribution	\$ 272,500	\$ 261,500
Bank interest	222	196
Contracting fees	-	2,750
Program revenues (Note 8)	200,050	202,768
Loan and technical fees	5,250	5,080
Rental income	6,420	2,889
Other revenues	1,044	3,004
	<b>485,486</b>	<b>478,187</b>
<b>Operating expenses</b>		
<u>Salaries and benefits</u>	<b>280,315</b>	293,586
<u>Professional expenses</u>		
Legal and audit fees	5,680	9,283
<u>Administration</u>		
Advertising and promotion	16,058	18,773
Bank charges	1,002	1,276
Board members expenses	8,156	19,059
Books and publications	342	1,044
Contractor expenses	51,445	26,022
Computers, equipment and improvements	4,283	2,996
Insurance and memberships	5,335	4,396
Janitorial	8,363	9,285
Loan expenses	1,165	422
Meeting expenses	3,932	3,650
Non-refundable GST	6,471	5,871
Office rent	28,476	26,760
Office supplies and postage	12,361	10,578
CED expenses	22,819	15,848
Property taxes	7,067	5,469
Repairs and maintenance	1,202	-
Small equipment and furniture	986	601
Staff development	9,053	5,588
Staff travel	17,992	22,852
Utilities	15,771	16,366
	<b>508,274</b>	<b>499,725</b>
Loss before the following items	<b>(22,788)</b>	(21,538)
Add back: Computers, equipment and improvements capitalized	4,283	2,996
Proceeds on disposal of equipment	300	-
<u>Less: Amortization</u>	<b>(13,726)</b>	(13,476)
Net loss for the year	<b>(31,931)</b>	(32,018)
General fund balance, beginning of year	40,053	31,593
Transfer from restricted fund	12,910	30,000
<u>Transfer from (to) capital fund</u>	<b>9,443</b>	10,478
<b>General fund balance, end of year</b>	<b>\$ 30,475</b>	<b>\$ 40,053</b>

See accompanying notes to the financial statements.

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

Year Ended March 31,

	<u>Loan Investment Funds</u>			<b>2006</b>	2005
	Repayable	Non-Repay	Disabled	<b>Total</b>	Total
<b>Revenue</b>					
Interest and fees on investments and bank account	\$ 5,980	\$ 1,249	\$ 4,849	<b>\$ 12,078</b>	\$ 15,044
Investment fees	-	-	-	-	2,525
Interest on loans	82,095	47,383	-	<b>129,478</b>	82,049
	<b>88,075</b>	<b>48,632</b>	<b>4,849</b>	<b>141,556</b>	<b>99,618</b>
<b>Expenses</b>					
Bank and investment charges	1,041	1,597	-	<b>2,638</b>	-
Bad debts	16,160	2,817	-	<b>18,977</b>	83,488
GST expense	75	-	-	<b>75</b>	-
	<b>17,276</b>	<b>4,414</b>	<b>-</b>	<b>21,690</b>	<b>83,488</b>
Net income for the year	70,799	44,218	4,849	<b>119,866</b>	16,130
Transfer to general fund	-	(12,910)	-	<b>(12,910)</b>	(30,000)
Fund balance, beginning of year (Note 6)	212,567	191,262	7,695	<b>411,524</b>	425,394
Fund balance, end of year (Note 6)	283,366	222,570	12,544	<b>518,480</b>	411,524

See accompanying notes to the financial statements.

## Peace Country Development Corporation Statement of Cash Flow

Year Ended March 31,

	General	Loan Investment Funds			2006	2005
	Fund	Repayable	Non-Repay	Disabled	Total	Total
<b>Sources of Cash</b>						
WD Contribution	272,500	-	-	-	<b>272,500</b>	261,500
Investment income	-	79,224	43,411	-	<b>122,635</b>	97,093
Other revenues	213,212	5,980	1,249	4,849	<b>225,290</b>	228,087
Proceeds on disposal of equipment	300	-	-	-	<b>300</b>	-
Transfer in	12,910	-	-	-	<b>12,910</b>	30,395
Investment loan repayments	-	323,327	98,690	-	<b>422,017</b>	452,982
	<b>498,922</b>	<b>408,531</b>	<b>143,350</b>	<b>4,849</b>	<b>1,055,652</b>	<b>1,070,057</b>
<b>Uses of Cash</b>						
Salaries & benefits	280,315	-	-	-	<b>280,315</b>	293,586
Materials & services	200,461	1,116	1,597	-	<b>203,174</b>	251,353
Purchase of property and equipment	4,283	-	-	-	<b>4,283</b>	2,996
Transfer out	-	-	12,910	-	<b>12,910</b>	30,395
Investment loan advances	-	532,500	149,500	-	<b>682,000</b>	533,000
	<b>485,059</b>	<b>533,616</b>	<b>164,007</b>	<b>-</b>	<b>1,182,682</b>	<b>1,111,330</b>
Net (decrease) increase in cash	13,863	(125,085)	(20,657)	4,849	<b>(127,030)</b>	(41,273)
Cash, beginning of year	44,688	421,763	90,683	207,695	<b>764,829</b>	806,102
Cash, end of year	58,551	296,678	70,026	212,544	<b>637,799</b>	764,829

See accompanying notes to the financial statements.

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# Peace Country Development Corporation

## Notes to the Financial Statements

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March 31, 2006

### 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

#### Fund accounting

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, 2006

### 3. Property and equipment

		<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2006 Net Book Value</u>	<u>2005 Net Book Value</u>
Computer equipment	\$	44,216	\$ 41,916	\$ 2,300	\$ 2,541
Equipment \$1,000 - \$5,000		29,877	24,658	5,219	6,069
Equipment over \$5,000		28,653	21,125	7,528	10,392
<u>Leasehold improvements</u>		<u>54,865</u>	<u>28,098</u>	<u>26,767</u>	<u>32,254</u>
	\$	157,611	\$ 115,797	\$ 41,814	\$ 51,256

### 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>2005 Ending Balance</u>	<u>Written Off</u>	<u>Collected</u>	<u>Provision for Credit Losses</u>	<u>2006 Ending Balance</u>
Loan Investment Fund - Repayable	\$ 94,178	-	-	\$ 12,425	\$ 106,603
- Non-Repayable	40,613	(16,980)	-	2,526	26,159
	\$ 134,791	\$ (16,980)	\$ -	\$ 14,951	\$ 132,762

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 6.25% to 11% 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>2006 Total</u>	<u>2005 Total</u>
Investment loans receivable	\$ 925,610	\$ 523,174	-	\$ 1,448,784	\$ 1,239,432
<u>Less: Allowance for credit loss</u>	<u>106,603</u>	<u>26,159</u>	<u>-</u>	<u>132,762</u>	<u>134,791</u>
	\$ 819,007	\$ 497,015	-	\$ 1,316,022	\$ 1,104,641

# Peace Country Development Corporation

## Notes to the Financial Statements

March 31, 2006

### 6. Externally Restricted Fund Balance

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

	<u>2006</u>	<u>2005</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>283,366</u>	<u>212,567</u>
	<b>1,120,866</b>	1,050,067
<hr/>		
- Non-Repayable – contributions	350,000	350,000
- Non-Repayable – earned	<u>222,570</u>	<u>191,262</u>
	<b>572,570</b>	541,262
<hr/>		
- Disabled – contributions	200,000	200,000
- Disabled – earned	<u>12,544</u>	<u>7,695</u>
	<b>212,544</b>	207,695
<hr/>		
	<b>1,905,980</b>	1,799,024

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, 2006.

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# Peace Country Development Corporation

## Notes to the Financial Statements

March 31, 2006

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### 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, 2006, the corporation had approved and committed to disburse funds for two new loans in the amount of \$18,000 and \$45,000 respectively.

8. Program revenues	<u>2006</u>	<u>2005</u>
Self Employment Program (Alberta HR&E)	\$ 34,000	\$ 32,900
Youth Connections Program (Alberta HR&E)	161,050	163,600
PREDA	4,200	5,777
Business Link	-	491
Other	800	-
	<hr/>	<hr/>
	\$ 200,050	\$ 202,768

### 9. Financial Instruments

The corporation's financial assets and liabilities at March 31, 2006 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.