

**COMMUNITY FUTURES DEVELOPMENT
CORPORATION OF STUART NECHAKO**

FINANCIAL STATEMENTS

MARCH 31, 2012

Auditor's Reports

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Notes to the Financial Statements

KENNETH B. SIMON CORP.
CHARTERED ACCOUNTANTS

P.O. BOX 410, 2375 BURRARD AVE., VANDERHOOF, B.C., CANADA V0J 3A0
PHONE: (250) 567-3155 FAX: (250) 567-3872

AUDITOR'S REPORT

To the Directors of Community Futures Development Corporation of Stuart Nechako:

We have audited the statement of financial position of Community Futures Development Corporation of Stuart Nechako as at March 31, 2012 and the statements of operations, changes in net assets, changes in investment in capital assets 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 Community Futures Development Corporation of Stuart Nechako as at March 31, 2012 and the results of its operations and changes in fund balances, and changes in cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vanderhoof, British Columbia

May 29, 2012


CHARTERED ACCOUNTANTS

KENNETH B. SIMON CORP.

CHARTERED ACCOUNTANTS

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PHONE: (250) 567-3155 FAX: (250) 567-3872

AUDITOR'S REPORT ON COMPLIANCE WITH AGREEMENT

To Western Economic Diversification

We have audited the Community Futures Development Corporation of Stuart Nechako's compliance as at March 31, 2012 with the criteria established in the Contribution Agreement between Western Economic Diversification and the corporation dated April 24, 2006 with the effective date April 1, 2006 and the interpretation of the agreement as set out in Note 1 to the financial statements. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Board of Directors of the corporation. Our responsibility is to express an opinion on this compliance 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 corporation complied with the criteria established by the provisions of the agreement referred to above. Such an audit includes examining, on a test basis, evidence supporting compliance, evaluation the overall compliance with the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, as at March 31, 2012, the Community Futures Development Corporation of Stuart Nechako is in compliance, in all material respects, with the criteria established by the Contribution Agreement.

Vanderhoof, British Columbia

May 29, 2012


CHARTERED ACCOUNTANTS

STATEMENT 1

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2012

					<u>2012</u>		<u>2011</u>	
	Disabled Entrepreneur Investment Program	Business Loans	Community Business Loans Program	Unrestricted Funds	General Funds	Total	Total	
REVENUE								
Western Economic Diversification - core	\$ -	\$ -	\$ -	\$ -	\$ 316,028	\$ 316,028	\$ 316,028	
Fees for service	-	-	-	-	10,765	10,765	67,066	
Interest	-	-	-	-	202	202	287	
Interest on loans	4,838	43,026	29,126	3,411	-	80,401	95,085	
Interest from investments	2,032	5,757	9,651	3,657	-	21,097	14,262	
Loan fees and commissions	25	100	-	2,015	-	2,140	2,114	
	6,895	48,883	38,777	9,083	326,995	430,633	494,842	
	-	19,389	(19,389)	-	-	-	-	
Transfer of interest income	-	-	-	-	-	-	-	
	6,895	68,272	19,388	9,083	326,995	430,633	494,842	
EXPENSES								
Wages and employee benefits	-	-	-	-	270,008	270,008	294,588	
Insurance, occupancy and maintenance	-	-	-	-	31,561	31,561	31,584	
Telephone, fax and mail	-	-	-	-	11,398	11,398	12,185	
Professional services	-	-	-	-	8,986	8,986	10,002	
Travel and accommodation	-	-	-	-	7,936	7,936	10,403	
Computer supplies and maintenance	-	-	-	-	6,260	6,260	1,892	
Office expense and supplies	-	-	-	-	4,931	4,931	7,123	
Capital purchases and lease	-	-	-	-	3,334	3,334	2,809	
Advertising and promotion	-	-	-	108	2,865	2,865	2,006	
Fees, dues and licenses	-	-	-	-	2,839	2,947	2,544	
Training and development	-	-	-	-	1,628	1,628	2,833	
Printing and reference materials	-	-	-	-	315	315	243	
Write-down of fees for service to net realizable value	-	-	-	-	-	-	60,000	
Charge for loan and investment impairment	-	13,225	35,850	-	-	49,075	136,907	
Interest paid to Growthstart Fund	-	-	-	-	-	-	1,099	
Business loans share of charge for loan impairment	-	17,925	(17,925)	-	-	-	-	
	-	31,150	17,925	108	352,061	401,244	576,218	
	-	-	-	-	-	-	-	
	6,895	37,122	1,463	8,975	(25,066)	29,389	(81,376)	
ACCESS REVENUE (EXPENSES) (Statement 2)								

STATEMENT 2

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2012

	2012					2011	
	Disabled Entrepreneur Investment Program	Business Loans	Community Business Loans Program	Unrestricted Funds	General Funds	Total	Total
Balance, opening	\$ (36,557)	\$ 488,782	\$ 369,936	\$ 173,062	\$ -	\$ 995,223	\$ 1,076,599
Revenue	6,895	68,272	19,388	9,083	326,995	430,633	494,842
Expenses	-	31,150	17,925	108	352,061	401,244	576,218
Excess revenue (expenses) (Statement 1)	6,895	37,122	1,463	8,975	(25,066)	29,389	(81,376)
Fund balance transfers	-	-	(1,463)	(23,603)	25,066	-	-
Balance, closing (Statement 4)	\$ (29,662)	\$ 525,904	\$ 369,936	\$ 158,434	\$ -	\$ 1,024,612	\$ 995,223

STATEMENT 3

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

CHANGES IN INVESTMENT IN CAPITAL ASSETS

FOR THE YEAR ENDED MARCH 31, 2012

	<u>2012</u>	<u>2011</u>
BALANCE, OPENING	\$ 12,606	\$ 17,375
Depreciation expense	<u>(3,427)</u>	<u>(4,769)</u>
BALANCE, CLOSING (Statement 4)	\$ <u>9,179</u>	\$ <u>12,606</u>

STATEMENT 4

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO
FINANCIAL POSITION
AS AT MARCH 31, 2012

	Disabled Entrepreneur Investment Program	Business Loans	Community Business Loans Program	Unrestricted Funds	General Funds	2012 Total	2011 Total
ASSETS							
CURRENT							
Cash (cheques issued in excess of cash)	\$ 101,643	\$ 401,947	\$ 606,652	\$ 59,537	\$ (40,970)	\$ 1,128,809	\$ 744,163
Accounts receivable	-	-	-	-	6,936	6,936	881
GST/HST refundable	-	-	-	-	6,562	6,562	2,994
Interfund receivable	-	651,594	-	86,669	25,000	763,263	819,132
Prepaid expenses	-	-	-	-	3,481	3,481	5,353
	101,643	1,053,541	606,652	146,206	1,009	1,909,051	1,572,523
LOANS RECEIVABLE, net of allowance for impaired loans (Notes 3 and 4)	70,305	772,363	524,937	12,228	-	1,379,833	1,751,442
CAPITAL (Notes 2 and 6)	-	-	-	-	9,179	9,179	12,606
	<u>\$ 171,948</u>	<u>\$ 1,825,904</u>	<u>\$ 1,131,589</u>	<u>\$ 158,434</u>	<u>\$ 10,188</u>	<u>\$ 3,298,063</u>	<u>\$ 3,336,571</u>
LIABILITIES							
CURRENT							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,009	\$ 1,009	\$ 3,263
Government remittances payable	-	-	-	-	-	-	6,347
Interfund payable	1,610	-	761,653	-	-	763,263	819,132
	1,610	-	761,653	-	1,009	764,272	828,742
ADDITIONALLY REPAYABLE INVESTMENT FUND CONTRIBUTIONS (Note 7)	200,000	1,300,000	-	-	-	1,500,000	1,500,000
NET ASSETS							
RESTRICTED FUNDS (Statement 2) (Notes 7 and 8)	(29,662)	525,904	369,936	-	-	866,178	822,161
RESTRICTED FUNDS (Statement 2)	-	-	-	158,434	-	158,434	173,062
VESTMENT IN CAPITAL ASSETS (Statement 3)	-	-	-	-	9,179	9,179	12,606
NET ASSETS (Statement 2)	<u>\$ 171,948</u>	<u>\$ 1,825,904</u>	<u>\$ 1,131,589</u>	<u>\$ 158,434</u>	<u>\$ 10,188</u>	<u>\$ 3,298,063</u>	<u>\$ 3,336,571</u>

APPROVED BY THE DIRECTORS:

Director

Director

STATEMENT 5

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2012

	Disabled Entrepreneur Investment Program	Business Loans	Community Business Loans Program	Unrestricted Funds	General Funds	2012	2011
	\$	\$	\$	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES							
Cash received from contribution agreements	-	-	-	-	316,028	316,028	316,028
Cash received from investments	-	-	-	-	202	202	287
Cash received from other sources	-	-	-	-	4,710	4,710	9,220
Cash paid for salaries and benefits	-	-	-	-	(270,008)	(270,008)	(291,888)
Cash paid for goods and services	-	-	-	(108)	(92,350)	(92,458)	(83,744)
	-	-	-	(108)	(41,418)	(41,526)	(50,097)
CASH FLOWS FROM FINANCING ACTIVITIES							
Loans advanced	-	(156,777)	(39,315)	-	-	(196,092)	(148,119)
Repayment of loans	7,696	194,022	309,735	7,173	-	518,626	370,801
Interest and fees received on loans and investments	6,895	48,883	38,777	9,083	-	103,638	110,362
GrowthStart funds repaid	-	-	-	-	-	-	(150,000)
	14,591	86,128	309,197	16,256	-	426,172	183,044
CASH FLOWS FROM INVESTING ACTIVITIES							
Decrease in investments	-	-	-	-	-	-	60,096
	-	-	-	-	-	-	60,096
INCREASE (DECREASE) IN CASH DURING THE YEAR	14,591	86,128	309,197	16,148	(41,418)	384,646	193,043
CASH, OPENING	87,051	316,780	348,191	51,693	(59,552)	744,163	551,120
INTERFUND TRANSFERS	1	(961)	(50,736)	(8,304)	60,000	-	-
CASH, CLOSING	<u>\$ 101,643</u>	<u>\$ 401,947</u>	<u>\$ 606,652</u>	<u>\$ 59,537</u>	<u>\$ (40,970)</u>	<u>\$ 1,128,809</u>	<u>\$ 744,163</u>

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2012

PURPOSE OF THE ORGANIZATION

Community Futures Development Corporation of Stuart Nechako is a non-profit organization incorporated under the Canada Corporations Act. The corporation is charged with the development and implementation of a strategic plan for the community economic development of the Stuart Nechako area in the form of small business advisory and counselling services and loans to qualified applicants. Funding for the corporation is provided through contribution agreements with Western Economic Diversification. The corporation is exempt from income taxes under the Income Tax Act as a non-profit organization.

SIGNIFICANT ACCOUNTING POLICIES

The Corporation follows the restricted method of accounting for contributions.

A. Revenue Recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

B. Capital Asset Valuation and Depreciation

Capital assets are treated as expenditures in the year of acquisition. These assets are carried at cost and accumulated in the statement of financial position. Depreciation is calculated using the declining balance method, except for leasehold improvements which are amortized on a straight line basis, at the rates set out in Note 6.

C. Impairment of Long-Lived Assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

D. Use of Estimates

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, the 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. Actual results could differ from those estimates.

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2012

INVESTMENT LOANS RECEIVABLE

Outstanding loans to entrepreneurs are interest bearing at variable rates from prime plus 2% with monthly blended principal and interest repayments for terms up to 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, building and equipment.

ALLOWANCE FOR IMPAIRED LOANS

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

	<u>2012</u>	<u>2011</u>
Loan investment fund - business loans	\$ 15,144	\$ 8,061
Loan investment fund - community business loans	<u>35,849</u>	<u>-</u>
	<u>\$ 50,993</u>	<u>\$ 8,061</u>

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

The carrying amounts of the impaired loans are as follows:

	<u>Loan amount</u>	<u>Allowance</u>	<u>Carrying amount</u>
Sunrise Bioenergy Limited	\$ 255,483	\$ 27,993	\$ 227,490
Nulki Hills Contracting Ltd.	<u>143,637</u>	<u>23,000</u>	<u>120,637</u>
	<u>\$ 399,120</u>	<u>\$ 50,993</u>	<u>\$ 348,127</u>

INVESTMENTS

Investments are recorded at cost and consist of the following:

	<u>2012</u>	<u>2011</u>
Investment in Sunrise Bioenergy Limited		
10 Class A shares, stated at par value, representing 12.5% interest	\$ 10	\$ 10
10 Class B shares, stated at par value, representing 12.5% interest	10	10
Shareholder advance	<u>-</u>	<u>99,980</u>
	20	100,000
Less writedown to net realizable value	<u>(20)</u>	<u>(100,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2012

INVESTMENTS (cont.)

Sunrise Bioenergy Limited has filed for bankruptcy and has made a proposal to its creditors. The Corporation expects to realize on its loans outstanding to Sunrise Bioenergy Limited. The Corporation does not expect to recover the full amount of common shares and shareholder advance.

CAPITAL ASSETS

		2012			2011
	Rate	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Office furniture and equipment	20%	\$ 51,042	\$ 48,208	\$ 2,834	\$ 3,542
Computer equipment	30%	68,651	64,364	4,287	6,124
Website	30%	6,000	3,942	2,058	2,940
Leasehold improvements	1/7 S.L.	<u>9,592</u>	<u>9,592</u>	<u>-</u>	<u>-</u>
		<u>\$ 135,285</u>	<u>\$ 126,106</u>	<u>\$ 9,179</u>	<u>\$ 12,606</u>

CONDITIONALLY REPAYABLE INVESTMENT FUND CONTRIBUTIONS

In 2006 the Department of Western Economic Diversification amended the terms and conditions of its contribution agreement with the corporation. Under the revised terms and conditions the Conditionally Repayable Loan Funds are repayable if any of the following conditions occur:

- The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in the agreement; or
- 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
- 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
- The agreement is terminated as described in Section 12; or
- An event of default occurs, as described in Section 7 of the Agreement; or
- The Minister does not approve terms and conditions to extend the project beyond March 31, 2013.

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2012

COMPOSITION OF INVESTMENT FUNDS

The restricted funds balance comprise:

Net Investment Funds Contributed by Western Economic Diversification:

(a) Accumulated net earnings and losses of:		
Business loans fund	\$ 309,040	
Disabled entrepreneur investment fund	(29,662)	
(b) Non-repayable contribution	100,000	
(c) Accumulated net earnings on non-repayable contribution	<u>116,864</u>	496,242

Community Business Loans Program

(a) Original contribution	250,000	
(b) Additional contributions	237,000	
(c) Accumulated net earnings, losses and transfers	<u>(117,064)</u>	<u>369,936</u>

Total of Restricted Funds (Statement 4) \$ 866,178

COMMUNITY BUSINESS LOANS PROGRAM CONTRIBUTION (formerly Forest Community Business Program)

In 1999 the Corporation received \$487,000 from Forest Renewal B.C. for the purpose of providing loans, business counselling and training to small and medium sized Forest Sector Enterprises in British Columbia. As a condition of receiving this funding, the corporation matched the contribution, segregating \$487,000 of its business loans contribution from Western Economic Diversification for Forest Sector Enterprises purposes. In 2011 the agreement was amended by the Province of British Columbia, represented by the Minister of Community and Rural Development, and the Corporation. The amended agreement allows the Corporation to provide loans to enterprises meeting certain new eligibility criteria not restricted to the forest sector.

The funding agreement with Province can be terminated by either party giving 90 days notice of termination. Upon termination of the agreement, the Province's proportion (50%) of the community business loan funds not lent out as at the date of termination of the agreement is to be repaid at the direction of the Province of B.C. As long as the corporation continues in operation, amount equal to the Province's proportion (50%) of any receipts of principal and interest payments on the loans after the date of termination of the agreement, net of all reasonable costs, up to 15% of the value of the balance of the fund as at the date of termination, are to be repaid on a quarterly basis commencing 90 days following the date of termination, at the direction of the Province of B.C. If the corporation discontinues operations, the Province of B.C. will be given a first assignment and security interest in the Province's proportion (50%) of the outstanding loans and in the Province's proportion (50%) undivided beneficial interest in all securities obtained for such loans.

COMMUNITY FUTURES DEVELOPMENT CORPORATION OF STUART NECHAKO

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2012

. ECONOMIC DEPENDENCE

The Corporation is economically dependent on Western Economic Diversification Canada for funding. Any disruption of funding from these sources would limit the long term financial viability of the Corporation.

. INELIGIBLE OPERATING COSTS

The terms of the Corporation's agreement with the Minister of Western Economic Diversification provide that certain expenditures which are contrary to the public purpose of the Community Futures Program are ineligible for funding. During the period, the Corporation incurred the following ineligible operating costs which have been included in the statements of operations:

Interest and penalties on payroll deduction remittances	\$ <u>118</u>
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. FINANCIAL INSTRUMENTS

Credit risk management

The Corporation is exposed to credit risk on the loans receivable from its clients. The Corporation provides credit to its clients in the normal course of its operations. The Corporation determines, on a continuing basis, the probable losses and sets a provision for losses based on the estimated realizable value.

Fair value of financial instruments

The carrying amount of the accounts receivable and accounts payable approximates their fair value because of the short-term maturities of these items.

The carrying amount of loans receivable approximates fair value because the interest rates are close to the market rates.

The fair value of conditionally repayable investment fund contributions is not determinable as it is due without interest with related parties and accordingly cannot be ascertained with reference to similar debt with non-related parties.