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INDEPENDENT AUDITOR'S REPORT

To the Directors of Community Futures St. Paul - Smoky Lake Region

We have audited the accompanying financial statements of Community Futures St. Paul - Smoky Lake Region, which comprise the statement of financial position as at March 31, 2011, and the statements of changes in fund balances, operations 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 generally accepted accounting principles, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Community Futures St. Paul - Smoky Lake Region as at March 31, 2011, and the results of its changes in fund balances, its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vegreville, AB
June 22, 2011

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**AUDITORS' REPORT
ON COMPLIANCE WITH AGREEMENT**

To Western Economic Diversification Canada

We have audited the Community Futures St. Paul-Smoky Lake Region's compliance as at March 31, 2011 with the criteria established in the Contribution Agreement between Western Economic Diversification Canada and the Community Futures of St. Paul-Smoky Lake Region dated March 14, 2011 and the interpretation of the Agreement. Compliance with the criteria established by the provisions of the agreement is the responsibility of the Board of Directors of the Community Futures St. Paul-Smoky Lake Region. 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 Community Futures St. Paul-Smoky Lake Region 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, evaluating the overall compliance with the agreement, and where applicable, assessing the accounting principles used and significant estimates made by management.

In our opinion, the Community Futures St. Paul-Smoky Lake Region is in compliance, in all material respects with the criteria established by the Contribution Agreement.

Vegreville, Alberta
June 22, 2011

Wilde & Company
Chartered Accountants

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION
Statement of Financial Position
As at March 31, 2011

	Investment Funds		Disabled	Operating General Fund	
	Non-Repayable	Payable			
	\$	\$	\$	\$	\$
ASSETS					
Current Assets					
Cash and bank	142,606	82,973	77,781	39,685	480,657
Investments - Note 3	-	-	-	30,000	180,000
GST receivable	-	-	-	2,351	2,226
Accrued interest receivable	-	-	-	290	982
Prepaid expenses	-	-	-	5,099	4,977
Inter-fund receivable - Note 4	-	-	208,000	-	-
Current portion of investment funds	102,182	80,809	3,316	-	191,512
Total current assets	244,788	163,782	289,097	77,425	860,354
Capital assets - Note 5	-	-	-	4,990	6,234
Other Assets					
Long term investments - Note 3	-	-	-	-	90,000
Investment loans receivable - Note 6	1,137,754	1,057,856	17,035	-	1,778,022
Less: allowance for credit losses - Note 7	(54,484)	(112,290)	-	-	(28,795)
Less: current portion	(102,182)	(80,809)	(3,316)	-	(191,512)
Total other assets	981,088	864,757	13,719	-	1,647,715
TOTAL ASSETS	1,225,876	1,028,539	302,816	82,415	2,514,303
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable and accrued liabilities	-	-	-	10,768	10,160
Inter-fund payable - Note 4	-	208,000	-	-	208,000
TOTAL LIABILITIES	-	208,000	-	10,768	10,160
Fund Balances					
Invested in capital assets	-	-	-	4,990	6,234
Unrestricted	-	-	-	66,657	77,212
Externally restricted net assets - Note 9	1,225,876	820,539	302,816	-	2,420,697
TOTAL FUND BALANCES	1,225,876	820,539	302,816	71,647	2,504,143
TOTAL LIABILITIES AND FUND BALANCES	1,225,876	1,028,539	302,816	82,415	2,514,303

See accompanying notes

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION
 Statement of Changes in Fund Balances
 Year Ended March 31, 2011

	Non-Repayable	Loan Investment Funds Repayable	Disabled	Operating General Fund	2011	2010
	\$	\$	\$	\$	\$	\$
Balances, beginning of year	1,234,796	884,246	301,655	83,446	2,504,143	2,447,541
Excess (deficiency) of revenue over expenses for the year	(8,920)	(63,707)	1,161	(11,799)	(83,265)	56,602
Balances, end of year	1,225,876	820,539	302,816	71,647	2,420,878	2,504,143

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION
Statement of Operations
Year Ended March 31, 2011

	Non-Repayable	Loan Investment	Disabled	Operating	2011	2010
	\$	Funds Repayable	\$	General Fund	\$	\$
Revenue						
W.E.D. contribution	-	-	-	294,963	294,963	294,963
Community Futures (RCED)	-	-	-	18,346	18,346	5,773
Bank interest	2,000	1,850	1,168	508	5,526	(1,028)
Investment income	80,145	69,428	-	-	149,573	106,405
Other revenues	4,224	-	-	8,042	12,266	11,418
Client loan fees	-	-	-	6,960	6,960	7,375
Service revenues	-	-	-	6,653	6,653	2,348
	86,369	71,278	1,168	335,472	494,287	427,254
Expenditures						
Salaries and benefits	-	-	-	202,182	202,182	174,611
RCED project	-	-	-	13,772	13,772	11,420
<u>Professional Expenses</u>						
Accounting	-	-	-	3,500	3,500	4,286
Audit	-	-	-	9,000	9,000	8,400
Legal and appraisal fees	948	-	-	21,019	21,967	6,081
Administration	-	-	-	-	-	-
Advertising and promotion	-	-	-	6,996	6,996	11,645
Amortization	-	-	-	6,895	6,895	20,443
Bank charges	919	216	7	1,020	2,162	1,772
Board member expenses	-	-	-	13,785	13,785	13,165
Insurance	-	-	-	2,637	2,637	2,604
Memberships	-	-	-	647	647	463
Non-refundable GST	-	-	-	2,568	2,568	1,739
Office	-	-	-	8,692	8,692	7,342
Provision for investment losses	93,422	134,769	-	-	228,191	38,549
Rent	-	-	-	26,690	26,690	31,164
Staff expenses	-	-	-	14,365	14,365	19,577
Telephone/utilities	-	-	-	9,587	9,587	11,762
Video conferencing	-	-	-	3,916	3,916	5,629
	95,289	134,985	7	347,271	577,552	370,652
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(8,920)	(63,707)	1,161	(11,799)	(83,265)	56,602

See accompanying notes

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION

Notes to Financial Statements

Year Ended March 31, 2011

1. Purpose of organization

The Community Futures St. Paul-Smoky Lake Region is a not-for-profit organization. The organization is exempt from income taxes under section 149(1)(l) of the Income Tax Act. Accordingly, there is no provision for income taxes in these financial statements. The organization provides loans and financial services to small businesses that are otherwise unable to obtain financing. The organization is incorporated under the Alberta Companies Act.

2. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants (CICA), using the restricted method of accounting for contributions.

Revenue recognition

The Community Futures St. Paul-Smoky Lake Region 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 Loan Investment Fund reports restricted resources that are used for assistance to small businesses and entrepreneurs in the form of loans, loan guarantees or equity participation. Loans for the Loan 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.

Capital assets

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line basis over the assets estimated useful lives, which varies from three to five years. Amortization expense is reported in the General Fund.

(continues)

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION

Notes to Financial Statements

Year Ended March 31, 2011

2. Summary of significant accounting policies *(continued)*

Financial instruments

The financial instruments of Community Futures St. Paul-Smoky Lake Region consist of cash and cash equivalents, investments, receivables and payables. Community Futures has chosen not to adopt CICA Handbook Sections 3862 and 3863 however, in accordance with Section 3855 (Financial Instruments - Recognition and Measurement) of the Canadian Institute of Chartered Accountants (CICA) handbook, these financial instruments are designated and measured as follows:

Financial Instrument	Category	Measurement
Cash and cash equivalents	Held-for-trading	Fair value
Investments	Held-for-trading	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost

All financial instruments must initially be recognized at fair value on the statement of financial position. Subsequent measurement of the financial instruments is based on their category classification.

Measurement uncertainty

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes cash held in banks.

Impaired loans and allowance for loan impairment

The organization maintains an allowance for loan impairment, which reduces the carrying value of these loans to their estimated realizable amounts. The carrying amount of these loans is measured by discounting the expected future cash flows at the effective interest rate inherent in the loans. The amount initially recognized as an impaired loan together with any subsequent change is included in the allowance as an adjustment.

Future accounting changes

The organization is currently classified as a not-for-profit organization under the Act. The Canadian Institute of Chartered Accountants (CICA) Accounting Standard Board (AcSB) will release a new framework in regards to the accounting standards for not-for-profit organizations effective for year ends beginning on or after January 1, 2012.

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION
Notes to Financial Statements
Year Ended March 31, 2011

3. Investments

Short term investments

	2011	2010
ATB Financial Redeemable GIC	\$ 20,000	\$ 20,000
ATB Financial Redeemable GIC	10,000	10,000
ATB Financial Redeemable GIC	-	50,000
ATB Financial Redeemable GIC	-	50,000
ATB Financial Redeemable GIC	-	50,000
	\$ 30,000	\$ 180,000

Long term investments

ATB Financial Non-Redeemable GIC	-	50,000
ATB Financial Non-Redeemable GIC	-	15,000
ATB Financial Non-Redeemable GIC	-	15,000
ATB Financial Non-Redeemable GIC	-	10,000
	-	90,000

GIC's have effective interest rates of 1% (2010 0.2% to 3.5%) and mature June 25, 2011.

4. Inter-fund receivable/payable

The Investment Fund Payable borrowed \$265,000 from the Disabled Fund during the year. Western Economic Development approved these funds be repaid over five years. The first repayment of \$57,000 was made in during the year. Minimum annual payments of \$53,000 are required over the next four years.

5. Capital assets

	Cost	Accumulated amortization	2011 Net book value	2010 Net book value
Computer equipment	\$ 45,981	\$ 41,273	\$ 4,708	\$ -
Leasehold improvements	35,000	35,000	-	4,165
Office equipment	31,151	30,869	282	2,070
	\$ 112,132	\$ 107,142	\$ 4,990	\$ 6,235

6. Loans receivable

Outstanding loans to entrepreneurs are interest bearing at fixed rates varying from 0% to 15% with monthly blended principal and interest repayments amortized for terms between twelve and one hundred and twenty months. Security is taken on these loans as appropriate to the situation and may include personal guarantees, general security agreements covering business assets and mortgages on land and buildings.

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION

Notes to Financial Statements

Year Ended March 31, 2011

7. Allowance for credit loss

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

	2010 Ending Balance	Write-offs, Net of Recoveries	Provision for Credit Losses	2011 Ending Balance
Loan Investment Fund - Non- Repayable	\$ 13,529	\$ 52,467	\$ 93,422	\$ 54,484
Loan Investment Fund - Repayable	15,266	37,745	134,769	112,290

Actual write-offs, net of recoveries, will be deducted from the allowance for credit losses. The provision for credit losses in the statement of operations 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.

8. Capital management

The organization manages its capital to ensure that it will be able to continue as a going concern and to promote and develop a strong, viable, economic region.

The capital structure of the organization consists of non-repayable funds, loan investment funds repayable, disabled funds, and unrestricted operating general funds.

The organization is subject to externally imposed capital requirements as discussed in Note 9.

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION

Notes to Financial Statements

Year Ended March 31, 2011

9. Externally restricted net assets

Major categories of externally imposed restrictions on net assets are as follows:

	2011	2010
Non-repayable investment	\$ 1,225,877	\$ 1,234,796
Repayable investment	837,574	884,246
Disabled investment	285,781	301,655
	\$ 2,349,232	\$ 2,420,697

The department of Western Economic Diversification Canada amended the terms and conditions of its contribution agreement with the organization. Under the revised terms and conditions, the Conditionally Repayable Loan Investment funding of \$800,000 is repayable if any of the following conditions occur:

- a) The Conditionally Repayable Investment Fund is not administered according to the terms and conditions specified in this Agreement; or
- b) Based on the review and evaluations of the operations and 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
- c) 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
- d) The agreement is terminated as described in Section 16; or
- e) An event of default occurs, as described in Section 17 of the Agreement; or
- f) The Minister does not approve terms and conditions to extend the project beyond March 31, 2012.

10. Financial instruments

It is the organization's policy to control the risks associated with financial instruments including avoidance of undue concentrations of risk where possible.

Credit Risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. Community Futures are exposed to credit risk as they are in the business of lending out funds.

Fair Value

The organization's carrying value of cash and accounts payable approximates its fair value due to the immediate or short term maturity of these instruments.

COMMUNITY FUTURES ST. PAUL - SMOKY LAKE REGION
Notes to Financial Statements
Year Ended March 31, 2011

11. Commitments

The organization has leased office space under a five year lease which terminates on March 31, 2015. Monthly rent payments are \$2,260.

The organization has committed to hiring two summer students through the STEP program in 2012.

12. Economic dependence

The organization received 63% (2010 - 70%) of its operating revenues from the federal government and is economically dependent on these revenues.

13. Approval of financial statements

The Board of Directors have approved these financial statements.