

# FINANCIAL STATEMENTS

# Auditor's report

To the directors of  
FONDS RADIOSTAR

I have audited the balance sheets of Fonds RadioStar as at August 31, 2006 and 2005, as well as the statements of earnings and changes in net assets and the statements of cash flow for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion concerning these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I plan and perform an audit in such a way as to obtain reasonable assurance that the financial statements are free of material misstatements. An audit involves examining evidence supporting the amounts and disclosures that are contained in the financial statements, on a test basis. An audit also involves assessing the accounting principles used and the significant estimates made by management, and evaluating the overall presentation of the financial statements.

In my opinion, these financial statements present the financial position of the Organization as at August 31, 2006 and 2005 and the results of its operations and cash flow for the years then ended fairly in all material respects, in accordance with Canadian generally accepted accounting principles.



Denis Thérien  
Chartered Accountant

September 12, 2006

# Statements of earnings and changes in net assets

For the years ended August 31

|   | 2006               | 2005               |
|---|--------------------|--------------------|
| <b>REVENUE</b>  |                    |                    |
| Contributions from radio broadcasters                 | \$2,426,942        | \$3,961,205        |
| Management fees – CAB                                 | (20,600)           |                    |
|   | 2,406,342          | 3,961,205          |
| Interest  | 170,975            | 102,704            |
|   | 2,577,317          | 4,063,909          |
| <b>EXPENDITURES</b>                                   |                    |                    |
| Management fees, rent, and other charges              | 37,628             | 80,187             |
| Salaries and benefits                                 | 157,984            | 82,456             |
| Professional fees                                     | 9,262              | 12,946             |
| Communications  | 33,828             | 35,558             |
| Insurance   | 2,540              | 2,540              |
| Meeting expenses                                      | 4,690              | 4,328              |
|   | 245,932            | 218,015            |
| <b>SURPLUS AVAILABLE FOR ASSISTANCE CONTRIBUTIONS</b> |                    |                    |
| Assistance contributions                              | 2,331,385          | 3,845,894          |
|   | 2,316,105          | 2,331,725          |
| <b>EXCESS OF REVENUE OVER EXPENDITURES</b>            | <b>15,280</b>      | <b>1,514,169</b>   |
| <b>UNRESTRICTED NET ASSETS, BEGINNING OF YEAR</b>     | <b>4,191,481</b>   | <b>2,677,312</b>   |
| <b>UNRESTRICTED NET ASSETS, END OF YEAR</b>           | <b>\$4,206,761</b> | <b>\$4,191,481</b> |

The accompanying notes are an integral part of these financial statements.

# Balance sheets

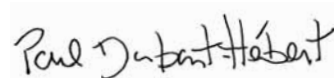
As at August 31

|                              | 2006               | 2005               |
|------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                |                    |                    |
| <b>CURRENT</b>               |                    |                    |
| Cash                         | \$ 420,938         | \$ 749,374         |
| Demand deposits (Note 4)     | 3,700,000          | 3,400,000          |
| Accounts receivable (Note 5) | 101,539            | 55,568             |
| Prepaid expenses             | 1,624              | 1,629              |
|                              | <b>\$4,224,101</b> | <b>\$4,206,571</b> |
| <b>LIABILITIES</b>           |                    |                    |
| <b>CURRENT</b>               |                    |                    |
| Accrued liabilities          | \$ 17,340          | \$ 15,090          |
| <b>NET ASSETS</b>            |                    |                    |
| Unrestricted net assets      | 4,206,761          | 4,191,481          |
|                              | <b>\$4,224,101</b> | <b>\$4,206,571</b> |

Approved on behalf of the board



**Denis Wolff**  
President



**Paul Dupont-Hébert**  
Treasurer

The accompanying notes are an integral part of these financial statements.

# Statements of cash flow

For the years ended August 31

|   | 2006               | 2005               |
|---|--------------------|--------------------|
| <b>OPERATING ACTIVITIES</b>                                 |                    |                    |
| Contributions received from radio broadcasters              | \$ 2,406,342       | \$3,961,205        |
| Interest received   | 145,395            | 122,315            |
| Sales taxes paid  | (7,026)            | (9,390)            |
|   | 2,544,711          | 4,074,130          |
| Assistance contributions paid                               | (2,329,470)        | (2,331,725)        |
| Purchase of goods and services paid                         | (91,811)           | (129,551)          |
| Employee salaries paid                                      | (151,866)          | (76,584)           |
|   | (2,573,147)        | (2,537,860)        |
|   | (28,436)           | 1,536,270          |
| <b>INVESTING ACTIVITY</b>                                   |                    |                    |
| Term deposit  |                    | 750,000            |
|   |                    | 750,000            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(28,436)</b>    | <b>2,286,270</b>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>         | <b>4,149,374</b>   | <b>1,863,104</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)</b>      | <b>\$4,120,938</b> | <b>\$4,149,374</b> |

The accompanying notes are an integral part of these financial statements.



# Notes accompanying the financial statements

For the years ended August 31, 2006 and 2005

## 1 • STATUTES AND PURPOSE OF THE ORGANIZATION

Fonds RadioStar was incorporated on February 16, 2001 pursuant to Part II of the Canada Business Corporations Act.

The primary mandate of Fonds RadioStar, which is a non-profit organization, is to assist promising new talent by providing significant financial support for projects involving the promotion of recording companies that are likely to have a considerable impact on the careers of French-Canadian artists. The support that the Organization provides is complementary to existing assistance programs, and adds momentum to marketing efforts. Fonds RadioStar pays non-refundable contributions to eligible recording companies.

## 2 • FINANCING OF THE ORGANIZATION

Fonds RadioStar products are generated by financial contributions from broadcast companies to the Canadian Association of Broadcasters (CAB).

## 3 • SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian generally accepted accounting principles and the following significant policies:

### Recognition of Revenue

Fonds RadioStar uses the deferral method for recording its contributions. Contributions to Fonds RadioStar and its Anglophone counterpart, Radio Starmaker Fund, originate from financial contributions that are required of broadcast companies by the Canadian Radio-television and Telecommunications Commission (CRTC) in connection with transactions involving the acquisition of broadcast companies. A minimum of 3% of these transactions must be paid to the two new Canadian music marketing funds.

Generally speaking, for transactions involving Francophone stations, 80% of the 3% is paid to Fonds RadioStar; and for transactions involving Anglophone stations, 20% of the 3% is paid to Fonds RadioStar. The Canadian Association of Broadcasters (CAB) collects 3% of the value of the transactions, which it redistributes to the two funds in accordance with the payment terms that are approved by the CRTC. These financial contributions are reported using a cash-based accounting system.

### Income Taxes

Pursuant to the Income Tax Acts of Canada and Quebec, Fonds RadioStar is classified as a non-profit organization, and therefore, is not subject to income tax.

### Contributed Services

Members of the Organization's Board of Directors attend Board meetings without monetary compensation. The value of the time donated by these individuals is not recorded in the financial statements, because it would be difficult to measure its fair market value.

# Notes accompanying the financial statements

For the years ended August 31, 2006 and 2005

## 3 • SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Cash and cash equivalents

For cash flow purposes, cash and cash equivalents include cash and cash equivalents that are not restricted as to their use. Cash includes cash. Cash equivalents include term deposit investments that are held for short-term cash requirements, but not those that are held for investment purposes. More precisely, they include investments for which the value will not change significantly and for which the maturity does not exceed three months from the date of acquisition.

### Use of estimates

The presentation of the financial statements in accordance 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 contingencies at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions.

## 4 • DEMAND DEPOSITS

|  | 2006         | 2005         |
|--|--------------|--------------|
| Demand deposit, 4.05%, maturing June 29, 2007  | \$ 3,700,000 |              |
| Demand deposit, 2.6%, maturing August 16, 2006 |              | \$ 3,400,000 |
|  | \$ 3,700,000 | \$ 3,400,000 |

## 5 • ACCOUNTS RECEIVABLE

|                                    |            |           |
|------------------------------------|------------|-----------|
| Applicant-assistance contributions | \$ 13,365  |           |
| Accrued interest                   | 29,784     | \$ 4,204  |
| Sales taxes                        | 58,390     | 51,364    |
|                                    | \$ 101,539 | \$ 55,568 |

The treatment of these sales taxes is currently being reviewed by Revenu Quebec, which is contesting the refund entitlement of 50% of sales taxes paid (GST and QST). As at August 31, 2006, a decision was still pending. If the decision is unfavourable, these sales taxes will have to be reported as operating expenses.



# Notes accompanying the financial statements

For the years ended August 31, 2006 and 2005

## 6 • CASH AND CASH EQUIVALENTS AT END OF YEAR

|                 | 2006               | 2005                |
|-----------------|--------------------|---------------------|
| Cash            | \$ 420,938         | \$ 749,374          |
| Demand deposits | 3,700,000          | 3,400,000           |
|                 | <b>\$4,120,938</b> | <b>\$ 4,149,374</b> |

## 7 • RELATED PARTY TRANSACTIONS

During 2006, the Organization disbursed assistance contributions totalling \$521,389 (2005: \$570,994). The parties are related due to the fact that their representatives are directors of the Organization. These related companies satisfy all of the criteria established by the Organization, and as such, they do not benefit from any particular statute or privilege over another through their representation on the Board of Directors.

Management declares that these transactions were executed under the same terms as transactions with non-related parties.

## 8 • COMMITMENTS

### Contributions

Fonds RadioStar is contractually committed to advance contributions totalling \$1,873,419 in 2006 (2005: \$1,396,813). Of this amount, \$375,333 (2005: \$383,994) represents commitments to related companies.

## 9 • FINANCIAL INSTRUMENTS

### Fair value

The carrying amount of financial instruments is equivalent to their fair value because of their short-term nature.





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