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ANNUAL
REPORT

CEDF



Our door to
***Investing
in the
North***

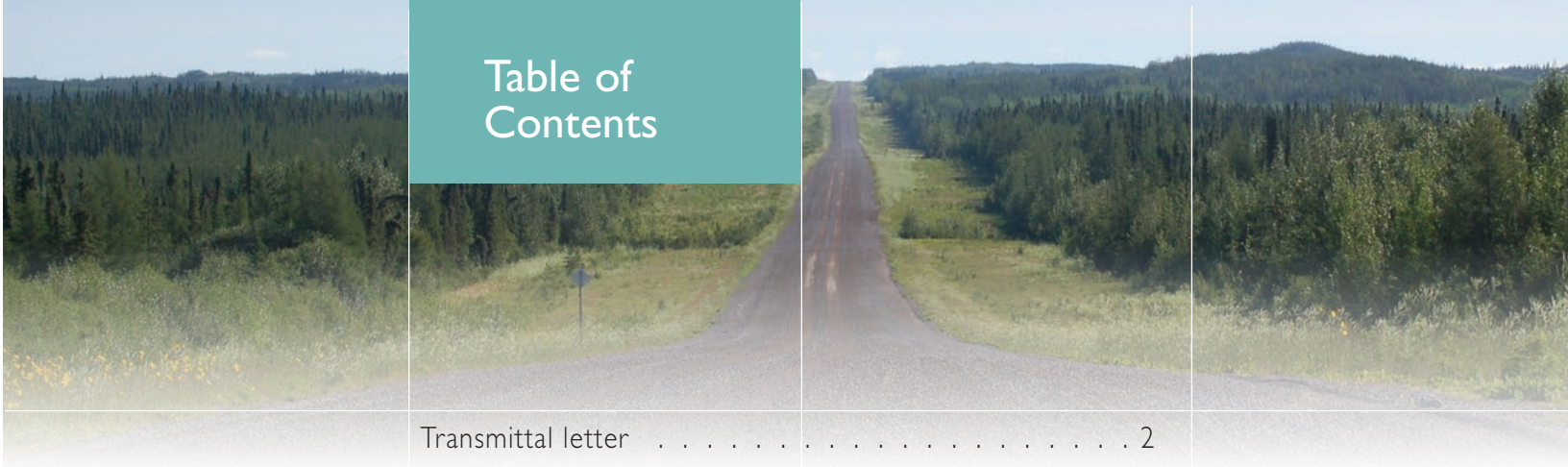


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The Honourable Eric Robinson
Minister Responsible for the
Communities Economic Development Fund Act
Province of Manitoba
Room 344 Legislative Building
Winnipeg MB R3C 0V8

Dear Sir:

It is my pleasure to forward to you, the Communities Economic Development Fund's Annual Report
for the year ended March 31st, 2012.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'H. Westdal'.

Harold Westdal
Chairperson

Directors & Officers

DIRECTORS AND OFFICERS:

Minister Responsible: The Honourable Eric Robinson

Board of Directors:

Chairperson:	Harold Westdal	Winnipeg
Directors:	Linda Ballantyne	Grand Rapids
	Rob Barbe	Winnipegosis
	Darlene Beck	Cross Lake
	Bill Cordell	Thompson
	Gavin Lawrie	Churchill
	Bob Veito	The Pas
	John R. Yellowback	God's River

OFFICERS:

Chief Executive Officer: R. Gordon Wakeling
CFO & Manager of Fisheries Loans Program: Oswald Sawh

HEAD OFFICE:

15 Moak Crescent
Thompson, Manitoba R8N 2B8
Telephone: (204) 778-4138
Fax: (204) 778-4313
Toll Free: 1-800-561-4315 (In Manitoba only)

FIELD OFFICES:

Business Loans:

P.O. Box 87 (3-1000 Main Street), Swan River, MB R0L 1Z0

Fisheries Loans:

Box 1277 (Hwy 9 & Colville Drive), Gimli, MB R0C 1B0
Box 10548, Opaskwayak, MB R0B 2J0
Bay 8, 1680 Ellice Avenue, Winnipeg, MB R3H 0Z2



The Communities Economic Development Fund is a Manitoba Crown Corporation, incorporated under the Communities Economic Development Fund Act (C155 of the Consolidated Statutes of Manitoba).

LEGISLATED MANDATE:

The object of the Fund, as stated in section 3(1) of the Act is as follows:

“The object of the fund is to encourage economic development

(a) In Northern Manitoba, as defined by the Lieutenant Governor in Council by regulation;

(b) subject to the approval of the Lieutenant Governor in Council, in the fishing industry in the province, by acting as a lending authority and administering a loan program with respect thereto; and

(c) in conjunction with financial assistance provided by the Government of Canada under any economic development program to assist aboriginal people in the province outside The City of Winnipeg;

with particular emphasis on the needs of small business enterprises and community development corporations.”

Section 3(2) of the Act states it shall do so through the provision of “financial and other forms of assistance”:

“The fund may provide financial assistance and other assistance, as set out in subsection (3), to assist in the establishment of new economic enterprises and the development of existing economic enterprises.”

The Act defines financial assistance as:

““financial assistance” includes a loan or guarantee, a lease of personal property or real property, the purchase or sale of shares, assets or securities of a corporation, and the underwriting of the securities of a corporation;”

Other forms of assistance are defined in section 3(3) of the Act:

“The fund may provide, with or without charge,

(a) information and advice respecting the techniques, methods and practices required for the successful administration of economic enterprises;

b) training for individuals, including employees, managers and directors, in an economic enterprise; and

(c) conferences, seminars and other meetings for the promotion of good management practices in economic enterprises.”

PROGRAMS:

In carrying out its mandate, CEDF provides loans and guarantees to small to medium enterprises through its *Business Loan Program* and to the commercial fishery through its *Fisheries Loan Program*. It also provides support for community economic development through its *Community Economic Development* programming which includes the delivery of Rural Economic Development Initiative (REDI) programs. REDI programs are delivered under a Memo of Understanding (MOU) with Manitoba Agriculture, Food, and Rural Initiatives.



OVERVIEW:

The year ending 2012 has been another successful year at CEDF. Business loan lending levels increased substantially as compared to the previous year with fisheries loans being slightly lower. For the 13th consecutive year, CEDF achieved its operating budget and is able to report an unqualified audit opinion.

The turnaround in some key sectors that started in 2011 continued into 2012 as the country continues to emerge from the effects of the 2008 global recession. It is hoped the turnaround continues to show in expanded lending activity.

PERFORMANCE MEASUREMENT:

CEDF strategic business units remain unchanged.

- Administration - accounting, finance, management information services, and treasury management.
- Business Loans - providing loans and guarantees to economic enterprises.
- Fisheries Loans - providing loans to the commercial fishing industry.
- Community Economic Development - community level programming to assist Northern communities in expanding economic opportunities.

Each unit is measured on key objectives which are noted below with outcomes:

ADMINISTRATION:

The unit is headed by the CFO, and has 1.5 staff years. It is responsible for the production of financial reports, accurate recording of transactions, and managing budget. The accounting department handled in excess of \$13 million in transactions including loan disbursements, payments from clients, and operating expenditures. In addition, the unit manages CEDF's Treasury supply.

Accounting Objectives:

- Budget management - CEDF achieved budget for the 13th consecutive year. For fiscal 2012, the CEDF budget remained unchanged from 2011 where it was reduced by 3%.
- Timely reporting of performance and regulatory reporting - CEDF has met its filing objectives throughout the year and has provided regular (monthly) reporting to Board and Management.

CEDF borrows its loan funds from the Department of Finance at Crown rates. It is important for CEDF to manage this supply to ensure it can provide an efficient source of capital to its clients. Treasury is also responsible for ensuring an adequate supply of capital under the Loan Act. The key objectives and outcomes of Treasury Management are:

- Obtain capital at rates enabling the Fund to offer stable rates at market levels - the Fund routinely confirms its rates in the market place and offers loans at competitive rates. As CEDF shifts from being a lender of last resort, its goal is to position its rates at slightly higher than those available from conventional sources.
- Loan margin budget target is 2.25% (loan margin as calculated by dividing Gross Margin by Gross Portfolio) - the Fund achieved 2.21% during the year.

Margins are affected by a CEDF self-imposed limit on margin when its cost of interest exceeds the base rate for calculation.

BUSINESS LOAN PROGRAM:

The Business Loan Program activity, reduced in recent years due to low investment rates in key industry sectors, has shown a substantial increase. Forestry and Transportation continue to show effects from the economic slowdown.

The amendments to its programs and legislation, approved in 2011, combined with the maintenance of the level of its Loan Act Authority will enable CEDF to position itself for turnaround in key industry sectors.

Program Objectives:

- \$4.5 million in annual loan activity – during fiscal 2012, the Fund approved \$3.15 million in new lending. The result is a year over year increase of 1.91 million or 154% increase in activity from the previous year and is significantly higher than the 5 year average of 2.38 million. CEDF is monitoring demand factors such as the arrival of new capital in the market as well as industry conditions.
- Account management to reduce loan losses – during fiscal year 2012, CEDF's loan loss provision was \$282,939 or approximately 8.98% of new activity. CEDF's 5-year loan loss average stayed the same as the previous year at 15% under its business program. In part this is due to CEDF valuing its portfolios aggressively, adopting the approach of conservatism in valuation. Despite the variance, loan loss provisions for both programs remain within budget.
- Examine new financial products – the new loan categories and branding as CEDF continues.

At year end, the Business Loan portfolio stood at \$11.81 million down from \$12.06 million in 2011. Pending approvals boost this number in early fiscal 2012/13.

FISHERIES LOANS PROGRAM:

Due to flooding issues, the fisheries in Dauphin River and Lake St. Martin were shut down. This resulted in approximately 525,000 kg or 1.2 million worth of mostly pickerel and whitefish not being harvested. The potential loss to loan value in this situation was offset by compensation paid to fishers as a result of the flood.

CEDF continues to be a major source of financing to the industry where many participants do not have access to conventional financing. The loans are for “above water” assets such as boats, motors, ATVs, snowmobiles, and quotas. The Fund caters its loan payments to reflect the seasonality of the industry. The stagnant U.S. economy, a major geographical customer for FFMC, continues to result in lower than historical average payments to fishers. This has in turn negatively affected the level of capital investment.

In recent years, FFMC's “single-desk marketing” monopoly is being challenged. CEDF's fisheries loan payments come by way of a 25% assignment of fish delivered to FFMC agents. There is a strong relationship between the availability of capital to support the fishing industry and the surety of payments offered by FFMC's check-off.

CEDF continues to monitor fishery conditions to address issues as part of its risk mitigation approach.

Program Objectives:

- Lending activity \$4.5 million annually – New lending activity during 2011/2012 was \$2.92 million, down from 2010/11 (\$3.20 million). CEDF attributes the reduced level of borrowing to reduced activity due mostly to the lower fish prices.
- Successful loan management practice – Management made a loan loss provision of \$207,402 this year to reflect a decline in the overall value of the portfolio on an NPV basis due to the decline in payments received in the year. The Fund's provision for loan loss under both programs is within budget.

At year end, the Fisheries portfolio stood at \$14.12 million, down slightly from \$14.43 in 2011, due in part to reduced lending levels in the year. CEDF is monitoring both payment levels and amortization terms to ensure that portfolio quality is accurately reported.

COMMUNITY PROGRAMS:

The CEDF Community Economic Development Officer provides consultative services and technical assistance to northern communities, northern community development organizations, northern CED/ED practitioners, and northern entrepreneurs. Primary activities during the 2012 calendar year include: business planning, community facilitation/planning, proposal development and writing, marketing/communication, and regional economic analyses.

Examples include:

Business Planning

The “Northern Commercial Hydroponics” business plan for freshly grown produce in Manitoba’s North was presented to the Northern Healthy Food Initiative (NHFI). A lack of anticipated support and minimal community capacity has resulted in no further work in this area.

Community Planning

A four year review of the Community Works Loans Program was completed by MAFRI. The community-controlled, small loans program was eliminated as a result and the outstanding funds were returned to MAFRI.

Community Facilitation

At the request of the Town of Leaf Rapids, assistance to this community was expanded to address immediate concerns including: reviewing the town’s emergency plan, writing the Leaf Rapids-University College of the North Regional Centre concept paper, and spearheading Phase II of the Leaf Rapids Housing Renewal Project.

Marketing/Communication

The program provided a post-secondary field placement in Community Economic Development (CED) for a Churchill resident studying at Red River College in Winnipeg. CEDF also participated in “Churchill Beyond 2012: A Sustainability Summit”.

Strategic Planning

The CEDO assisted Manitoba Aboriginal & Northern Affairs (ANA) with strategic planning meetings held with the Norway House Community Council. The CEDF CEDO was invited to present “Northern Community Development Corporations” at the ANA regional meetings.

CEDF continues to offer Community Economic Development programming and assistance under a contract with MAFRI.

Loans Approved

AMOUNT	NAME	BUSINESS	LOCATION	RATE	TERM
\$109,435	Provencher, Marc & Heather	Commercial Rentals	Swan River, MB	5.55%	120
\$178,750	Goldsand Lake Lodge Ltd.	Lodge	Leaf Rapids, MB	7.05%	180
\$50,000	God's River Development Corp.	Lodge	God's River, MB	6.01%	1
\$18,185	Ross, Albert Leslie	Bobcat	Grand Rapids, MB	6.01%	36
\$300,000	Logar Ventures Ltd.	Fly-in Lodge	Alonsa, MB	6.42%	60
\$300,000	DNR Redimix Concrete Ltd.	Batch Plant	Thompson, MB	6.42%	120
\$152,675	3488471 Manitoba Ltd. (Cormier)	Plumbing/Reno	Thompson, MB	6.39%	120
\$58,915	Klyne, Abby & Keith	Store	Easterville, MB	6.36%	72
\$75,030	Goodmans Landing Fisheries Inc.	Fish Station	Winnipeg, MB	6.36%	48
\$49,220	Benito Premium Meats Ltd.	Butcher Shop	Benito, MB	6.36%	120
\$6,515	Thicket Portage Fisher Assoc.	Fisheries	Thicket Portage, MB	6.29%	60
\$165,595	Buehler, Monika/Jesso, Peter	Trucking	Pine River, MB	6.36%	72
\$51,175	Barbeau, Arthur Ernest	Gift Shop	The Pas, MB	6.29%	60
\$522,018	Evenson Group Ltd.	Electrical	Thompson, MB	6.21%	180
\$58,280	Almost Arctic Inn, Inc.	Motel/Lounge	Leaf Rapids, MB	6.13%	180
\$294,360	6425390 Manitoba Ltd. (Lamontagne)	Hotel	Snow Lake, MB	6.21%	120
\$26,000	Rundle, Lionel Frederick	Trucking	Koostatak, MB	6.15%	36
\$30,875	5624046 Manitoba Ltd. (Bracegirdle)	Transportation	The Pas, MB	6.15%	48
\$523,000	5836264 Manitoba Ltd. (Birchard)	Hotel	Churchill, MB	5.60%	180
\$2,970,028	Total Active Loan Approval - 19 clients				
\$180,000	Loans Approved/Withdrawn (Unlisted) - 2 clients				
\$3,150,028	Total Approvals - 21 clients				

Historical: Business Loans, Jobs Created

YEAR APPROVED	AMOUNT APPROVED	APPLICATIONS APPROVED	JOBS CREATED AND/OR RETAINED
1972 - 1983	\$13,703,075	404	1335
1984	2,080,595	49	144
1985	2,326,548	63	172
1986	2,909,735	43	159
1987	3,573,294	66	215
1988	3,550,050	70	210
1989	725,243	22	31
1990	1,681,090	38	136
1991	1,737,344	30	80
1992	1,183,686	19	102
1993	5,406,375	36	120
1994	1,427,220	21	88
1995	4,811,247	51	135
1996	6,134,635	64	252
1997	4,321,829	53	198
1998	4,387,457	45	230
1999	5,188,498	41	178
2000	2,062,664	36	165
2001	2,797,419	28	170
2002	2,787,386	28	166
2003	5,174,099	39	213
2004	4,721,154	41	267
2005	2,834,888	33	359
2006	4,961,588	35	155
2007	4,123,999	31	233
2008	1,687,381	27	242
2009	2,590,197	27	132
2010	3,207,171	23	167
2011	1,238,133	15	20
2012	3,150,028	21	228
	\$106,484,028	1499	6302

Performance Data

	2012	2011	2010	2009	2008	2007
No. of Loans Approved - Business	21	15	23	27	27	31
Dollar Value - Business	\$3,150,028	1,238,133	3,207,171	2,590,197	1,687,381	4,123,999
Dollar Value - Fisheries Approvals	\$2,922,493	3,201,487	3,760,207	4,268,577	4,290,014	4,447,258
No. of Active Loans - Business	109	116	128	135	141	128
No. of Active Loans - Fisheries	1189	1073	1119	1,280	1,309	1,154
Portfolio Value - Total	\$25,929,394	26,483,870	27,296,850	25,938,282	26,306,974	26,272,414
Bad Debt Expense - Business	\$282,939	455,100	199,854	175,832	706,893	427,803
As a percentage of Approvals	9%	36.76%	6.23%	6.79%	41.89%	10.37%
Bad Debt Expense - Fisheries	\$207,402	100,000	287,500	105,000	0	200,000
As a percentage of Approvals	7.1%	3.12%	7.65%	2.46%	0%	4.50%
Total Subsidy	\$1,469,454	1,469,208	1,514,900	1,505,556	1,514,164	1,514,164
Subsidy as a percentage of Approvals	24.20%	33.09%	21.74%	21.95%	25.33%	17.67%



Economic Impact

The Fund continues to face numerous challenges to maintain its primary function and at the same time deliver a professionally managed development agency for economic expansion including the number of jobs created and maintained.

We present the following data which reflects our impact on the regional economy within our mandated area.

JOBS

Number of persons directly employed in businesses supported by Fund loans: ¹	1,125
Number of fishers supported by Fund loans: ²	<u>1,189</u>
Total Employment:	2,314

REVENUES

Total revenue of Business Loan clients: ¹	\$44,602,662
Total revenues of Fisheries Loan clients (before final payments and transfer income): ²	<u>13,490,940</u>
Total Revenue	\$58,093,602
Direct Wages Paid ¹	\$15,834,769

¹ Data is drawn from material financial statement provided by clients and from on-site observations by Fund staff during the annual account review.

² Data is drawn from payments provided to Fund and from active accounts within loan ledger.

Independent Auditor's Report



Tel. : 204 956 7200
Fax.: 204 926 7201
Toll-free: 800 268 3337
www.bdo.ca

BDO Canada LLP/s.r.l.
700 - 200 Graham Avenue
Winnipeg MB R3C 4L5 Canada

To the Directors of **COMMUNITIES ECONOMIC DEVELOPMENT FUND**

We have audited the accompanying financial statements of COMMUNITIES ECONOMIC DEVELOPMENT FUND, which comprise the statement of financial position as at March 31, 2012, and the statements of 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 COMMUNITIES ECONOMIC DEVELOPMENT FUND as at March 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants

Winnipeg, Manitoba

July 10, 2012

Statement of Financial Position

March 31, 2012

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 257,865	\$ 13,201
Trust deposits - Province of Manitoba	1,997,834	954,057
Due from the Province of Manitoba (Note 2)	3,187,151	2,641,918
Accounts receivable	104,851	86,219
Property held for resale	4,425	4,425
Prepaid expenses	3,404	5,804
	5,555,530	3,705,624
Loans receivable (Note 3)	19,967,408	20,796,710
Capital assets (Note 4)	985,447	1,006,357
	\$ 26,508,385	\$ 25,508,691
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,083,853	\$ 864,625
Funds held in trust	-	297,464
Deferred contributions (Note 5)	199,672	199,672
Interest payable to the Province of Manitoba	388,997	395,280
	1,672,522	1,757,041
Accrued pension liability (Note 6)	2,456,041	2,289,950
Advance by the Province of Manitoba (Note 7)	22,379,822	21,461,700
Commitments and contingency (Note 8)		
	\$ 26,508,385	\$25,508,691

Approved on behalf of the Board:

Director 

Director 

Statement of Operations

For the year ended March 31, 2012

	2012	2011
Revenue		
Loan interest		
Business program	\$ 721,599	\$ 851,149
Fisheries program	764,625	855,424
Investment income	50,030	23,282
	1,536,254	1,729,855
Cost of Funds		
Interest paid to the Province of Manitoba		
Business program	428,850	478,813
Fisheries program	384,148	425,777
Life insurance	105,228	79,566
Trust line of credit	44,301	40,425
Other	37	159
	962,564	1,024,740
Gross margin	573,690	705,115
Operating expenditures (see schedule)	1,667,652	1,753,186
	(1,093,962)	(1,048,071)
Other Revenue		
Administration fees	158,173	133,959
Deficiency of revenue over expenditures before provision for doubtful loans	(935,789)	(914,112)
Provision for Doubtful Loans		
Regular operations	533,666	555,100
Deficiency of revenue over expenditures before subsidy due from the Province of Manitoba	(1,469,455)	(1,469,212)
Subsidy due from the Province of Manitoba	1,469,455	1,469,212
Excess of revenue over expenditures for the year	\$ -	\$ -

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2012	2012	2011
Cash Flows from Operating Activities		
Deficiency of revenue over expenditures before subsidy due from the Province of Manitoba	\$ (1,469,455)	\$ (1,469,212)
Adjustments for non-cash items		
Amortization of capital assets	27,348	29,206
Provision for doubtful loans	533,666	555,100
	(908,441)	(884,906)
Net changes in work capital balances		
Accounts receivable	(18,632)	2,719
Prepaid expenses	2,400	674
Accounts payable and accrued liabilities	219,228	367,066
Funds held in trust	(297,464)	(182,124)
Deferred contributions	-	(328)
Interest payable to the Province of Manitoba	(6,283)	(80,575)
Accrued pension liability	166,091	142,804
	(843,101)	(634,670)
Cash Flows from Financing Activities		
Net decrease in amounts due from the Province of Manitoba	(545,233)	(310,809)
Net increase (decrease) in Advance by the Province of Manitoba	918,122	(847,439)
Subsidy due from the Province of Manitoba	1,469,455	1,469,212
	1,842,344	310,964
Cash Flows from Investing Activities		
Loans receivable, net of repayments	295,636	416,829
Acquisition of capital assets	(6,438)	(3,322)
	289,198	413,507
Net increase in cash and cash equivalents	1,288,441	89,801
Cash and cash equivalents, beginning of year	967,258	877,457
Cash and cash equivalents, end of year	\$ 2,255,699	\$ 967,258
Represented by		
Cash	\$ 257,865	\$ 13,201
Trust deposits - Province of Manitoba	1,997,834	954,057
	\$ 2,255,699	\$ 967,258
Supplementary Information		
Interest paid	\$ (913,901)	\$ (1,077,187)
Interest received	1,313,127	1,458,951

For the year ended March 31, 2012

Revenue Recognition

The Fund follows the deferral method of accounting for contributions. Interest on loans is recorded as revenue on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest revenue ceases when the carrying amount of the loan including accrued interest exceeds the estimated realizable amount of the underlying security.

Investment revenue is recorded on an accrual basis.

Other revenue including administration fees is recorded when the related service or activity is provided.

Financial Instruments

The Fund recognizes and measures financial assets and financial liabilities on the Statement of Financial Position when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, loans and receivables, held to maturity, available for sale or other financial liabilities.

The Fund classifies its financial instruments as follows based on the purpose for which the asset was acquired and follows the disclosed accounting policy for each category.

Assets/Liabilities	Category	Measurement
Cash	Held for trading	Fair value
Trust deposits	Held for trading	Fair value
Due from the Province of Manitoba	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Funds held in trust	Other financial liabilities	Amortized cost
Interest payable to the Province of Manitoba	Other financial liabilities	Amortized cost
Accrued pension liability	Other financial liabilities	Amortized cost
Advance by the Province of Manitoba	Other financial liabilities	Amortized cost

Held for trading items are carried at fair value, with changes in their fair value recognized in the Statement of Operations.

Loans and receivables are carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Other financial liabilities are carried at amortized cost, using the effective interest method.

Transaction costs for financial instruments are expensed as incurred.

Allowance for Doubtful Loans

Business Loan Program -

The loans are reviewed quarterly to assess potential impairment or loss of value. Impaired loans are defined as those which are greater than two payments in arrears and for which the value of realizable security is less than the value of the loan outstanding. In these cases, a specific allowance is accrued equal to the value of the potential security shortfall or impairment. In all other cases, including loans that are both current and for which there is excess security value, a non-specific allowance equal to 5% of the outstanding loan balance is recorded.

Fisheries Loan Program -

The allowance for doubtful loans on fisheries loans and interest receivable is calculated based on the present value of future cash flows for those loans which, if they maintain their past payment history, will fail to retire their debt completely within the agreed term. The net present value (“NPV”) formula used for calculating the allowance for doubtful loans is recognized by the Canadian Institute of Chartered Accountants, however, it does not account for closure of a fishery or regulated reduction of production. In the event of the closure of a fishery or regulated reduction of production, the NPV formula may not adequately provide for doubtful loans.

The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

Loans considered uncollectible are written-off. Recoveries on loans previously written-off are taken into revenue.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Building	2%
Office furniture and equipment	10 to 30%
Parking lot	50%

Use of Estimates and 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Significant estimates are involved in the valuation of loans receivable. Actual results may differ from those estimates.

New Accounting Pronouncements

In December 2010, the Accounting Standards Board and Public Sector Accounting Board (the “Boards”) issued new standards for not-for-profit organizations (NPOs) whereby public sector NPOs have a choice of Public Sector Accounting standards with the current series of NPO-specific standards added with some minor changes, or Public Sector Accounting standards.

The Boards require NPOs to adopt their respective standards for year ends beginning on or after January 1, 2012. Until the date of transition to the new standards, all NPOs will continue to follow the current Canadian Institute of Chartered Accountants Handbook – Accounting Part V – Pre-Changeover Standards.

The Fund anticipates adopting Public Sector Accounting Standards with NPO-specific standards for its March 31, 2013 year end.

Notes to Financial Statements

For the year ended March 31, 2012

1. Nature of the Fund

The Communities Economic Development Fund (the "Fund") was established in 1971 (Ch. C155) as a Crown Corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. With an act revision passed in July 1991, the objects of the Fund are to encourage the economic development of northern Manitoba, Aboriginal people in the province outside of the City of Winnipeg, and the fishing industry in Manitoba. The Business and Fisheries Loans Programs are administered under the C.E.D.F. Act.

2. Due from the Province of Manitoba

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of \$3,187,151 (\$2,641,918 in 2011) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

	2012	2011
Department of Aboriginal and Northern Affairs		
Subsidy, refundable	\$ (66,249)	\$ (178,731)
Order in Council pending	731,959	465,299
Pension, unfunded	2,435,729	2,269,098
Pension, funded	20,312	20,852
Severance accrual, unfunded	65,400	65,400
	\$ 3,187,151	\$ 2,641,918

3. Loans Receivable

Loans receivable by program are as follows:

Business Loans Program

Interest rates applied range from 5.00% to 6.60%

	2012	2011
Principal	\$ 10,625,433	\$ 10,968,871
Accrued interest	1,185,848	1,087,643
	11,811,281	12,056,514
Allowance for doubtful loans	2,330,888	2,271,285
Total Business Loans Program	9,480,393	9,785,229

Fisheries Loans Program

Interest rates applied range from 4.25% to 6.25%

	2012	2011
Principal	12,937,798	13,323,841
Accrued interest	1,180,314	1,105,422
	14,118,112	14,429,263
Allowance for doubtful loans	3,625,182	3,417,782
Allowance for insurance	5,915	-
Total Fisheries Loans Program	10,487,015	11,011,481
Total Business and Fisheries Loans Programs	\$ 19,967,408	\$ 20,796,710

Gross amount of loans together with the allowance for doubtful loans are as follows:

	2012		2011	
	Gross Loan Balances	Total Allowance	Gross Loan Balances	Total Allowance
Business Loans Program				
Impaired	\$ 3,467,801	\$ 1,913,714	\$ 4,170,414	\$ 1,876,980
Performing	8,343,480	417,174	7,886,100	394,305
	\$11,811,281	\$2,330,888	\$12,056,514	\$ 2,271,285
Fisheries Loans Program				
Impaired	\$ 3,625,182	\$ 3,625,182	\$ 3,417,782	\$ 3,417,782
Performing	10,492,930	-	11,011,481	-
	\$14,118,112	\$3,625,182	\$14,429,263	\$ 3,417,782

The change in the allowance for doubtful loans are as follows:

			2012	2011
	Specific	Non-specific	Total	Total
Business Loans Program				
Balance, beginning of year	\$ 1,876,980	\$ 394,305	\$ 2,271,285	\$ 2,167,479
Provision for the year	303,395	22,869	326,264	455,100
	2,180,375	417,174	2,597,549	2,622,579
Loans written-off	(266,661)	-	(266,661)	(351,294)
	\$ 1,913,714	\$ 417,174	\$ 2,330,888	\$ 2,271,285
Fisheries Loans Program				
Balance, beginning of year			\$ 3,417,782	\$ 3,360,732
Provision for the year			207,400	100,000
			3,625,182	3,460,732
Loans written-off			-	(42,950)
			\$ 3,625,182	\$ 3,417,782

The provision for fisheries loans losses recorded by the Fund exceeds the value derived by the net present value formula as at March 31, 2012 by \$Nil (\$1,250 in 2011).

	2012	2011
Loan Loss Provision		
Per accounts	\$ 3,625,182	\$ 3,417,782
Per net present value calculation	(3,625,182)	(3,416,532)
	\$ -	\$ 1,250

4. Capital Assets

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 92,482	\$ -	\$ 92,482	\$ 92,482
Building	931,236	60,530	870,706	889,330
Office furniture and equipment	156,012	133,753	22,259	24,545
Parking lot	73,000	73,000	-	-
Total	\$ 1,252,730	\$ 267,283	\$ 985,447	\$ 1,006,357

5. Deferred Contributions

The Government of Manitoba has contributed \$200,000 to the Fund to cost share on an equal basis with the Fund to establish the Non-Timber Forest Products Program.

6. Accrued Pension Liability

The employees of the Fund are not members of the Civil Service of the Province of Manitoba but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Fund will contribute 50% of the pension payments made to retired employees. The current pension expense consists of the Fund's share of pension benefits paid to retired employees, as well as the increase in the unfunded pension liability during the fiscal year. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. The most recent actuarial valuation as at December 31, 2009 indicated the accrued liability is in line with the obligation forecast in the report.

The significant actuarial assumptions adopted in measuring the Fund's pension liability are as follows:

	2012	2011
Benefit costs for the year ended March 31		
Discount rate	6.00%	6.00%
Rate of compensation increase	3.75%	3.75%

In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Fund has recorded a provision to fund current service obligations.

7. Advance by the Province of Manitoba

The Communities Economic Development Fund is included under the Province of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to The Loan Act, 2011. The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

Advances by the Province of Manitoba by program are as follows:

	2012	2011
Business Loans Program		
Advances, beginning of year	\$13,812,216	\$14,756,358
Loan advances	3,990,000	3,207,171
Loan advance repayments	(3,111,021)	(4,151,313)
Advances, end of year	14,691,195	13,812,216
Unfunded allowance, beginning of year	2,674,762	2,219,584
Provision for doubtful loans	326,264	455,100
Loans written-off as approved by Order in Council	(43,325)	78
Unfunded allowance for doubtful loans, end of year	2,957,701	2,674,762
Net advances balance, end of year	\$11,733,494	\$11,137,454
	2012	2011
Fisheries Loans Program		
Advances, beginning of year	\$12,845,369	\$12,172,185
Loan advances	2,980,000	673,184
Loan repayments	(2,428,094)	-
Advances, end of year	13,397,275	12,845,369
Unfunded allowance for doubtful loans, beginning of year	3,479,579	3,379,579
Provision for doubtful loans	207,402	100,000
Unfunded allowance for doubtful loans, end of year	3,686,981	3,479,579
Net advances balance, end of year	\$9,710,294	\$9,365,790

7. Advance by the Province of Manitoba (continued)

Net advances due by the Province of Manitoba are as follows:

	2012	2011
Business Loans Program	\$ 11,733,494	\$ 11,137,454
Fisheries Loans Program	9,710,294	9,365,790
Building mortgage	936,034	958,456
	<u>\$ 22,379,822</u>	<u>\$ 21,461,700</u>

The Fund obtains capital for the purpose of carrying out its mandate of providing financial assistance in the form of loans and guarantees through loans provided by the Department of Finance. The Fund has an authorized line of credit of \$2,000,000 from the Province of Manitoba bearing interest at 2.25% which is fully utilized at year end. Term loans bear interest at the rates posted by the Department of Finance at time of issue. The Fund also has the option to draw funds on floating rates set periodically at the Royal Bank prime rate minus 0.75%. At year end, the advances bore rates ranging from 2.05% to 5.50% with a weighted cost of capital of 2.96%.

Principal payments due in each of the next five fiscal years on advances by the Province of Manitoba that exclude unfunded allowances for doubtful loans are as follows:

2013	\$ 7,495,278
2014	7,157,593
2015	4,899,429
2016	3,398,157
2017	2,808,251

8. Commitments and Contingency

Loan Commitments

Total undisbursed balances of approved loans are \$1,319,949 at March 31, 2012 (\$433,529 at March 31, 2011).

Lease Commitments

The Fund has entered into lease agreements for various office equipment. Lease expire in the fiscal years ending 2013 and 2016 with annual lease payments of \$4,000 for 2013 and \$1,160 for 2014 to 2016.

Contingency

The Fund has been named as a defendant in a statement of claim. At the time of approval of these financial statements, the outcome of this claim is not determinable and, accordingly, no provision for settlement, if any, has been recorded in these financial statements. Settlement amounts if any will be charged to operations in the year of settlement.

9. Loan Act Authority

Amounts authorized for advances under The Loan Act, 2011 are as follows:

	2012
Schedule A of The Loan Act, 2011	\$10,849,900
Schedule B of The Loan Act, 2010	6,800,000
Direct loans	17,649,900
Authority used	6,970,000
Unused Loan Act capital available	\$10,679,900

10. Economic Dependence

The ongoing operations of the Fund depend on obtaining adequate financing and funding from the Province of Manitoba.

11. Capital Management

The Fund considers its capital to be comprised of advances by the Province of Manitoba which is unchanged from the previous years. The Fund manages its capital to ensure it retains sufficient cash resources to enable it to carry out its strategic plan. The Fund endeavours to manage its subsidy from the Province of Manitoba within \$1,500,000 on an annual basis.

12. Financial Instrument Risk Management and Exposures

There have been no substantive changes in the Fund's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them from previous periods.

The Board has overall responsibility for the determination of the Fund's risk management objectives and policies and has identified significant exposure to credit risk.

Credit Risk

Credit risk is the risk of loss to the Fund if a counterparty to a financial instrument fails to meet its contractual obligations. The Fund has significant outstanding loans and is mainly exposed to credit risk through the credit quality of the individuals and businesses to which the Fund has loaned funds.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. To assess credit risk, the Fund takes into consideration the individual's and business' ability to pay, and value of collateral available to secure the loan. The Fund's maximum exposure to credit risk, without taking into account any collateral or other credit enhancements is \$19,967,408 (\$20,796,710 in 2011).

Interest Rate Risk

Interest rate risk is the impact that changes in market interest rates will have on the operations of the Fund. The Fund holds \$21,965,242 (\$21,750,767 in 2011) in interest bearing deposits and loans receivable at March 31, 2012. The Fund has mitigated this risk by adjusting interest rates for fish loans on a quarterly basis and interest rates for business loans on a monthly basis based on its weighted average cost of capital.

Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting financial obligations as they become due, and arises from the Fund's management of working capital and collections of loans receivable. The Fund's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

Fair Value

The carrying values of cash, trust deposits, amounts due from the Province of Manitoba, accounts receivable and accounts payable and accrued liabilities and interest payable to the Province of Manitoba approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

Management uses its best estimate to determine fair value of loans receivable. Factors considered in the determination of fair value include underlying collateral value, market conditions, financial data and financial projections prepared by the borrower. In many circumstances, the fair value of specific loans receivable are not practicable to determine due to limited availability of comparable market information, and the uncertainty of the timing of the loan repayments.

The carrying value of the accrued pension liability approximates the fair value as an annual calculation and update of the liability is done.

Schedule of Operating Expenditures

For the year ended March 31, 2012	2012	2011
Amortization of capital assets	\$ 27,348	\$ 29,206
Collection costs	45,797	80,058
Communications	35,415	39,350
Credit reports	2,234	2,370
Directors' fees and expenses	59,589	64,294
Government vehicles	27,733	25,657
Insurance	6,944	6,707
Legal costs	28,673	32,947
MAFRI	87,975	91,663
Mortgage interest	49,967	50,975
Office supplies and expenses	43,860	32,788
Pension	211,106	207,852
Professional fees	28,829	25,379
Rent and utilities	28,334	27,908
Repairs and maintenance	11,840	11,990
Salaries and benefits	922,159	968,757
Sundry	14,465	17,612
Travel	35,384	37,673
	\$1,667,652	\$1,753,186



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