

*INVESTING  
IN THE NORTH*



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# LETTER OF TRANSMITTAL



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:

As provided under Section 22(1) of the Communities Economic Development Fund Act, it is my pleasure to forward to you CEDF's Annual Report for the year ended March 31st, 2011.

Respectfully submitted,

A handwritten signature in blue ink that reads "H. Westdal".

Harold Westdal  
Chairperson



## 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	Pikwitonei
	Gavin Lawrie	Churchill
	Bob Veito	The Pas
	John R. Yellowback	God's River

## OFFICERS:

General Manager & CEO:	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:

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

# CORPORATE PROFILE

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.

# CORPORATE REPORT

## OVERVIEW:

2011 has been another successful year at CEDF. Despite showing a decrease in lending levels in both the business and fisheries loan portfolios, CEDF was still able to achieve its operating budget for the 11th consecutive year, and is able to report an unqualified audit opinion.

During the year the Communities Economic Development Act (C.C.S.M. 155) was amended to reflect CEDF's changing business model as well as to allow it to offer new levels of service. Key among the changes were:

- To amend the section of the Act that indicates CEDF as a lender of last resort to more accurately reflect the nature of its programs as alternative sources of capital;
- Changes to add and define Community Enterprises (community owned enterprises) allowing CEDF to work more effectively with communities in establishing business and not for profit ventures, as well as social enterprises;
- To remove the requirement that CEDF accept early repayment of loans without penalty, aligning CEDF loan management with Finance policies requiring Crown Borrowers to pay penalties on early repayment.
- To change how CEDF can accept and manage funds from other sources, recognising that it routinely manages program funds and has the capacity to handle funds 'in trust'.

The changes also involved renumbering of sections of the Act to improve the flow and regroup related items.

CEDF also amended its by-laws, changing loan limits for its business program and allowing it to lend under program criteria in specific loan pools. CEDF's loan limit was raised from \$1,000,000 to \$2,000,000 while its internal approvals were also reset. Our Board can now approve loans up to \$300,000 (previously \$200,000), while management can approve loans of \$70,000 (previously \$50,000). These limits were last reviewed in 1990. CEDF had previously raised its limit for individual fisheries loans to \$50,000 (from \$30,000).

2011 saw some turnaround in key sectors, which is expected to continue as the country emerges from the effects of the 2008 global recession. It is hoped the turnaround continues to show in expanded lending activity.



## PERFORMANCE MEASUREMENT:

CEDF's strategic business units remain unchanged for the past year.

- 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 business 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 \$10 million in transactions including loan disbursements, capital supply, payments from clients, and operating expenditures. In addition, the unit manages CEDF's Treasury supply.

### Accounting Objectives:

- Budget management – CEDF achieved budget for the 11th consecutive year. For the fiscal year 2011, CEDF's budget 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 2.47% 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 has been reduced in recent years due to low investment rates in key industry sectors due to a variety of economic conditions. Forestry, Tourism and Transportation continued to be affected by slowdowns.

CEDF also continues to position itself for turnaround in sectors, such as the amendments to programs and legislation.

### **PROGRAM OBJECTIVES:**

- \$5 million in annual loan activity – during fiscal 2011 the Fund approved \$1.24 million in new lending. The result was a severe disappointment given the increases in the last two years. 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 2011, CEDF's loan loss provision was \$455,100 or approximately 36% of new activity (affected in large part by the lower lending levels). CEDF's 5-year loan loss average is currently 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 the year 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 \$12.05 million down from \$12.81 million in 2010.



### **FISHERIES LOANS PROGRAM:**

The Fisheries Loan Program provides capital to commercial fish harvesters for the purchase or repair of assets used in the harvest of fish in Manitoba. It is an essential source of capital to the industry, servicing many areas where no conventional financial service providers are located as well as addressing the issue of financing a seasonal industry. Loans are provided at competitive rates, are secured by assets, and are fully repayable.

The industry has absorbed many of the cost and revenue changes from price changes due to lower demand or the increase in the Canadian dollar; however, fishers have indicated they have delayed investment due to the price decline as well as uncertainty at FFMC. The majority of payments are received by a “check off”: arrangement through FFMC and its agents, who deduct payments at time of delivery. There is therefore a very strong relationship between the availability of capital to support the fishing industry and the surety of payment offered by FFMC's check off. CEDF has continued to brief government as to the nature of risk associated with change from a single desk marketing system.

CEDF continues to monitor conditions and work with fishers to address issues as part of its risk mitigation approach.

### **PROGRAM OBJECTIVES:**

- Lending activity \$4.5 million annually – New lending activity during 2010/2011 was \$3.20 million, down significantly from 2009/10 (\$3.76 million). CEDF attributes the reduced level of borrowing to reduced activity due mostly to the trending down of fish prices.



- Successful loan management practice – Management made a loan loss provision of \$100,000 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 \$14.43 million, down slightly from \$14.48 in 2010, 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's Community Economic Development Office provides consultative services and technical assistance to northern communities, northern community development organizations, northern CED/ED practitioners, and northern entrepreneurs. Primary activities during the 2011 calendar year include: business planning, community facilitation/planning, proposal development & writing, marketing/communication, and regional economic analyses.

Examples include:

### **Business Planning –**

Researched and authored “Northern Commercial Hydroponics” – a business plan for commercially grown produce in northern Manitoba. As part of the plan, we solicited a store chain to handle products, established linkages with Manitoba's Non-Timber Forest Product industry for the potential cultivation and harvest of wild berries. Discussion of the business opportunities has been on-going.



### **Community Facilitation/Planning –**

CEDF conducted a housing audit of Leaf Rapids Housing Renewal Project - Phase I, and researched and wrote Phase II of Leaf Rapids Housing Renewal Project including an apprenticeship component for local residents to address local labour market concerns. Phase II will see the completion of rehabilitation of the homes purchased from CMHC in 2007.

### **Marketing/Communication –**

Researched and authored the University College of the North (UCN)/Leaf Rapids Regional Centre concept paper outlining a strategy to counter the 40+% failure rate of northern first year post-secondary students attending southern institutions. Communities to be included in the UCN – Leaf Rapids Regional Centre's catchment area include: Leaf Rapids, Lynn Lake, Brochet, Lac Brochet, Tadoule Lake, South Indian Lake, and the Marcel Colomb First Nation based in Lynn Lake.

### **Proposal Development/Writing –**

Researched and wrote the Lynn Lake Water Plant Operator/Assistant Town Foreman funding proposal and position description. The position would see two years of apprenticeship training for a local individual in Water & Wastewater Management via Red River College and mentorship in Lynn Lake with a designated trainer (total of 1,800 hours of technical training and mentoring per year).

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

# LOANS APPROVED

AMOUNT	NAME	BUSINESS	LOCATION	RATE	TERM
\$200,000	Canadian Wild Rice Mercantile	Wild Rice	The Pas	5.00%	36
\$40,297	Mud lake Logging Ltd.	Logging	Wabowden	7.30%	36
\$195,397	Almost Arctic Inn Inc.	Hotel	Leaf Rapids	5.53%	72
\$3,850	Christopher Dalman	Fish Jerky	Arnes	6.08%	12
\$25,900	4011961 Manitoba Ltd. (Fisher River)	Fish Agent	Koostatak	6.53%	48
\$5,500	Dennis Rathgeber	Photography	Thompson	5.99%	36
\$380,000	Hilliker Enterprises Inc.	Hotel	Cross Lake	7.04%	120
\$59,760	David R. Albert	Sewer Contractor	Norway House	6.99%	60
\$35,950	Delbert Saunders	Transportation	Norway House	7.00%	36
\$13,668	John and Vernon Anderson	Towing	Norway House	7.03%	36
\$36,361	Ochekwi Sipi Economic Dev. Corp.	High Speed Internet	Koostatak	6.53%	36
\$20,475	Cindy Jonasson	Greenhouse	Wabowden	6.06%	36
\$167,675	Nichole M. Wallaker	Fast Food Restaurant	Flin Flon	6.56%	180
\$1,184,833	Total Active Loan Approvals - 13 clients				
\$53,300	Loans Approved/Withdrawn (unlisted) - 2 clients				
\$1,238,133	Total Approvals - 15 clients				



# HISTORICAL BUSINESS LOANS & JOBS CREATED

YEAR APPROVED	AMOUNT APPROVED	APPLICATIONS APPROVED	JOBS CREATED AND/OR RETAINED
1972 - 1982	\$11,564,800	373	1197
1983	2,138,275	31	138
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
	\$103,334,000	1478	6074



# PERFORMANCE DATA

	2011	2010	2009	2008	2007
No. of Loans Approved - Business	15	23	27	27	31
Dollar Value - Business	1,238,133	3,207,171	2,590,197	1,687,381	4,123,999
Dollar Value - Fish Approvals	3,201,487	3,760,207	4,268,577	4,290,014	4,447,258
No. of Active Loans - Business	116	128	135	141	128
No. of Active Loans - TEAM	0	0	0	0	3
No. of Active Loans - Fisheries	1073	1119	1,280	1,309	1,154
Portfolio Value - Total	26,483,870	27,296,850	25,938,282	26,306,974	26,272,414
Bad Debt Expense - Business	455,100	199,854	175,832	706,893	427,803
As a percentage of Approvals	36.76%	6.23%	6.79%	41.89%	10.37%
Bad Debt Expense - Fisheries	100,000	287,500	105,000	0	200,000
As a percentage of Approvals	3.12%	7.65%	2.46%	0%	4.50%
Total Subsidy	\$1,469,208	\$1,514,821	\$1,505,556	\$1,514,164	\$1,514,164
Subsidy as a percentage of Approvals	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: <sup>1</sup>	860
Number of fishers supported by Fund loans: <sup>2</sup>	<u>1,075</u>
Total Employment:	1,935

## REVENUES

Total revenue of Business Loan clients: <sup>1</sup>	\$44,158,425
Total revenues of Fisheries Loan clients (before final payments and transfer income): <sup>2</sup>	<u>12,716,280</u>
Total Revenue	\$56,874,705
Direct Wages Paid <sup>1</sup>	\$15,233,119



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

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

# INDEPENDENT AUDITOR'S REPORT



Tel/Tél.: 204 956 7200  
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Toll-free/  
Sans frais: 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, 2011, and the statement of operations and the statement of 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, 2011 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 28, 2011

# STATEMENT OF FINANCIAL POSITION

March 31	2011	2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 13,201	\$ 190,293
Trust deposits - Province of Manitoba	954,057	687,164
Due from the Province of Manitoba (Note 2)	2,641,918	2,331,109
Accounts receivable	86,219	88,938
Property held for resale	4,425	4,425
Prepaid expenses	5,804	6,478
	<b>3,705,624</b>	<b>3,308,407</b>
<b>Loans receivable</b> (Note 3)	20,796,710	21,768,639
<b>Capital assets</b> (Note 4)	1,006,357	1,032,241
	<b>\$ 25,508,691</b>	<b>\$ 26,109,287</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 864,625	\$ 497,559
Funds held in trust (Note 5)	297,464	479,588
Deferred contributions (Note 6)	199,672	200,000
Interest payable to the Province of Manitoba	395,280	475,855
	<b>1,757,041</b>	<b>1,653,002</b>
<b>Commitments and contingencies</b> (Note 7)		
<b>Accrued pension liability</b> (Note 2)	2,289,950	2,147,146
<b>Advance by the Province of Manitoba</b> (Note 8)	21,461,700	22,309,139
	<b>\$ 25,508,691</b>	<b>\$ 26,109,287</b>



Approved on behalf of the Board:

Director 

Director 

# STATEMENT OF OPERATIONS

For the year ended March 31	2011	2010
<b>Revenue</b>		
Loan interest		
Business program	\$ 851,149	\$ 749,952
Fisheries program	855,424	963,340
Investment income	23,282	20,206
	<b>1,729,855</b>	<b>1,733,498</b>
<b>Cost of Funds</b>		
Interest paid to the Province of Manitoba		
Business program	478,813	514,610
Fisheries program	425,777	491,852
Life insurance	79,566	82,927
Trust line of credit	40,425	30,986
Other	159	213
	<b>1,024,740</b>	<b>1,120,588</b>
Gross margin	705,115	612,910
Operating expenditures (Page 25)	1,753,185	1,800,497
	<b>(1,048,070)</b>	<b>(1,187,587)</b>
Other income - administration fees	133,959	160,042
Deficiency of revenue over expenditures before provision for doubtful loans	(914,111)	(1,027,545)
Provision for doubtful loans - regular operations	555,100	487,276
Deficiency of revenue over expenditures before subsidy due from the Province of Manitoba	(1,469,211)	(1,514,821)
Subsidy due from the Province of Manitoba	1,469,211	1,514,821
Excess of revenue over expenditures for the year	\$ -	\$ -





# STATEMENT OF CASH FLOWS

For the year ended March 31	2011	2010
<b>Cash Flows from Operating Activities</b>		
Deficiency before subsidy	\$ (1,469,211)	\$ (1,514,821)
Adjustments for		
Amortization of capital assets	29,206	66,299
Provision for doubtful loans	555,100	487,276
	<b>(884,905)</b>	<b>(961,246)</b>
Accounts receivable	2,719	35,455
Prepaid expenses	674	(2,117)
Accounts payable and accrued liabilities	367,066	9,928
Funds held in trust	(182,124)	479,588
Deferred contributions	(328)	200,000
Interest payable to Province of Manitoba	(80,575)	(49,497)
Accrued pension liability	142,804	152,810
	<b>(634,669)</b>	<b>(135,079)</b>
<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in amounts due from the Province of Manitoba	(310,809)	19,426
Increase (decrease) - Advance by the Province of Manitoba	(847,439)	336,354
Subsidy - Province of Manitoba	1,469,211	1,514,821
	<b>310,963</b>	<b>1,870,601</b>
<b>Cash Flows from Investing Activities</b>		
Loans receivable, net of repayments	416,829	(1,499,940)
Purchase/construction of capital assets	(3,322)	(10,185)
	<b>413,507</b>	<b>(1,510,125)</b>
<b>Net increase in cash and cash equivalents</b>	<b>89,801</b>	<b>225,397</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>877,457</b>	<b>652,060</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 967,258</b>	<b>\$ 877,457</b>
<b>Represented by</b>		
Cash	\$ 13,201	\$ 190,293
Trust deposits - Province of Manitoba	954,057	687,164
	<b>\$ 967,258</b>	<b>\$ 877,457</b>
<b>Supplementary Information</b>		
Interest paid	\$ (1,077,187)	\$ (1,138,960)
Interest received	1,458,951	1,649,453



# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the year ended March 31

## Revenue Recognition


Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

## 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.

Transaction costs for financial instruments are expensed as incurred.

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.



<b>Assets/Liability</b>	<b>Category</b>	<b>Measurement</b>
Cash	Held for trading	Fair value
Trust deposits	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Due from Province	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 Province	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.
- Other financial liabilities are carried at amortized cost, using the effective interest method.
- Loans and receivables are carried at amortized cost, using the effective interest rate method, less any provision for impairment. Loans considered uncollectible are written-off. Recoveries on loans previously written-off are taken into income. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

## 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.

### **Pension Expense and Obligation**

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.

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.

The total liability as at March 31, 2011 amounts to \$2,289,950 (2010 - \$2,147,146).

### **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 (AcSB) and Public Sector Accounting Board (PSAB) issued new standards for not-for-profit organizations (NPOs) as follows:

For government (public sector) NPOs they have a choice of:

- 1. Public Sector Accounting standards with the current series of NPO-specific standards added with some minor changes; or
- 2. Public Sector Accounting standards.

The Boards require NPOs to adopt their respective standards for year ends beginning on or after January 1, 2012; early adoption is allowed. 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 continues to monitor the developments in this area and evaluate the implications of the potential changes in financial reporting standards.

# NOTES TO FINANCIAL STATEMENTS

For the year ended March 31

## 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 objective of the Fund was set to encourage economic development in Northern Manitoba, to act as a lending authority in the fishing industry in the Province of Manitoba and to provide financial assistance to Aboriginal people in the Province outside the City of Winnipeg. The Business and Fisheries Loan 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 \$2,641,918 (2010 - \$2,331,109) 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:

	2011	2010
Department of Aboriginal and Northern Affairs		
Subsidy (refundable)	\$ (178,731)	\$ 47,587
Order in Council pending	465,299	70,976
Pension (unfunded)	2,269,098	2,128,671
Pension (funded)	20,852	18,475
Severance accrual (unfunded)	65,400	65,400
	<b>\$ 2,641,918</b>	<b>\$2,331,109</b>



## 3. Loans Receivable

	2011	2010
<b>Business Loan Program</b>		
Interest rates applied range from 5.00% to 7.30%		
Principal	\$ 10,968,871	\$ 11,973,837
Accrued interest	1,087,643	845,954
	<b>12,056,514</b>	<b>12,819,791</b>
Allowance for doubtful loans (Note 9)	2,271,285	2,167,479
	<b>9,785,229</b>	<b>10,652,312</b>
<b>Fisheries Loan Program</b>		
Interest rates applied range from 4.65% to 7.02%		
Principal	13,323,841	13,397,464
Accrued interest	1,105,422	1,079,595
	<b>14,429,263</b>	<b>14,477,059</b>
Allowance for doubtful loans (Note 9)	3,417,782	3,360,732
	<b>11,011,481</b>	<b>11,116,327</b>
	<b>\$ 20,796,710</b>	<b>\$ 21,768,639</b>

The following schedule provides the gross amount of loans together with the loan allowances:

	2011		2010	
	Gross Loan Balances	Total Allowance	Gross Loan Balances	Total Allowance
<b>Business Loan Program</b>				
Impaired	\$ 4,170,414	\$ 1,876,980	\$ 2,905,031	\$ 1,671,741
Performing	7,886,100	394,305	9,914,760	495,738
	<b>\$12,056,514</b>	<b>\$2,271,285</b>	<b>\$12,819,791</b>	<b>\$2,167,479</b>
<b>Fisheries Loan Program</b>				
Impaired	\$ 3,417,782	\$ 3,417,782	\$ 3,360,732	\$ 3,360,732
Performing	11,011,481	-	11,116,326	-
	<b>\$14,429,263</b>	<b>\$3,417,782</b>	<b>\$14,477,058</b>	<b>\$3,360,732</b>

#### 4. Capital Assets

	Cost	Accumulated Amortization	2011	2010
			Net Book Value	Net Book Value
Land	\$ 92,482	\$ -	\$ 92,482	\$ 92,482
Building	931,236	41,906	889,330	907,955
Office furniture and equipment	149,574	125,029	24,545	31,804
Parking lot	73,000	73,000	-	-
<b>Total</b>	<b>\$1,246,292</b>	<b>\$239,935</b>	<b>\$1,006,357</b>	<b>\$1,032,241</b>



#### 5. Funds Held in Trust

The Fund has received funds in trust from the Government of Manitoba to be administered as directed by the Government regarding the following:

Establishment of the Metis Economic Development Fund	<u>\$297,464</u>
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#### 6. 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.

## 7. Commitments and Contingencies

### Loan Commitments

	2011	2010
Undisbursed balance of approved loans	<b>\$433,529</b>	<b>\$645,377</b>

### Equipment Commitments

The Fund has entered into lease agreements for various office equipment. The minimum lease payments over the next five years are as follows:

2012	\$3,945
2013	\$3,945
2014	\$1,596
2015	\$1,596
2016	\$1,596

### Contingencies

The Fund has been named as a defendant in a statement of claim. At the time of preparation 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.



## 8. Advance by the Province of Manitoba

	2011	2010
Business Loan Program (Note 10)	\$ 11,137,454	\$ 12,536,774
Fisheries Loan Program (Note 10)	9,365,790	8,792,606
Building mortgage	958,456	979,759
	<b>\$21,461,700</b>	<b>\$ 2,309,139</b>

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. 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 3/4%. At year end, the advances bore rates ranging from 2.38% to 5.50% with a weighted cost of capital of 3.49%.

## 9. Allowance for Doubtful Loans

The change in the allowance is accounted for as follows:

	2011			2010
	Specific	Non-Specific	Total	Total
<b>Business Loan Program</b>				
Balance, beginning of year	\$ ,671,741	\$ 495,738	\$ 2,167,479	\$ 2,050,981
Provision for the year	556,533	(101,433)	455,100	199,776
	2,228,274	394,305	2,622,579	2,250,757
Loans written-off	(351,294)	-	(351,294)	(83,278)
<b>Balance, end of year</b>	<b>\$1,876,980</b>	<b>\$394,305</b>	<b>\$2,271,285</b>	<b>\$2,167,479</b>

### Fisheries Loan Program

Balance, beginning of year	\$ 3,360,732	\$ 3,131,327
Provision for the year	100,000	287,500
	3,460,732	3,418,827
Loans written-off	(42,950)	(58,095)
<b>Balance, end of year</b>	<b>\$3,417,782</b>	<b>\$3,360,732</b>

The provision for fish loan losses recorded by the Fund exceeds the value derived by the net present value formula as at March 31, 2011 by \$1,250 (2010 - \$301,970).

	2011	2010
Loan Loss Provision		
Per accounts	\$ 3,417,782	\$ 3,360,732
Per net present value calculation	(3,416,532)	(3,058,762)
	<b>\$ 1,250</b>	<b>\$ 301,970</b>



## 10. Loan Programs

### Business Loan Program

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, 2010". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

Advances from the Business Loans Program are accounted for as follows:

	2011	2010
Advances, beginning of year	\$14,756,358	\$13,419,642
Loan advances	3,207,171	3,207,171
Loan advance repayments	(3,686,014)	(1,799,479)
Loan write-offs	(465,299)	(70,976)
	<b>13,812,216</b>	<b>14,756,358</b>
Unfunded allowance, beginning of year	2,219,584	2,158,262
Provision for doubtful loans	455,100	199,776
Write-offs (Order in Council approved)	78	(138,454)
	2,674,762	2,219,584
Net balance, end of year (Note 8)	<b>\$11,137,454</b>	<b>\$12,536,774</b>



### Fisheries Loan Program

Advances to the Fisheries Loan Program are accounted for as follows:

	2011	2010
<b>Advances, beginning of year</b>	<b>\$12,172,185</b>	<b>\$12,842,716</b>
Loan advances (repayments)	673,184	(631,299)
Loan write-offs	-	(39,232)
	<b>12,845,369</b>	<b>12,172,185</b>
Unfunded allowance, beginning of year	3,379,579	3,131,311
Provision for doubtful loans	100,000	287,500
Write-offs (Order in Council approved)	-	(39,232)
	3,479,579	3,379,579
Net balance, end of year (Note 8)	<b>\$9,365,790</b>	<b>\$8,792,606</b>



## 11. Loan Act Authority

Amounts authorized for advances under “The Loan Act, 2010” are as follows:

	<b>2011</b>
Per Schedule A of “The Loan Act, 2010”	\$ 6,800,000
Per Schedule B of “The Loan Act, 2009”	6,450,012
Direct loans	13,250,012
Authority used	4,825,000
<b>Unused Loan Act capital available</b>	<b>\$8,425,012</b>

## 12. Economic Dependence

The ongoing operations of the Communities Economic Development Fund depend on obtaining adequate financing and funding. The Fund is dependent upon the Province of Manitoba for funding of operations.

## 13. Capital Management

The Fund considers its capital to be comprised of advances from the Province of Manitoba. There has been no change to what the Fund considers to be its capital since the prior period.

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.



## 14. 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 whom 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 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 \$20,796,710 (\$21,768,639 in 2010). The risk has not changed from the previous period.

## **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 \$21,750,767 (\$22,455,803 in 2010) in interest bearing deposits and loans receivable at March 31, 2011. 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. The risk has not changed from the previous period.

## **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.

The fair value of loans receivable are not practical to determine due to the limited amount of comparable market information available and the uncertainty of the timing of cash flows of the loans. 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	2011	2010
Amortization of capital assets	\$ 29,206	\$ 66,299
Building expenses	111	2,707
Collection costs	80,058	46,269
Communications	39,350	37,425
Credit reports	2,370	2,672
Directors' fees and expenses	64,294	59,321
Government vehicles	25,657	24,243
Insurance	6,707	4,659
Legal costs	32,947	40,070
MAFRI	91,663	97,834
Mortgage interest	50,975	52,060
Office supplies and expenses	32,788	43,591
Pension	207,852	195,733
Professional fees	25,379	25,564
Rent and utilities	27,908	28,171
Repairs and maintenance	10,410	25,174
Salaries and benefits	968,757	986,167
Sundry	19,080	18,216
TEAM	-	142
Travel	37,673	44,180
	<b>\$1,753,185</b>	<b>\$1,800,497</b>











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