

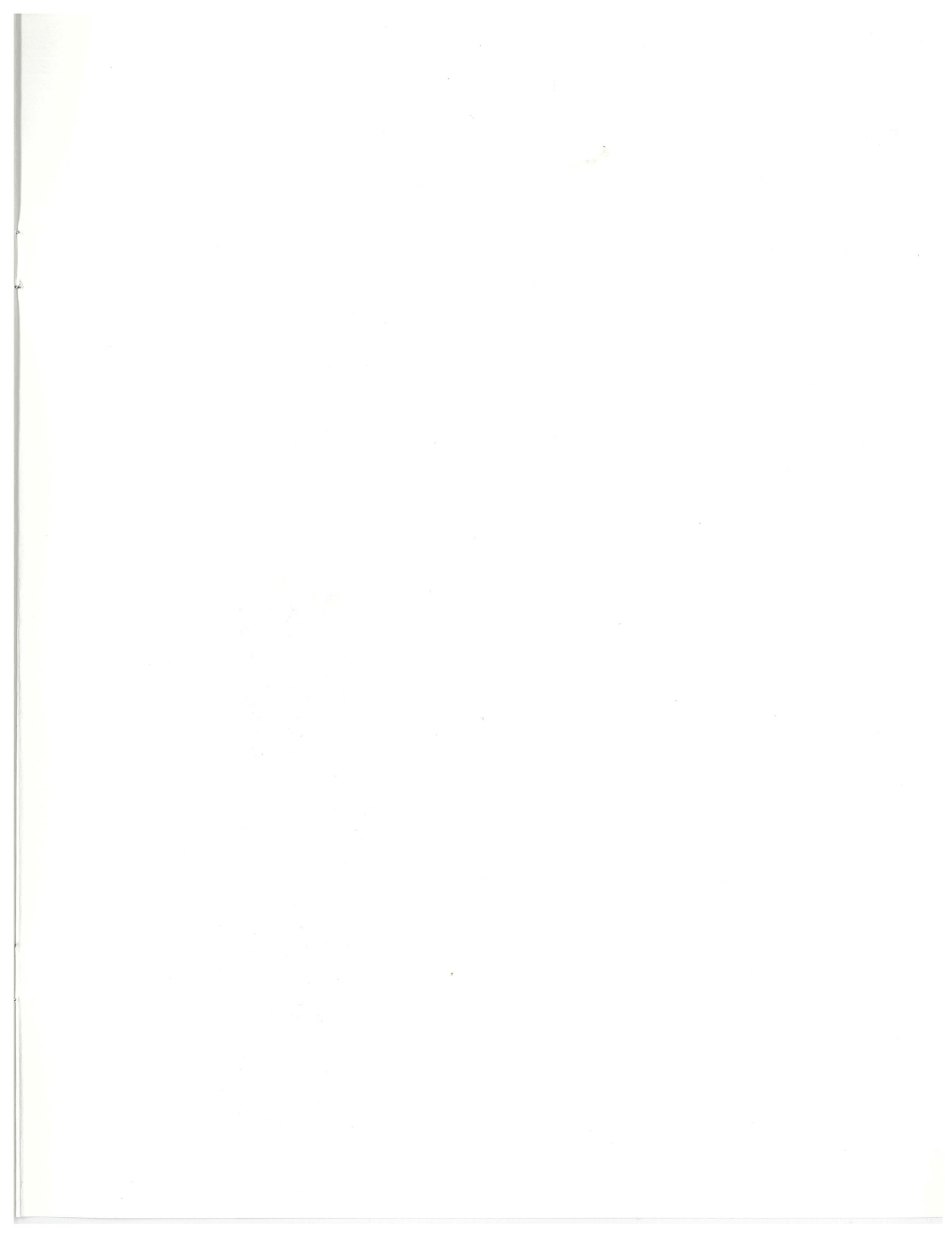
Business Credit Corporation

1993 Annual Report

Northwest Territories
Business Credit Corporation

The Business Credit Corporation is a crown corporation responsible for encouraging business development and growth throughout the NWT.

NWT
EDT
BCC
Bus
1993
c.2





INTRODUCTION

This annual report reflects the first full year of operation of the NWT Business Credit Corporation. The NWT Business Credit Corporation (BCC) is the successor to the Business Loans & Guarantees Fund.

The BCC Act was proclaimed on October 1, 1991 and the Corporation commenced its operations at that time. All lending activity after October 1st was carried out by the Corporation.

TERRITORIAL BUSINESS LOAN BOARD MEMBERS 1992/93

M. King	Chairperson	Hay River
A. Woodhouse	Vice Chairperson	Iqaluit
M. Kalluak	Director	Arviat
A. Chang	Director	Yellowknife
R. Hardy	Director	Fort Norman
A. Barr	Director	Rankin Inlet
J. Schaeffer	Director	Fort Smith

EQUAL REPRESENTATION

Members of the BCC represent a variety of businesses from all regions of the NWT. All are from the private sector.

All members are long term territorial residents and all have made valuable contributions to their community and the territorial economy.

NWT BUSINESS CREDIT CORPORATION

The NWT Business Credit Corporation is designed to provide a lending institution which is more responsive to its clients and is less bound by the restrictions of normal government operations.

In particular, legislation provides for a Board of Directors of between seven and twelve people, regional loan boards, and the authority to provide loans, bonds, guarantees and indemnities.

HISTORICAL HIGHLIGHTS

- 1970 *The Small Business Loans Fund was created by Indian and Northern Affairs Canada, to provide financing to those businesses and individuals unable to obtain reasonable commercial debt financing from conventional lenders.*
 - 1977 *The Small Business Loans Fund was transferred to the Government of the Northwest Territories. The scope of the Fund was expanded to allow the provision of loan guarantees and loan and guarantee limits were increased to \$500,000 from \$50,000.*
 - 1982 *The Business Loans and Guarantees Fund was opened to all qualifying territorial businesses and the word "Small" was removed from the Fund's title. Previously, businesses whose gross revenues exceeded \$1 million were ineligible.*
 - 1985 *The Fund provided contract security to businesses unable to obtain the bonding required to participate in NWT Housing Corporation construction projects.*
 - 1986 *The Fund's capitalization was increased to \$16 million.*
 - 1989 *The Fund's capitalization was increased to \$20 million.*
 - 1991 *The BCC Act was proclaimed and the Corporation commenced operations. Loan and guarantee limits were raised to \$1 million.*
 - 1992 *The assets of the Business Loans and Guarantees Fund were transferred to the BCC.*
 - 1993 *The BCC is included in a review of Department of Economic Development & Tourism in connection with reorganization of the Department and the Business Credit Corporation.*
-

The objectives of the BCC are to:

- stimulate economic development;
- encourage business growth; and
- increase employment.

The BCC currently has a working capital advance of \$20 million. This limit can be extended as far as \$50 million under the existing legislation, upon approval of the Financial Management Board.

SUBSEQUENT EVENTS

In keeping with recommendations of the Department review, the Corporation will be delegating lending authority to Regional Superintendents to a maximum of \$200,000. It is anticipated that this will speed up the process of making credit facilities available to Northern businesses.

In consultation with Regional Offices of Department of Economic Development & Tourism, the BCC has developed a comprehensive set of Operational Procedures. These procedures will provide complete information and reporting to Regional Offices. BCC relies on the Department of Economic Development & Tourism to provide Regional Lending, Executive, Program and Administrative Support services.

LENDING PARAMETERS

<i>Maximum loan and liability for any one business</i>	<i>\$1.0 million</i>
<i>Maximum amount for any one business loan, bond guarantee or indemnity</i>	<i>\$1.0 million</i>
<i>Maximum loan term</i>	<i>5 years</i>
<i>Maximum loan amortization</i>	<i>25 years</i>
<i>Interest rate</i>	<i>2% over prime</i>

LENDING ACTIVITY. . . . During the 1992/93 fiscal year, the Corporation examined a total of 56 loans with an aggregate value of \$9.0 million. Of the applications submitted, 45 (80%) were approved for a total value of \$5.8 million.

Loan applications were received from all seven regions, as detailed in Table 1. A regional analysis of the loans approved is provided in Table 2.

Approximately 39% of the loan applications received were for small loans of less than \$50,000. All of these loans were approved. These loans represent 10% of the value of approved loans. Table 3 provides an analysis of the loan applications submitted according to the size of the loan. Table 4 provides a similar analysis of the loans approved.

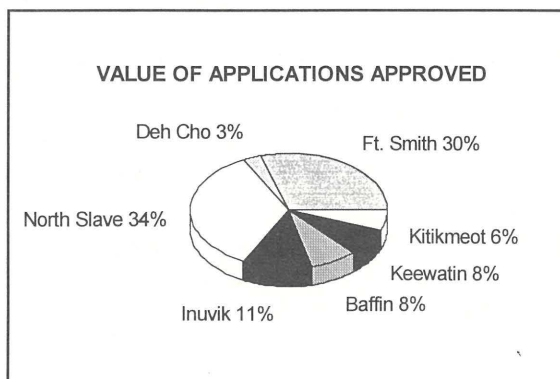
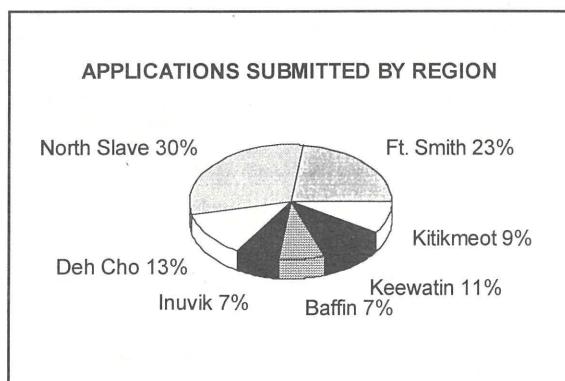


TABLE 1

APPLICATIONS SUBMITTED BY REGION

	No. of Loans	\$000's
Fort Smith	13	2,685,539
North Slave	17	3,154,670
Deh Cho	7	258,040
Inuvik	4	1,030,000
Baffin	4	710,000
Keewatin	6	701,545
Kitikmeot	<u>5</u>	<u>515,573</u>
TOTAL	56	9,055,367

PROVISION FOR LOAN LOSSES During the current year, the Corporation made provisions totalling \$2.4 million for doubtful accounts.

These provisions for doubtful accounts do not mean that the loans have been written off or have been forgiven. Any client accounts which have been classified as doubtful are still legally collectible.

TABLE 2

LOANS APPROVED BY REGION

	No. of Loans	\$000's
Fort Smith	11	1,927,914
North Slave	12	1,827,470
Deh Cho	7	258,040
Inuvik	2	195,000
Baffin	4	710,000
Keewatin	4	451,545
Kitikmeot	<u>5</u>	<u>515,573</u>
TOTAL	45	5,885,542

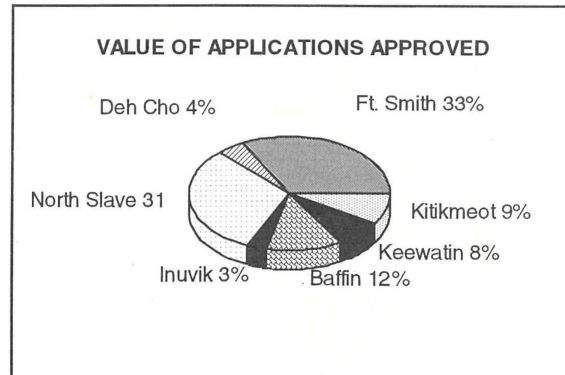
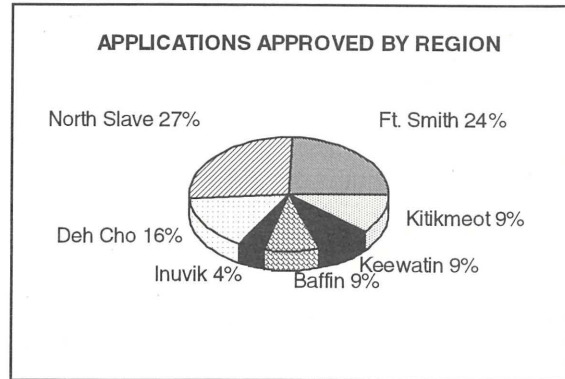
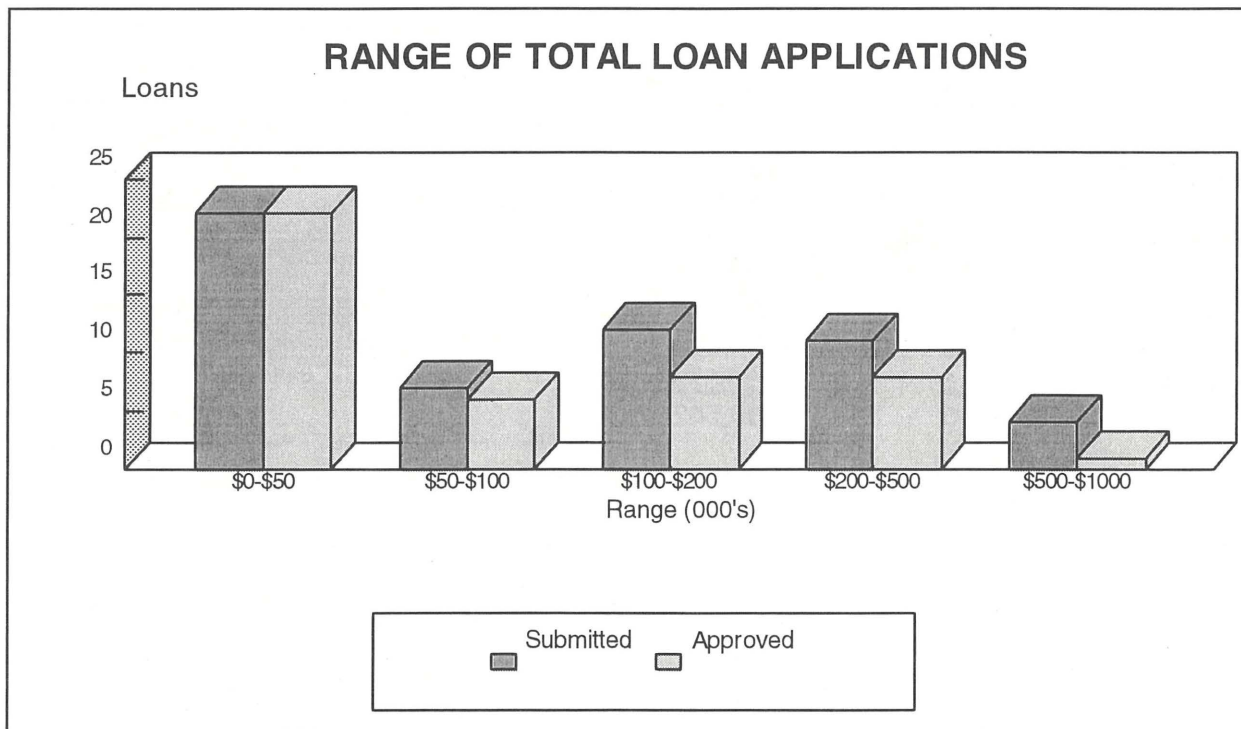


TABLE 3

RANGE OF TOTAL LOAN APPLICATIONS

Range	No. of Loans	Amount \$000's	Average Loan \$000's
0 - 50	22	620,205	28,191
50 - 100	7	617,286	88,184
100 - 200	12	1,945,200	162,100
200 - 500	11	3,399,362	309,033
500 - 1,000	<u>4</u>	<u>2,473,314</u>	618,328
TOTAL	56	9,055,367	161,703

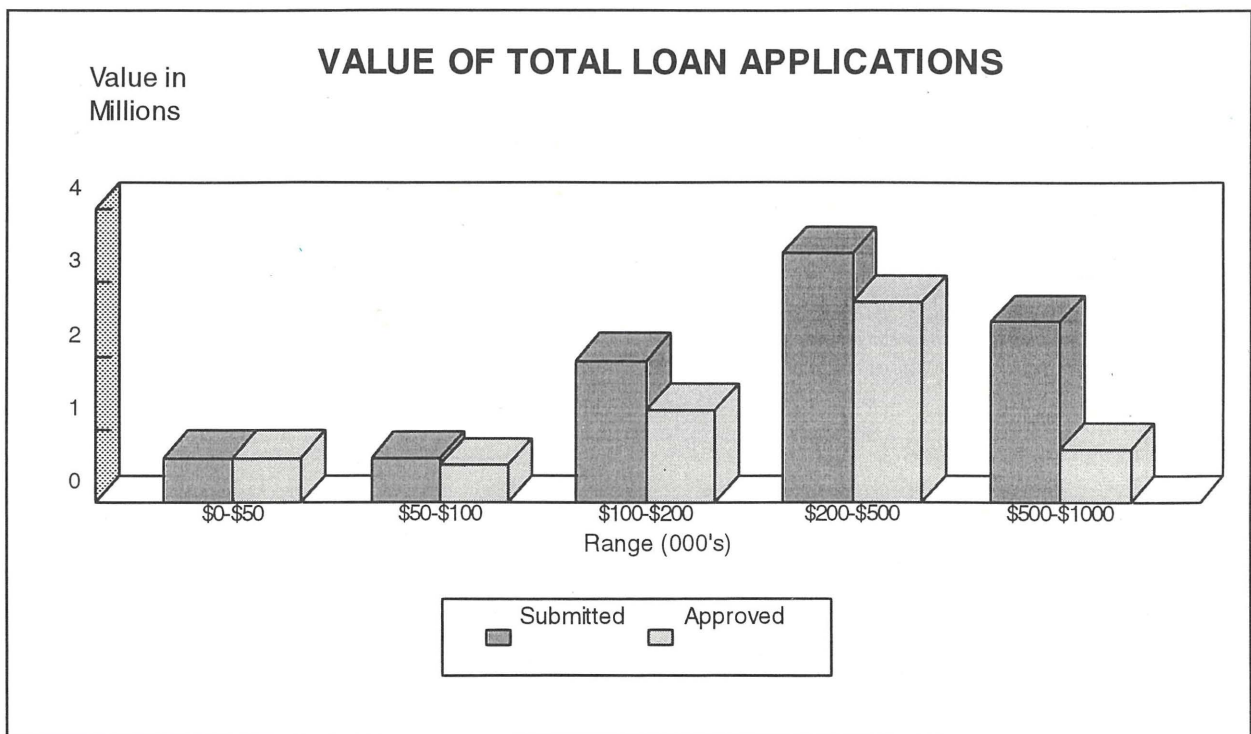


FINANCIAL STATEMENTS The financial statements of the NWT Business Credit Corporation (BCC) are shown in Appendix A. These statements reflect the operations for the year ended March 31, 1993.

TABLE 4

RANGE OF TOTAL LOANS APPROVED

Range	No. of Loans	Amount \$000's	Average Loan \$000's
0 - 50	22	620,205	28,191
50 - 100	6	517,286	86,214
100 - 200	8	1,270,000	158,750
200 - 500	8	2,742,737	342,842
500 - 1,000	<u>1</u>	<u>735,314</u>	735,314
TOTAL	45	5,885,542	130,790



Report on the audit of the
accounts and financial statements of the

**NORTHWEST TERRITORIES
BUSINESS CREDIT CORPORATION**

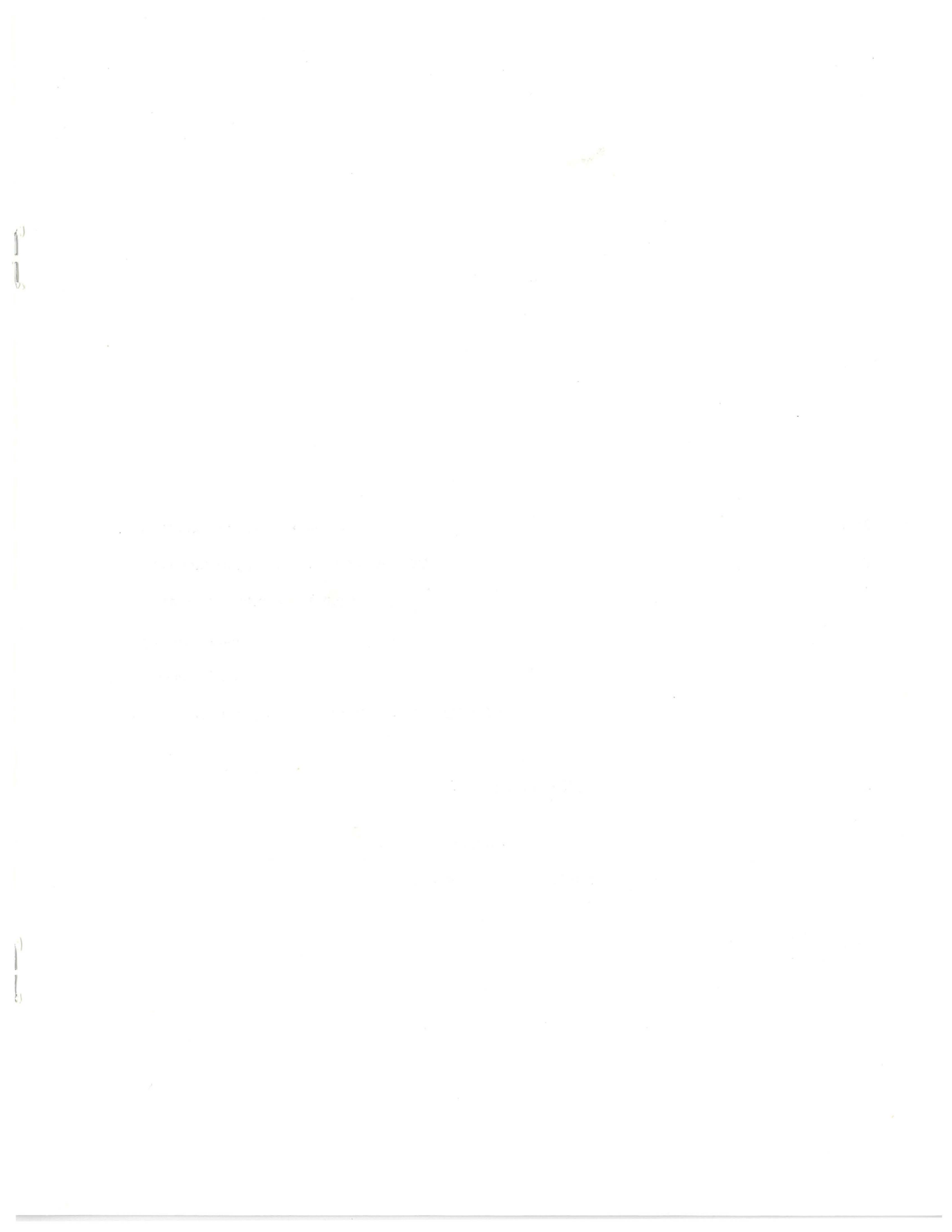
for the year ended March 31, 1993

FINANCIAL STATEMENTS

MARCH 31, 1993

TABLE OF CONTENTS

Management's Responsibility for Financial Reporting	1
Auditor's Report	2
Balance Sheet	3
Statement of Operations and Deficit	4
Statement of Changes in Financial Position	5
Notes to Financial Statements	6-10



NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

Management's Responsibility for Financial Reporting

The Corporation maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, that assets are acquired prudently, are used to further the Corporation's aims, and are protected from loss.

The accompanying financial statements of the Corporation were prepared and presented by Management in accordance with generally accepted accounting principles as described in the notes to the financial statements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they normally include amounts requiring estimates, which have been made based upon informed judgement as to the expected results of current transactions and events. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the financial statements.

The Northwest Territories Business Credit Corporation is subject to the NWT Business Credit Corporation Act and the Financial Administration Act. The Corporation also receives Ministerial Directives to establish operational procedures and significant accounting policies. Management recognizes its responsibility for conducting the Corporation's affairs in accordance with the requirements of applicable legislation and for maintaining standards of conduct that are appropriate to a Territorial Crown Corporation.

In discharging its responsibilities for the integrity, fairness and quality of the financial statements and for the accounting systems from which they are derived, management maintains a system of internal controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors, through the Audit Sub-Committee which is comprised of Directors who are not employees of the Corporation, is responsible for reviewing and approving the audited annual financial statements and oversees the managements' responsibilities for financial reporting. The external auditors have full and free access to the Audit Sub-Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon. He provides an independent, objective audit for the purpose of expressing his opinion on the financial statements. He also considers whether the transactions that come to his notice in the course of this audit are, in all significant aspects, in accordance with the specified legislation.

August 31, 1993



Afzal Currimbhoy
Manager and Chief Executive Officer



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister responsible for the
Northwest Territories Business Credit Corporation

I have audited the balance sheet of the Northwest Territories Business Credit Corporation as at March 31, 1993 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1993 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding period.

Further, in my opinion, proper books of account have been kept by the Corporation, the financial statements are in agreement therewith and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the Financial Administration Act and regulations and the Northwest Territories Business Credit Corporation Act.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
August 31, 1993




NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

BALANCE SHEET

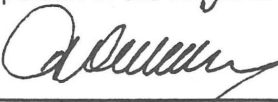
March 31, 1993
(Thousands of Dollars)

	<u>1993</u>	<u>1992</u>
ASSETS		
Loans Receivable (Note 3)	\$ 18,381	\$ 1,569
Accrued Interest Receivable	<u>668</u>	<u>25</u>
	19,049	1,594
Less: Allowance for Losses on Loans	<u>7,300</u>	<u>375</u>
	11,749	1,219
Accounts Receivable	<u>10</u>	<u>5</u>
	<u>\$ 11,759</u>	<u>\$ 1,224</u>
LIABILITIES		
Accounts Payable	\$ 33	\$ 5
Loans from the Government of the Northwest Territories (Note 5)	<u>14,244</u>	<u>1,591</u>
	14,277	1,596
DEFICIT		
Deficit	<u>(2,518)</u>	<u>(372)</u>
	<u>\$11,759</u>	<u>\$ 1,224</u>
Statutory Limit and Commitments (Note 6)		

APPROVED:



Chairperson of the Board of Directors



Manager and Chief Executive Officer

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

STATEMENT OF OPERATIONS AND DEFICIT

For the Year Ended March 31, 1993

(Thousands of Dollars)

	<u>1993</u>	<u>1992</u> (6 months)
LOANS		
Interest Income on Loans Receivable	\$ 1,250	\$ 41
Interest Expense on Loans Payable	<u>1,034</u>	<u>38</u>
Net Interest Income	216	3
Provision for Losses on Loans (Note 4)	(2,339)	(375)
Net Interest Income after Provision for Losses on Loans	(2,123)	(372)
ADMINISTRATIVE EXPENSES		
Salaries and Benefits	232	9
Computer Services	78	3
Board Members (Note 7)	63	27
Professional Fees	25	5
Publications	12	-
Communications	11	-
Office	<u>7</u>	<u>-</u>
	428	44
Less: Operating Contribution - Government of the Northwest Territories	<u>405</u>	<u>44</u>
NET LOSS FOR THE PERIOD	(2,146)	(372)
DEFICIT AT BEGINNING OF PERIOD	(372)	-
DEFICIT AT END OF PERIOD	<u>(\$ 2,518)</u>	<u>(\$ 372)</u>

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended March 31, 1993
(Thousands of Dollars)

	<u>1993</u>	<u>1992</u> (6 months)
OPERATING ACTIVITIES		
Net Loss for the Period	(\$ 2,146)	(\$ 372)
Items Not Affecting Loans from GNWT		
Provision for losses on loans	2,339	375
Change in Accrued Interest Receivable	(643)	(25)
Accounts Receivable	(5)	(5)
Accounts Payable	<u>28</u>	<u>5</u>
Cash Used by Operating Activities	(427)	(22)
INVESTING ACTIVITIES		
Loans Receivable Disbursed	(5,082)	(1,617)
Loans Receivable Repaid	3,866	48
Loans Portfolio Transferred from GNWT	<u>(11,010)</u>	<u>-</u>
Cash Used by Investing Activities	(12,226)	(1,569)
Increase in Loans from GNWT	<u>12,653</u>	<u>1,591</u>
Loans at beginning of the Period	<u>1,591</u>	<u>-</u>
Loans at end of the Period	<u>\$14,244</u>	<u>\$ 1,591</u>

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

1. AUTHORITY, OBJECTIVE AND OPERATION

The Corporation operates under the authority of the Northwest Territories Business Credit Corporation Act, which came into effect October 1, 1991. The Corporation is also subject to the Northwest Territories Financial Administration Act and is an agent Crown corporation of the Government of the Northwest Territories.

The Corporation's objective is to stimulate economic development and employment in the Northwest Territories, by making loans to business enterprises, guaranteeing loans made by financial institutions to business, providing bonds to resident business enterprises and indemnifying bonding companies which have provided bonds to resident business enterprises. In addition, the Corporation is responsible for making business development loans to Northern businesses to create economic development opportunities in communities where conventional lending institutions are not prepared to participate, and its role, therefore, is a blend of being a last resort lender and a developmental agency for higher risk entrepreneurial ventures.

Receipts are deposited in and disbursements are paid from the Consolidated Revenue Fund of the Government of the Northwest Territories.

Loans transfer

On April 1, 1992, the Government of the N.W.T. transferred a loan portfolio to the Corporation, as follows:

	(000)
Principal Outstanding	\$ 14,783
Accrued Interest to March 31, 1992	<u>813</u>
	15,596
Allowance for Doubtful Accounts	<u>(4,586)</u>
Net Value of Loans Transferred	<u>\$ 11,010</u>

The net loan receivables transferred were financed by a loan from the Government.

Going concern

The Corporation's ability to carry on as a going concern depends upon the Government of the Northwest Territories continuing provision of operating contribution and loans.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

2. SIGNIFICANT ACCOUNTING POLICIES

Allowance for losses on loans

The allowance for loan losses represents management best estimate of probable losses on loans at the end of the year. The allowance has a specific component and a general component.

The specific component is that provision which is determined based on a loan-by-loan review to determine under-secured loans. Specific provisions are established for individual loans where circumstances indicate that the loan has deteriorated to the extent that the Corporation does not have reasonable assurance of ultimate collection of principal and interest, and to value these loans at the lower of their recorded balance or the net realizable value of the underlying security for the loans.

The general component is that provision which is established at five percent (5%) of loan receivable, net of the specific provision. This is prudential in nature and therefore established to provide for losses on loans which cannot yet be identified on a loan-by-loan basis, and to absorb losses attributable to the deterioration of quality of loan receivables on an aggregate exposure in a particular industry or geographical region.

Interest revenue recognition

Interest is accrued on loan principal receivable and recorded as income until such time as the loan becomes non-performing. When a loan is initially classified as non-performing, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Subsequent payments are recorded as interest income after any prior write-off has been recovered and if management has determined that a specific provision is not required, otherwise they are recorded as a reduction of principal.

Non-performing is defined as any loan where an allowance for losses is determined to be necessary when:

- a) principal or interest is six months past due, unless the loan is well secured, or
- b) when circumstances indicate that a loan is impaired and there is doubt as to the ultimate collectibility of principal or interest within a reasonable period of time, or
- c) the loan has been previously restructured and principal or interest is three months past due; or
- d) principal or interest is 12 months past due regardless of whether or not the loan is well secured.

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating contribution

Under the terms of an operating agreement between the Corporation and the Government of the Northwest Territories, certain administrative costs paid by the Government are recorded by the Corporation as an operating contribution from the Government of the Northwest Territories.

Administrative costs paid by the Government include board members' expenses, salaries and benefits, professional services, computer services, office expenses, communications expenses and publication costs. The operating contribution is recorded in operations.

Services provided without charge

The Corporation does not record the value of capital assets or services provided by the Government of Northwest Territories without charge. Services provided by the government include accounting, support, legal and personnel services as well as office accommodation. Furthermore, the Corporation receives audit services without charge from the Auditor General of Canada.

Pension contributions

The Corporation and its employees, who are deemed to be employees of the Government of Northwest Territories, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

3. LOANS RECEIVABLE

<u>Region</u>	<u>Range of Annual Interest Rates</u>		<u>Principal Balance</u>	
	<u>Mar 31/93</u>	<u>Mar 31/92</u>	<u>Mar 31/93</u>	<u>Mar 31/92</u>
			(000)	
Baffin	9.00-15.75%	11.75-11.75%	\$ 2,250	\$ 22
Deh Cho	9.00-16.25%	10.00-11.75%	3,039	443
Fort Smith	9.00-15.75%	10.00-11.75%	2,152	402
Inuvik	9.00-11.75%	-	2,112	-
Keewatin	9.00-16.25%	11.50-11.75%	2,034	365
Kitikmeot	9.00-15.50%	-	850	-
North Slave	8.00-16.25%	10.00-11.75%	<u>5,944</u>	<u>337</u>
Gross Loans Receivable			18,381	1,569
Accrued Interest			<u>668</u>	<u>25</u>
			19,049	1,594
Less: Allowance for Loan Losses			<u>(7,300)</u>	<u>(375)</u>
Loan Receivable Net of Allowance for Loan Losses			<u>\$11,749</u>	<u>\$ 1,219</u>

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

3. LOANS RECEIVABLE (CONT)

Included in the accrued interest receivable of \$668 is an amount of \$ 491 (1992 was NIL) that has been provided for in the allowance for loan losses.

4. PROVISION FOR LOSSES ON LOANS

	<u>1993</u>	<u>1992</u>
	(000)	
Specific Provision	\$ 1,730	\$ 375
General Provision	<u>609</u>	<u>-</u>
Total Provision	<u>\$ 2,339</u>	<u>\$ 375</u>

The general provision was first established for the year ended March 31, 1993.

5. LOANS FROM THE GOVERNMENT OF NORTHWEST TERRITORIES

The Corporation is required to establish a fund as stipulated by the Northwest Territories Business Credit Corporation Act to process the financial activity of the Corporation. Pending formal establishment thereof, funding is made available through a working capital advance from the Government of the Northwest Territories. The balance of the loan fluctuates based on the need of the Corporation, but is not to exceed \$20 million, as approved by the Financial Management Board for the advance.

Interest is calculated using the monthly prime lending rate of the CIBC at the end of the month plus ½% from April 1, 1992 to February 9, 1993, and at a rate of selected Government of Canada 3 year Bond Rates from February 10, 1993 onward. These rates are applied to loans outstanding at the end of the month, compounded annually.

	<u>1993</u>	<u>1992</u>
	(000)	
Working capital advance	\$13,210	\$ 1,591
Accrued interest payable	<u>1,034</u>	<u>-</u>
	<u>\$14,244</u>	<u>\$ 1,591</u>

6. STATUTORY LIMIT AND COMMITMENTS

The Northwest Territories Business Credit Corporation Act allows the Corporation to have outstanding loans, guarantees, bonds, and bond indemnities to borrowers up to \$50 million. The Corporation has received authorization from the Financial Management Board for an initial working capital advance of \$ 20 million.

The free balance position against this limit, determined in accordance with the requirements of the Act, is \$3,979,000 which is summarized as follows:

NORTHWEST TERRITORIES BUSINESS CREDIT CORPORATION

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

6. STATUTORY LIMIT AND COMMITMENTS (CONT'D)

	<u>1993</u>	(000)	<u>1992</u>
Working capital advance - authorized limit	\$20,000		\$20,000
Loan principal receivable	18,381		1,569
Less: Allowance for doubtful accounts transferred on April 1, 1992	<u>4,586</u>		<u>-</u>
	13,795		1,569
Add: Commitments and guarantees	<u>2,226</u>		<u>2,923</u>
	16,021		4,492
Free balance	<u>\$ 3,979</u>		<u>\$15,508</u>

Commitments are approved credit facilities not yet disbursed by the Corporation.

Bonds and bond indemnities (Contract Security Loans) are presently represented in the form of actual loans and are held in trust by the client's solicitor until the credit facility is no longer required or expired.

7. BOARD MEMBER EXPENSES

Board member expenses have been fully allocated to the Corporation. During the year, the Board of Directors had 5 regular Board meetings and 7 telephone poll meetings. The following costs were incurred.

	<u>1993</u>	(000)	<u>1992</u>
Travel	\$ 23		\$ 10
Honoraria	23		10
Per Diem	14		-
Other Expenses	<u>3</u>		<u>7</u>
	<u>\$ 63</u>		<u>\$ 27</u>

8. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, the Corporation is related in terms of common ownership to all Government of the Northwest Territories created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business.

