

Deh Cho Business Development Center

“A Bridge to Success ”



*Annual Report
1999 – 2000*

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***Deh Cho Business Development Center
Board of Directors 1999 / 2000***

Ms. Alison de Pelham	Chairperson	Fort Simpson
Mr. Les Christopher	Treasurer / Vice Chair	Wrigley
Ruby Jumbo	Director	Trout Lake
Pauline Campbell	Director	Nahanni Butte
Ernest Hardisty	Director	Jean Marie River
John Hazenberg	Director	Fort Simpson

From April 1, 1999 to March 31, 2000 the Board of Directors held four meetings. The General Manager met with the Chairperson many times to discuss various issues throughout the year as well.

The Investment Review Committee (IRC) held thirteen meetings, mostly via conference call, to review loan applications from clients.

Introduction

The Deh Cho Business Development Center is a non-profit Corporation governed by a Board of Directors from the communities it serves and funded by the Territorial Government through the Department of Resources, Wildlife & Economic Development (RWED), using funds from the Community Futures Program and the GNWT.

The Center's Mandate is to enhance the economy and stimulate employment through business development in the Deh Cho Region. The business development services are provided to clients from the six communities in the Deh Cho region, namely Nahanni Butte, Trout Lake, Fort Liard, Fort Simpson, Wrigley and Jean Marie River. By providing assistance at all stages of business start-up and expansion, we hope to improve the client's chances of success. The level of assistance required varies from client to client. Sometimes putting a person in touch with the right contact may be all that is necessary. Other times they may require general advice regarding the type of business they want to start, assistance with a business plan and perhaps even financing.

Some may question why another lender is necessary when conventional sources such as the banks and government sources such as RWED already exist. The BDC differs from some or all of these existing lenders in at least three major ways. Firstly, we often provide assistance (financial and other) to people or businesses that are not yet bankable or, because of circumstances, cannot access any more financing from conventional sources. Businesses are able to access funding for projects or businesses that require the lender to take more risk without being charged outrageous interest rates. Secondly, the decisions as to who receives assistance rests with people from the communities of our region. The Investment Review Committee is made up of two Board members and three people from the communities that have knowledge and/or experience that enable them to make the lending decisions. Finally, the Deh Cho BDC goes a step further than just financing the project. The staff will assist clients with problems they may encounter after the project has been implemented as well. These services and others enable the BDC to fulfill its unique role in business development throughout the region. As our logo depicts and states, the BDC is a bridge between clients' ideas and their success.

Time Line of Significant Events

- June 1997 - Idea Presented To Communities
- September 1997 - Temporary Board Put In Place
- April 1998 - Application For BDC Submitted
- April 1998 - Application Approved
- September 1998 - General Manager Hired
- October 1999 - First Board Meeting
- November 1998 - First Official Board Ratified And Officers Elected
- November 1998 - BDC Incorporated
- January 1999 - Move Into Premises
- January 1999 - Business Development / Loans Officer Hired
- January 1999 - Operating And Loan Funds (\$550,000) Received
- January 1999 - First Loan Approved and Advanced

Lending Parameters

- The maximum amount that can be borrowed by any one entity is \$75,000. If loans are repaid more can be borrowed.
- The maximum term and amortization that a loan can have is five years.
- The interest rate can be from the bank's prime + 1% to prime +4%, depending upon the length of the term and the risk of the proposed venture.
- We cannot lend to Bands but we can lend to wholly owned incorporated companies of the Bands.

Factors Considered During Loan Application Assessment

- **The equity contributed by the applicant** - There are no firm equity requirements that all applications are measured against. However, the Investment Review Committee (IRC) will still assess the amount of money and sweat equity that the applicant is willing to contribute to the project relative to what he/she is able to contribute.
- **Creditworthiness of the applicant** - Since the applications we consider are usually high risk, the character (which includes his/her willingness to honor his/her indebtedness) of the applicant is very important. Each applicant will have their credit history examined to determine their desire to maintain good credit with all creditors.
- **Ability to repay the loan** - A person's willingness to repay is measured above. The ability to repay is a separate issue. To assess this factor we must look at the income of the applicant and the proposed business to determine if funds are sufficient to repay the amount requested.
- **Competition** - Although the Business Development Center is separate from government, we still use funds given to us by government to provide loans to new and existing businesses. Therefore, we must be careful when assessing the competitive impact, or market disruption, that a new business will have on those that already exist. Competition will also come into play when assessing the company's ability to generate enough revenue to repay the loan.
- **Viability** - Viability is really a combination of all factors together. This factor considers the proposed revenue and expenses of the business and attempts to discern whether the numbers are actually achievable in the business's market area. Financial projections can easily be manipulated to show large profits. Unrealistic projections, however, reflect badly upon management. They are either unable to correctly estimate the level of expected business or have a good idea of the expected levels and yet intentionally inflate the figures to increase the chances of success of the loan application.
- **Impact on the Community** - Competitive impact as mentioned above, is one undesirable effect that new business may have upon the communities they provide services to. However, there are many positive effects a business can have as well, such as new jobs, more services in the community, more infrastructure and sometimes even improve the standard of living in the community. All of the anticipated effects upon the community are considered when an application is being assessed.

Services and 1999 – 2000 Utilization

From April 1, 1999 to March 31, 2000 the Deh Cho BDC received approximately 55 general inquiries as to the services we could and would provide. If the client decided that we could help with the task he/she needed to complete, they utilized one or more of the services outlined below. Not all of the support provided to the clients can be easily counted statistically but, when possible, the services provided are included as one of the following.

General Business Advice / Counseling

A client in the very early stages of business start-up or expansion may need advice with many aspects. Requests range from the viability / feasibility of the idea, where to start, where to look for financing, what government departments do I need to register with, how to apply for financing, etc. The service is provided free of cost to clients of the BDC on an as needed basis.

Many of the clients who are interested in applying for financing require assistance in this manner as well. The total number of clients requiring some general business advice between April 1, 1999 and March 31, 2000 is approximately 51.

Since this service is closely tied to other services, the numbers should improve as the requests for financial assistance and other services increase.

Training

We believe that if a majority of the clients are willing to participate in some basic training their chances of success should improve. Financial training will enable them to keep better records and to recognize problems earlier. Training in other areas will help them sell their product or service and become more aware of the general requirements of a business at start-up. The Board and Staff of the BDC decided to prepare and offer workshops on an as-requested basis.

Several outlines are in process, including Understanding Financial Statements, Marketing, Marketing Research, and How to Do a Business Plan. Other sessions we hope to offer include Web Page Editing, E-Commerce, and Bookkeeping.

An outline of an “Understanding Financial Statements” workshop was prepared and sent to various organizations. Some responded with interest but no workshops have been completed to date.

If many requests come from remote areas, we may have to approach other organizations, such as the Local Training Authorities in the communities, for assistance to help cover the costs of delivery.

Small Business Service Center

The Small Business Service Center (SBSC) allows clients to carry out a number of tasks independently using the Center's resources and materials. It is open all day during the workweek and fully accessible to the public. During the coming year, we will try opening it in the evenings to see if people that are too busy during the day want to use it in the evening. If other hours are requested we will try to accommodate.

The \$9,200 contributed by the Canada / NWT Business Service Center and the Aboriginal Business Service Network during the year helped us to greatly increase the resources and materials of the Business Service Center.

The following is a partial list of what is available in the SBSC:

- Statistics Canada's Small Business Profiles and Financial Indicators CDROMs that can be used to conduct research and evaluate ideas for start-up or expansion.
- A computer with Internet access which allows the user to do research as well, or to search for new ideas or opportunities.
- The Canadian Trade Index can be used to search for new or better suppliers of the products they need for manufacturing or those they wish to sell.
- A digital camera. Users can snap photos for web pages, brochures, posters, etc.
- Educational videos covering software applications such as Word, Excel, Microsoft Publisher, Frontpage and Windows 98.
- "How-to" videos for business startup, marketing, etc.
- Software, including Word, Excel, Publisher (graphics presentation software), Frontpage (web page editor), Dreamweaver (web page editor), Business Plan Pro, Cash Plan Pro, and Marketing Plus, can aid in the creation of projected financial statements, brochures, business plans, or web sites.
- The Guide to Canadian Grants can help find an appropriate funding organization for the project they wish to implement.
- Other useful reference books, such as the Edmonton & Calgary Yellow pages, Associations Canada, Canadian Almanac & Directory and the Franchise Annual, may also be of help.

Usage of the Small Business Service Center, although far from its potential, is starting to improve. Recorded uses of the BSC for 1999-2000 shows that approximately 10 to 12 people used the materials for some purpose. Many of the more useful materials were not received until late winter / early spring.

We expect usage to improve once we circulate a complete list of the resources that we have available. We are going to explore the possibility of lending the materials of the Service Center out to clients in the remote areas of our region since they will probably not be able to avail of them for most of the year otherwise. The first step to making this possible is to identify an organization in each community that will be responsible for collecting and returning the materials to us.

The library will continue to grow over the next four years. The Canada / NWT Business Service Center will provide us with a budget of \$5,000 in each year that will allow us to continue to add more and better materials. We want to be the number one source of business related information in the Deh Cho.

Small Business Loans

During the fiscal year ending March 31, 2000, the BDC received and reviewed 28 applications for assistance with requests totaling \$492,699. Twenty-four were approved as is for a sum of \$412,324, 1 was approved at a reduced for \$1,500, 1 was rejected, 1 withdrawn and 1 deferred. Total loans approved were \$413,824. Total disbursements for 1999-2000 were \$278,324 (including a \$10,000 guarantee), \$275,824 of loans approved during 1999-2000 and \$2,500 to applicants approved in the previous year. Three loans remained undisbursed as of year-end, one for \$1,500, which will not be disbursed, one for \$60,000 which was disbursed shortly after year-end and one for \$74,500 which may or may not be disbursed. Current and previous year's totals and total to date are illustrated in Tables 1 & 2 / Figures 1 & 2.

Table 1 - # of Applications Assessed / Approved

	Per. Ended 3/31/99	Per. Ended 3/31/00	Total
Applications	11	28	39
Approvals	7	25	32
Not Approved	4	3	7

Figure 1

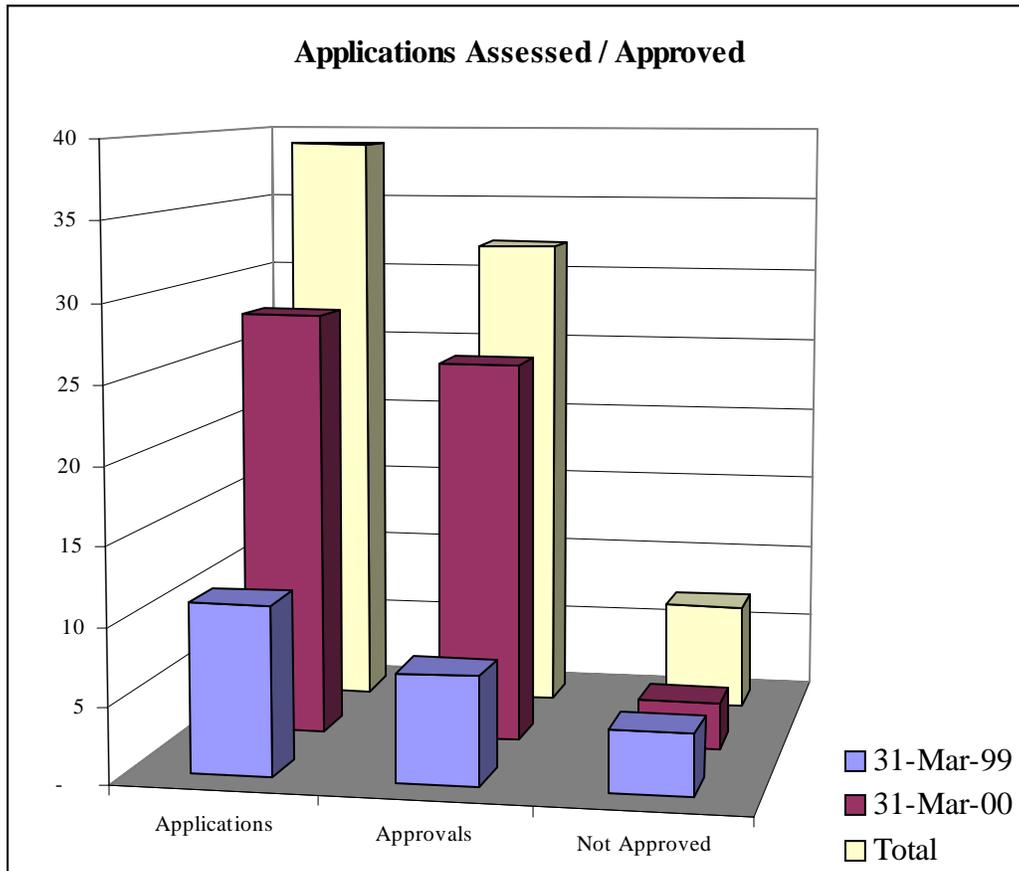


Table 2 - \$ Value Assessed / Approved

	Per. Ended 3/31/99	Per. Ended 3/31/00	Total
\$ Requested	\$ 75,255	\$ 492,699	\$ 567,954
\$ Approved	53,300	413,824	467,124
\$ Disbursed	50,800	278,324	331,124

Figure 2

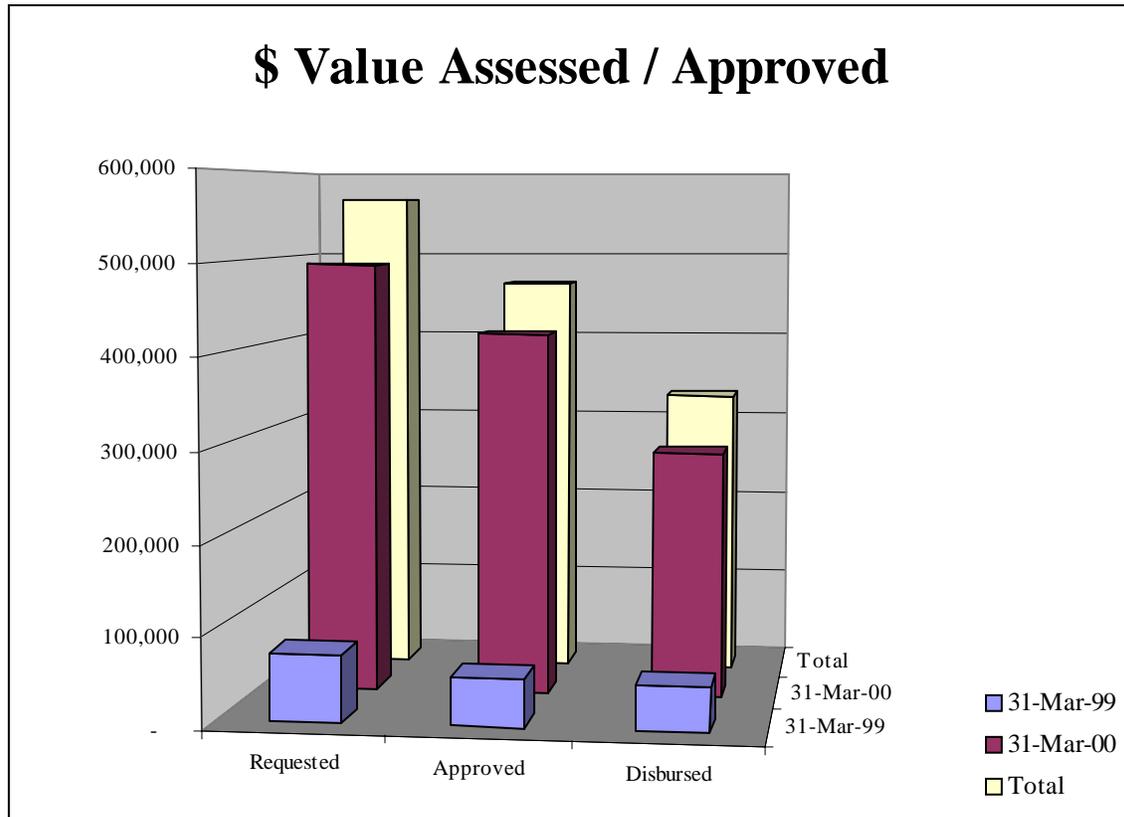
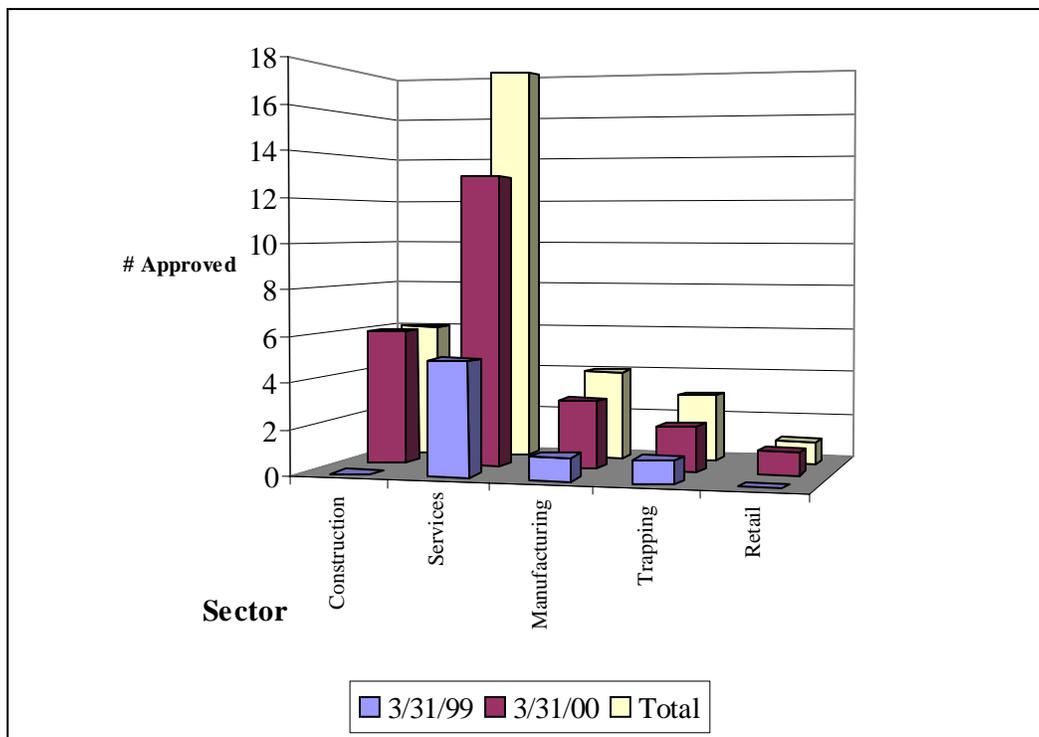


Table 3 and Figure 3 illustrate the various sectors that loans have been approved for since January 1999.

Table 3 - Loans Approved By Sector

SECTOR	Per. Ended 3/31/99	Per. Ended 3/31/00	Total
Construction	0	6	0
Services	5	13	18
Manufacturing	1	3	4
Trapping	1	2	3
Retail	0	1	1

Figure 3



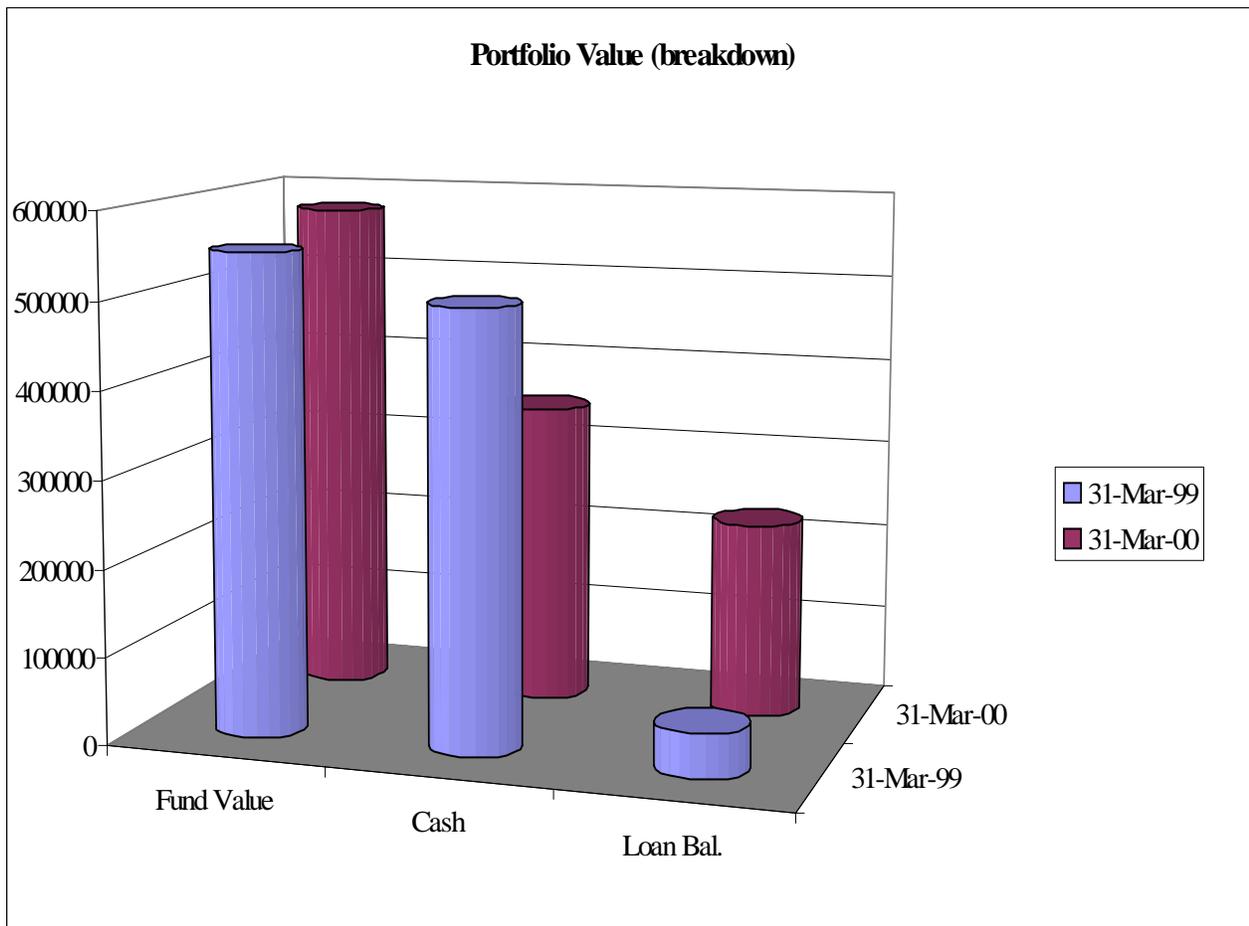
During the first few months after start-up, most of the loans were short-term in nature. Clients needed materials to fulfill contracts, working capital for short periods of time, and to be able to cover start-up costs and repair equipment. Over the last year, most loans have been longer term. As of March 31, 2000, the dollar weighted average repayment term was approximately 39.4 months vs. 6.3 months as of March 31, 1999.

Table 4 / Figure 4 illustrate the value of the Investment Fund (before allowances) and its components.

Table 4 – Portfolio Value Before Bad Debt

SECTOR	Per. Ended 3/31/99	Per. Ended 3/31/00
Total Value	\$550,490	\$576,101
Cash & Investments	499,296	348,379
Loan / Guarantee Bal.	50,633	225,316

Figure 4



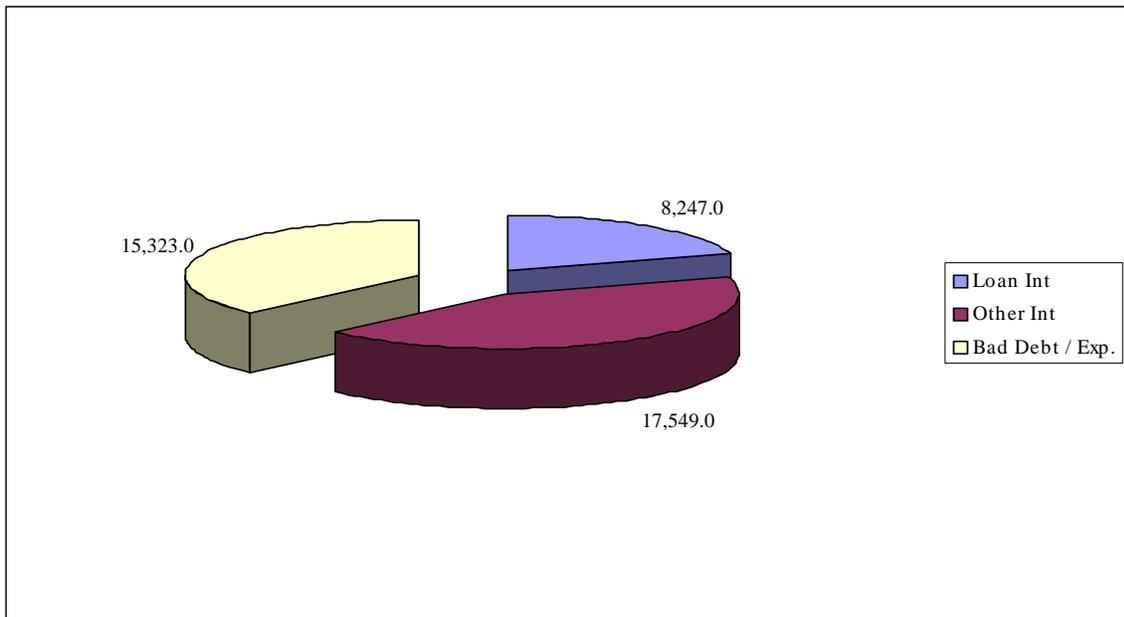
Five loans have been slow to pay, however, those considered doubtful by the auditor are still minimal. Two loans, with a total principal balance of approximately \$13,715, has been placed in doubtful accounts, along with the accrued interest on those accounts, and a small addition has been made for others in case the required amounts are not repaid or recovered from the security held, should that become necessary. The total allowance is only \$15,138 as of March 31, 2000, 4.6% of loans advanced to date or 6.7% of loans currently outstanding.

The following pie table & chart, Table 5 / Figure 5, shows a breakdown of the change in value of the Investment Fund.

Table 5 – Interest & Expenses of Investment Fund Since Inception

Loan Interest	\$8,247
Other Interest	\$17,549
Expenses / Bad Debt	\$15,323

Figure 5



We estimate that the loans advanced to March 31, 2000 assisted in the creation of 8 full-time and 6 part-time positions and helped maintain 36 full-time and 13 part-time positions.

Total funds needed/leveraged from other sources, to enable the projects to go ahead, was \$80,780. Of the total, \$40,113 (49.66%) was equity contributed by clients, and \$40,667 (50.34%) came from other sources.

The Operational Plan prepared for 2000-01 projects that applications for the coming year will be approximately \$750,000 (50 requests at \$15,000). Because of withdrawals and rejections, we expect to disburse approximately \$450,000. The projection for the coming year illustrates that as long as the loan for \$74,500, that is currently not disbursed,

remains undisbursed, and if loans are made evenly throughout the year, we should have enough investment funds for the 2000-01 year (Appendix A, pg. 1). If, however, we do disburse those funds and loan requests are higher in the fall than winter, we would need new funds (Appendix A, pg. 2). The projection shows that we would need at least \$31,000, but if we allow for other miscellaneous delays in payment, we may need \$50,000 to \$100,000 to keep the cash flow positive. Higher than expected losses can also have an effect on cash flow (Appendix A, pg. 3).

The projections for the investment fund (Appendix A, pg. 1) estimate \$36,633 in loan interest revenue and \$7,650 in bank interest revenue for the coming year, under the assumptions that our weighted average loan term is 3.25, we earn an average of 8.75% on loans outstanding and 3.75% on the average bank balance. With no bad debt, the value of the fund would rise to approximately \$600,682 by year-end (Appendix A, pg. 4).

We will be monitoring our loans to help ensure repayment and client success.

Assistance with Business Plans

As with the General Business Advice services mentioned above, very few clients to date have requested assistance with business planning only. The most common situation is for a client, who wants to apply for financing from the BDC, will also ask for assistance with the business plan. On occasion, e may be asked to review a plan for someone to ensure completeness or help them prepare a portion of the plan such as financial statements and projections.

We assist in any way we can but we are careful to ensure that the ideas and content of the plan are those of the client. Sometimes when someone else is involved in the preparation of the plan, the person applying for the assistance knows less about the project than the person who provided the help does. By providing advice, a business plan guide and asking the clients to complete as much of the business plan as possible, we hope to avoid these problems.

As more information about other programs is compiled and placed in the Service Center, one would expect the demand for assistance with business plans and applications to increase. Departments and Agencies such as Aboriginal Business Canada, the Metis-Dene Development Fund and RWED are a few examples of groups that may be able to provide financial assistance to some clients that we may not be able to help.

Monitoring and Aftercare

To March 31, 2000, the majority of the loan clients of the BDC have been from Fort Simpson, so most can be monitored very easily. Often we see them around the community but we also visit their establishments when necessary. The clients know that they can come to us when they have problems. Evidence of this can be shown by the

number of times some clients have come to request financing, especially those that obtain smaller government contracts as a part of their business.

Monitoring visits will increase as necessary. The more visits we are able to make, the more confident we can feel about the investment made and the more comfortable the client will become with us. Problems will be dealt with as soon as they are brought to light. If they can be identified before they play a big part in the business's future through routine monitoring, the result will be even better.

In addition to the services provided to our own clients, the BDC also received a contract from RWED to provide aftercare services to some of their clients. The contract was signed September 16th, 1999 and the first clients were serviced September 27th, 1999. The staff at the BDC found that it was easy to provide service to clients when the project was relatively short. Longer projects were often interrupted by the regular routine of the BDC operations and thus were more difficult to complete with only two staff.

From September 27, 1999 to March 31, 2000, eight RWED clients received assistance. Four were completed / closed by year-end. Two major and two small projects remained incomplete.

If the contract is renewed for the 2000-01 year, we will finish the projects that are open and service any new referrals that are received.

Junior Achievement

The Board has decided that one of its goals will be to introduce, help set up and be involved in the Junior Achievement Program. The program tries to help students understand the importance of an education and business. They acquire basic business knowledge, work experience, become more aware of the role business plays in their communities and hopefully, an attitude required to organize and operate a business.

The goal for 1999-2000 school year, was to offer a Junior Achievement program to two classes in the grade 5/6 range (Business Basics), three to grades 7-9 (CAPS) and two to grades 10-12 (Student Venture). Community sponsors were found for all but one program, however, timing and scheduling did not permit us to offer all those intended.

The high school in Fort Simpson decided not to go ahead with the Student Venture program and timing only allowed us to introduce one CAPS program at Thomas Simpson High. Nahanni Butte requested a Student Venture as well but it did not go ahead. . It required 10-16 classes to complete. Perhaps a shorter program, such as the CAPS program offered in Fort Simpson this year, can be offered in Nahanni Butte during the next school year. Fort Liard expressed interest in a Business Basics program and we were able to provide it. We hope to expand the number of programs offered next year now that we have a level of familiarity with some programs and the time required to offer them.

High cost can be a limiting factor when delivering programs in the remote communities, especially if we are unable to find someone else to assist with delivery there.

Self-Employment Opportunities Program

The SEO program allows its clients to continue to receive Employment Insurance benefits for a period of time while they set up and run their small businesses. As with all programs, applicants must be screened to determine their eligibility and intentions before they begin. There are restrictions but overall the program is a very good one.

The 1999 – 2000 year was the first year that the BDC had the SEO contract, however there were very few inquires regarding SEO during the year. We received three applications very late in the year, which will be included in the 2000-01 year for statistical purposes, since they were not processed until that time. The contract had been signed for the 2000-01 when this report was written.

Other

The BDC was successful in its proposal to be a site for the Service Canada Pilot projects being run in the NWT and throughout Canada. Service Canada is an attempt to help people gain easier access to and / or find information on Federal Government Services by providing access to databases and web sites on the Internet, access through a 1-800 number and by providing in-person assistance with requests.

The contract allows the BDC to hire one part-time person for five months and to cover a small portion of its overhead costs. In addition to her duties as Service Canada Agent, the employee can help out around the office as well.

The project will also raise the profile of the Deh Cho Business Development Center and provide another service to the community and region.

Financial Statements

Appendix A: Investment Fund Projections