

# Southern Interior

## DEVELOPMENT INITIATIVE TRUST



## About the Southern Interior Development Initiative Trust Annual Report

This report covers the Southern Interior Development Initiative Trust (SIDIT) for the period April 1, 2017 through March 31, 2018.

The report was prepared for our stakeholders, the British Columbia Provincial Government, and reflects the Trust's commitment to support economic development in the Southern Interior.

### SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

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# 2018 Message from the Chair of the Board of Directors, Claudette Everitt

Fiscal 2018 has been a year of change and transitioning for the Southern Interior Development Initiative Trust (“the Trust”), with a view to successfully taking the Trust into the next 10 years.

In November 2017, the Trust hired a new CEO, Jean-Marc Lacasse, MBA. In addition, the Trust restructured its team so that it has a senior management team, that in addition to Jean-Marc, includes Helen Patterson, CFO and Pamela Deveau, Director Corporate Resources/Corporate Secretary.

As with other years, we had changes to our Board of Directors, leaving in 2017 were David Wilks, Mayor Ron Hovanes (Oliver), Mayor Greg McCune (Enderby), and Aimee Watson, Director of Area D Regional District Central Kootenays.

The new Directors that the Trust welcomed were: Mayor Chris Pieper, Armstrong, Mayor Sue McKortoff, Osoyoos, and Tanya Wall, Director Area B, Regional District Central Kootenays.

In addition to staff and Director changes, the Trust reviewed its programs and have updated its loan procedures and guidelines, which are required reading for all new loan applicants and are available on the Trust’s website at <https://www.sidit-bc.ca/apply-funding/loan-equity-funding/>. The Trust also closed down its Business Advisory Program.

As part of the Trust’s Strategic Plan, it is reviewing the basis on which it determines grants for smaller communities – the Trust recognizes that the needs of smaller communities vary from those of larger communities, and that in smaller communities even one position or sign made available through a grant, can make a difference for the health of that community.

In short, the Trust continues to hold true to its mandate of investing in and growing the economy of the Southern Interior and we are proud to continue our support to all the communities throughout the Southern Interior.

Lastly, I would like to thank all of our current Board of Directors, listed on page 7 of this report, for their continued input and support of the Trust. In particular I would like to thank the members of our Management Committee, John Zimmer, QC, Grace McGregor, Peter Moore and Mayor Al Raine, as well as the Trust’s staff, which in addition to the Senior Management Team includes Mary Beadman and our consultant, Tony Zushtok—without this dedicated team working towards the same common goal of helping the communities of the southern interior, the Trust would not be as perfectly poised to face the next 10 years.



Respectfully submitted,

A handwritten signature in black ink that reads "Claudette Everitt". The signature is fluid and cursive.

Claudette Everitt,  
The Trust Board of Directors Chair

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Since 2006, the Southern Interior Development Initiative Trust has invested nearly \$60.8 Million in projects worth over \$246 Million. The Trust's overall economic impact exceeds \$322 Million, creating and preserving more than 3,300 jobs across the region. Here's a snapshot of SIDIT's 12-year impact:

<b>CAPITAL ALLOCATION</b>	➤	<b>\$50 MILLION</b>
<b>DIRECT INVESTMENTS</b>	➤	<b>\$60.8 MILLION</b>
<b>2018 ASSETS</b>	➤	<b>\$48.3 MILLION</b>
<b>GDP LEVERAGE</b>	➤	<b>\$322 MILLION</b>
<b>JOB CREATION</b>	➤	<b>3,392</b>

Together we are bringing long-lasting and measurable benefits to the people, communities and prosperity of the Southern Interior.

# Board of Directors

The Trust is governed by a board of thirteen directors: eight are elected officials appointed by two Regional Advisory Committees; and the other five are appointed by the Province of British Columbia. The Board is responsible for identifying the strategic direction of the Trust, policy decisions, and investment decisions in support of a variety of regional economic priorities, as well as other opportunities which contribute to the economic diversity of the Southern Interior. The Board meets quarterly in person or by telephone conference, and electronically as required.

## Elected Officials



Grace McGregor  
Director, Area C  
Kootenay Boundary Region



Doug Findlater  
Mayor, West Kelowna  
Central Okanagan Region



Lee Pratt  
Mayor, Cranbrook  
East Kootenay Region



Loni Parker  
Director, Area B  
Columbia Shuswap Region



Tanya Wall  
Director, Area B  
Central Kootenay Region



Al Raine  
Mayor, Sun Peaks  
Thompson Nicola Region



Chris Pieper  
Mayor, Armstrong  
North Okanagan Region



Sue McKortoff  
Mayor, Osoyoos  
Okanagan Similkameen Region

## Provincial Appointees



Claudette Everitt  
SIDIT Chair  
Provincial Appointee  
North Okanagan Region



John Zimmer  
SIDIT Vice-Chair  
Provincial Appointee  
East Kootenay Region



Peter Moore  
Provincial Appointee  
North Okanagan Region



Vacancy



Vacancy

# Governance

The Trust was created by an Act of the BC Legislature – Bill 8-2005, which came into force by regulation on February 27, 2006. The Trust received a one-time allocation of \$50 million designated for strategic investments in sustainable economic development initiatives throughout the Southern Interior. The Southern Interior Development Initiative Trust Act mandates investment in ten areas of the economy. These areas include Energy, Forestry, Mining, Olympic Opportunities, Agriculture, Transportation, Small Business, Tourism, Pine Beetle Recovery, and Economic Development. The Trust has no specific targets for any of these areas, and approves projects and investments based on their impact, sustainability, and individual merit.





# Regional Advisory Committees

Under the governing legislation, two Regional Advisory Committees (RACs) have been created representing mayors, chairs of Regional Districts, and members of the legislative assembly.

**Thompson-Okanagan Regional Advisory Committee** representing the region from Blue River to the North, Hope to the West and South to the US border.

**Columbia-Kootenay Regional Advisory Committee** representing Columbia-Revelstoke, East Kootenay to the West Kootenay-Boundary area.

The role of the Regional Advisory Committees is to elect members to the Board of Directors of the Trust to provide advice, recommendations on Trust funding project eligibility, to provide representation opportunities for communities and regional district areas under 500 in population.





The current Regional Advisory Committee members are as follows:

## Thompson Okanagan Regional Advisory Committee Members:

NAME	LOCATION
Kevin Acton, Mayor	Village of Lumby
Frank Armitage, Mayor	Town of Princeton
Dan Ashton, MLA	Penticton
James Baker, Mayor	District of Lake Country
Colin Basran, Mayor	City of Kelowna
Manfred Bauer, Mayor	Village of Keremeos
Rick Berrigan, Mayor	Village of Chase
Janice Brown, Mayor	Township of Spallumcheen
Ken Christian, Mayor	City of Kamloops
Nancy Cooper, Mayor	City of Salmon Arm
<b>Doug Findlater, Mayor (SIDIT Director)</b>	District of West Kelowna
Bob Fleming, Chair	North Okanagan Regional District
Cindy Fortin, Mayor	District of Peachland
Eric Foster, MLA	Vernon-Monashee
Jim Garlick, Mayor	District of Coldstream
Gail Given, Chair	Regional District of Central Okanagan
John Harwood, Mayor	District of Clearwater
Ronald Hovanes, Mayor	Town of Oliver
Andrew Jakubeit, Mayor	City of Penticton
Karla Kozakevich, Chair	Regional District Okanagan-Similkameen
Greg Kylo, MLA	Shuswap
Linda Larson, MLA	Boundary-Similkameen
Norm Letnick, MLA	Kelowna-Lake Country
Jason Lum, Chair	Fraser Valley Regional District, Area A and Hope
Rhona Martin, Chair	Columbia Shuswap Regional District
Greg McCune, Mayor	City of Enderby
<b>Sue McKortoff, Mayor (SIDIT Director)</b>	Town of Osoyoos
Neil Menard, Mayor	City of Merritt
Peter Milobar, MLA	Kamloops-North Thompson
Akbal Mund, Mayor	City of Vernon
<b>Chris Pieper, Mayor (SIDIT Director)</b>	City of Armstrong
<b>Al Raine, Mayor (SIDIT Director)</b>	Sun Peaks Mountain Resort Municipality
John Ranta, Chair	Thompson-Nicola Regional District
Terry Rysz, Mayor	District of Sicamous
Virginia Smith, Mayor	District of Barriere
Ben Stewart, MLA	Kelowna West
Todd Stone, MLA	Kamloops-South Thompson
Jackie Tegar, MLA	Fraser-Nicola
Steve Thomson, MLA	Kelowna-Mission
Wilfried Vicktor, Mayor	District of Hope
Peter Waterman, Mayor	District of Summerland
Mayor Peter Waterman	District of Summerland

## Columbia-Kootenay Regional Advisory Committee Members:

NAME	LOCATION
Karen Cathcart, Director	Columbia Shuswap Regional District, Area 'A' Rural Golden
Katrine Conroy, MLA	West Kootenay
Ramona Faust, Director	Regional District Central Kootenay, Area E
Mary Giuliano, Mayor	Regional District East Kootenay, City of Fernie
Deb Kozak, Mayor	Regional District Central Kootenay, Town of Nelson
Neil Krog, Councillor	Regional District East Kootenay, City of Grand Forks
<b>Grace McGregor, Director (SIDIT Director)</b>	Regional District East Kootenay, Area C
<b>Loni Parker, Director (SIDIT Director)</b>	Columbia Shuswap Regional District Area 'B' Revelstoke
<b>Lee Pratt, Mayor (SIDIT Director)</b>	Regional District East Kootenay, City of Cranbrook
Clara Reinhardt, Mayor	Regional District East Kootenay, Village of Radium Hotsprings
Tom Shypitka, MLA	East Kootenay
<b>Tanya Wall, Director (SIDIT Director)</b>	Regional District Central Kootenay, Electoral Area B
Linda Worley, Director	Regional District Kootenay Boundary, Area B

# Service Area

The service area for the Trust includes Blue River to the North, Hope to the West and the United States and Alberta borders as Southern and Eastern boundaries respectively.

## Thompson-Okanagan Region

**REGIONAL DISTRICT OF COLUMBIA SHUSWAP**  
Salmon Arm, Sicamous

**REGIONAL DISTRICT OF CENTRAL OKANAGAN**  
Kelowna, Lake Country, Peachland, West Kelowna

**FRASER VALLEY REGIONAL DISTRICT**  
Hope

**REGIONAL DISTRICT OF NORTH OKANAGAN**  
Vernon, Coldstream, Spallumcheen, Armstrong, Enderby, Lumby

**REGIONAL DISTRICT OF OKANAGAN SIMILKAMEEN**  
Penticton, Summerland, Osoyoos, Oliver, Princeton, Keremeos

**REGIONAL DISTRICT OF THOMPSON NICOLA**  
Kamloops, Merritt, Chase, Barriere, Clearwater, Sun Peaks Mountain Resort

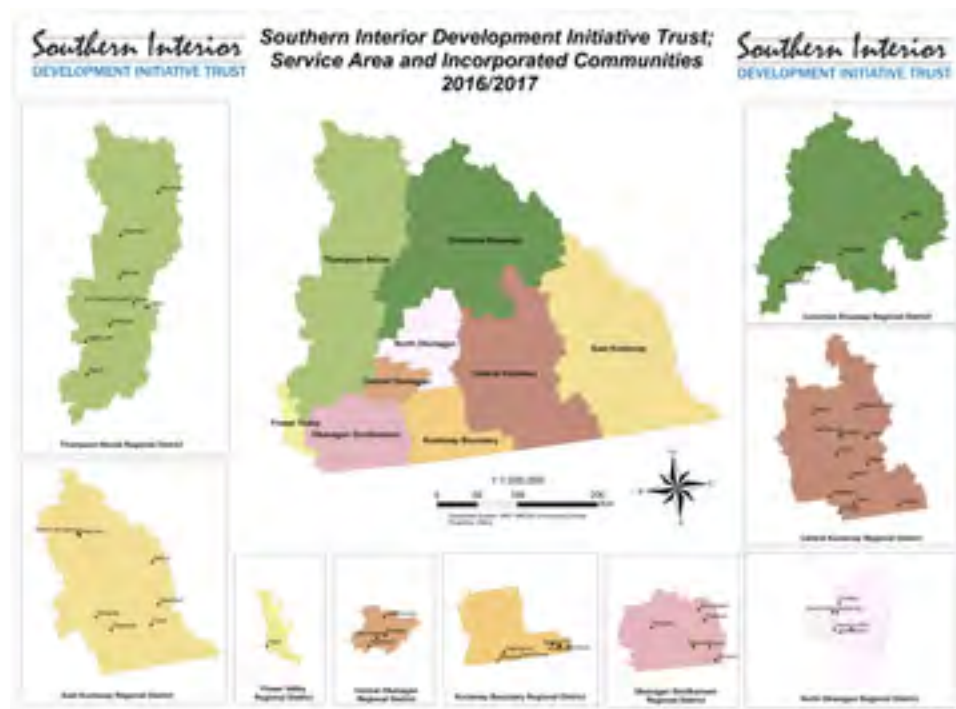
## Columbia Kootenay Region

**REGIONAL DISTRICT OF COLUMBIA SHUSWAP**  
Revelstoke, Golden

**REGIONAL DISTRICT OF EAST KOOTENAY**  
Cranbrook, Kimberley, Fernie, Sparwood, Invermere, Elkford, Canal Flats, Radium Hot Springs

**REGIONAL DISTRICT OF CENTRAL KOOTENAY**  
Nelson, Castlegar, Creston, Nakusp, Salmo, Kaslo, New Denver, Slocan, Silverton

**REGIONAL DISTRICT OF KOOTENAY BOUNDARY**  
Trail, Grand Forks, Rossland, Fruitvale, Warfield, Montrose, Greenwood, Midway



# Vision and Mission

The Trust's Board of Directors and Regional Advisory Committee members share a vision of the future for the Southern Interior, as follows:

- *a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities*
- *a future where regional investment creates significant positive impacts across the region while smaller communities are given opportunities to remain or become economically sustainable*
- *a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout*

The Board's mission expresses how they see the Trust contributing to this vision for Southern Interior, as follows:

- *The mission of the Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.*



# Mandate

*The Southern Interior Development Initiative Trust Act* mandates investment in economic development initiatives within ten key sectors that will demonstrate long term measurable economic impact within the Southern Interior. While the Trust is not an agent of the Government, as a Public Trust it must comply with public sector regulations.

The ten key sectors are:

- Agriculture
- Economic development
- Energy
- Forestry
- Mining
- Tourism
- Olympic opportunities
- Pine Beetle recovery
- Small Business
- Transportation

The Trust is managed as an independent and sustainable regional economic development corporation. the Trust's capital is invested in a balanced mix of financial markets and loan or equity investments in regionally based commercial enterprise to ensure sustainability and growth. Funding outflows align with returns generated.

Within its mandate, the Trust lends to and invests in promising commercial enterprises. The Trust assesses the long-term potential of lending and investment opportunities and will consider a more patient position than would a traditional lender.

# Funding by Investment Sector

Applications received are proponent driven, therefore there are no specific investment targets for any of the ten key areas. The Trust approves projects and investments based on their impact, sustainability, and individual merit.

## Fiscal 2018 Investment by Sector

### **Agriculture, \$0 (Cumulative \$2.6M)**

Agriculture includes: manufacture of products used in the agriculture industry; research and development in agri-business and biotechnology resources; community based food and herb production; nurseries; community based abattoir services; organic gardening training and certification services and community based Agriplex/multipurpose buildings.

### **Economic Development, \$300,000 (Cumulative \$2.6M)**

Economic Development includes: investment in education in trades; technology and science related academic programs; innovation and entrepreneurship programs; business advocacy; international market development; business incubators; research and development; business productivity training; broadband initiatives and community investment in conference and training centers.

### **Energy, \$0 (Cumulative \$1.1M)**

Energy includes: research and development of energy related technology; energy efficiency products and services; and bio-energy solutions.

### **Forestry, \$500,000 (Cumulative \$2.7M)**

Forestry includes: those investments related to community forests and value added industry.

### **Mining, \$0 (Cumulative \$435,000)**

Mining includes value-added manufacturing.

### **Tourism, \$173,500 (Cumulative \$3.1M)**

Tourism includes heritage-based tourism, geo-tourism, trail development, arts and culture and sports tourism.

### **Olympic Opportunity, \$0 (Cumulative \$1.8M)**

Olympic Opportunities reflect community investments into training facilities and equipment that have been or will be used to train future Olympians.

### **Pine Beetle Recovery, \$0 (Cumulative \$580,934)**

Pine Beetle Recovery includes: research and development; market development; and manufacture of value-added products.

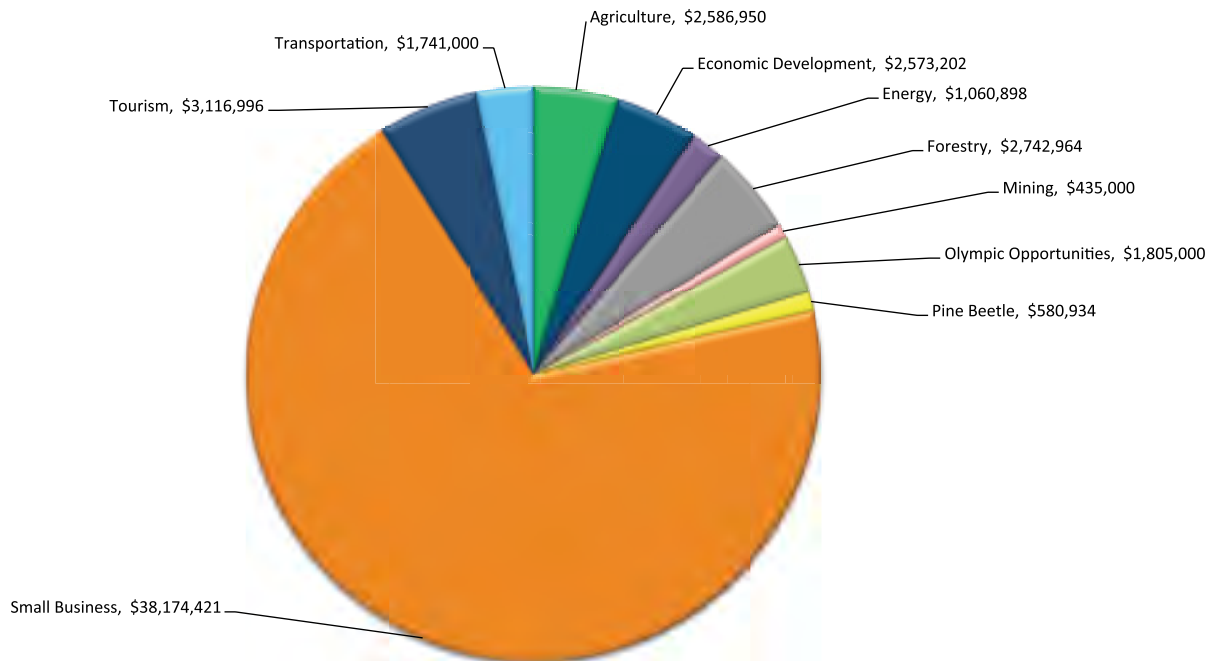
### **Small Business, \$4,841,100 (Cumulative \$38M)**

Small Business includes: investment in business enterprises such as software development, communications; fire prevention; health care; pharmaceuticals; composite manufacturing; electronics manufacturing; retail and wholesale; micro-breweries and other business activities.

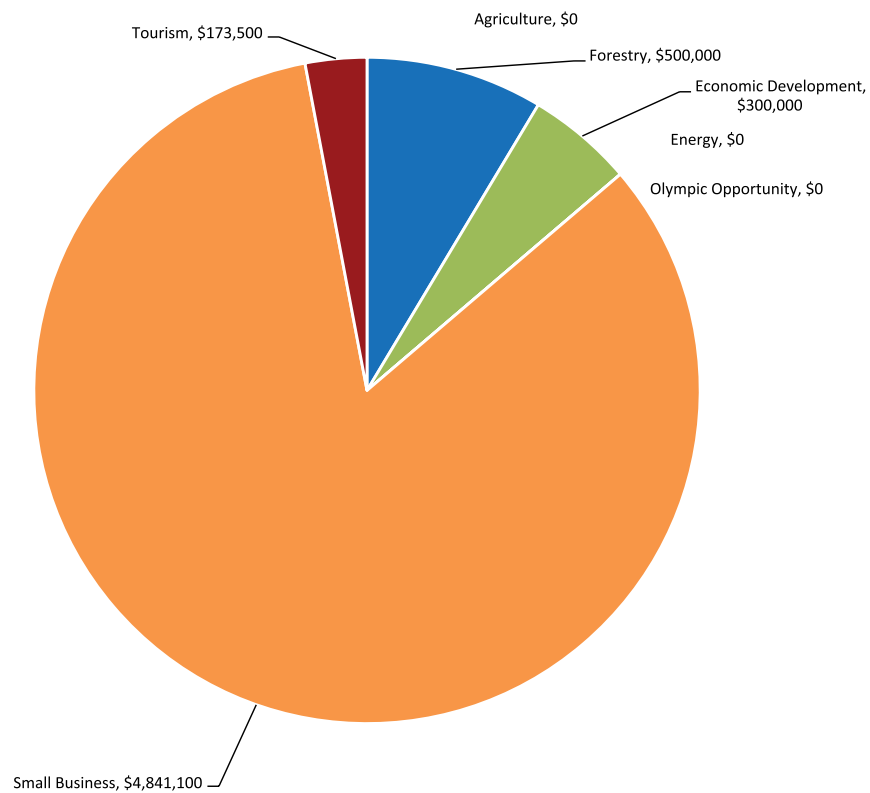
### **Transportation, \$0 (Cumulative \$1.7M)**

Transportation includes: commercial transportation services; airport hazard equipment; and heliport construction.

## 2007-2018 Cumulative Investment by Sector



## 2018 Investment by Sector





# Guiding Principals

The following principles will guide the Board in making its evaluation and should be considered by prospective proponents in determining the eligibility of their projects for the Trust funding. These principles may also be supplemented by other considerations by the Board in making its funding decisions:

- Responsive to the diverse economic development needs and aspirations of the people and communities in the Southern Interior Region
- Accountable to the public for integrity and intent of decisions and activities
- Sustainable to ensure the ongoing viability of the Trust's operations and investments
- Development-focused supporting economic initiatives that create employment, enhance business performance, leverage partnerships and add value to people and communities across the region..

## Socio-Economic Impact Assessment

Complete an external Socio-Economic Impact Assessment every five years:

- A regional impact assessment was completed by Urban Matters and Lochaven Management Consultants in August 2016.
- The impact assessment will be updated in 2021.
- The assessment, and additional economic data, is reviewed by the Trust Board of Directors at their annual strategic planning session.

# Risk and Risk Management Strategies

## SIDIT FACES THE FOLLOWING KEY RISKS IN ITS INVESTMENTS AND OPERATIONS:

### Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower to honour its financial or contractual obligation to the Trust. Credit risk primarily arises from loan and equity investment receivables. Within its mandate, the Trust lends to, and invests in, promising commercial enterprises that may not qualify for credit through traditional sources. The Trust assesses the long-term potential of lending and investment opportunities and will consider being patient for cash flow providing that other positive credit and community economic indicators are in evidence in the application.

Due diligence audits will be performed to verify the accuracy of information and assumptions. In addition, Policy 3.02 Authorization sets out the Chief Executive Officer's authority for amending loan and equity investment files, stating that the Chief Executive Officer has authority to make amendments that are within operational oversight and are not material to the risk or value of the loan.

Material changes that would require further Board approval may include, but are not limited to the following examples:

- Extending a loan beyond the Board approved term of a loan;
- Increasing the approved amount of a loan by allowing for the capitalization of fees, which is no longer a consideration, as all fees will need to be deducted from the initial draw of a loan;
- Allowing for the deferral of loan payments outside the approved terms of the loan agreement; or
- Changing the security required from what the Board had approved.

These examples noted above constitute a material change to the intent and integrity of a loan and would require prior Board approval before being implemented.

All applications are risk-rated according to the Trust's Risk Rating Guidelines as part of the original underwriting of loans and investments, annual review and renewal. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

The Trust will manage its loan and equity risk by limiting its investment in any one business enterprise, investing in a diverse portfolio, and by syndicating or co-lending with other financing partners.



The Trust will also manage risk by allocating investment funds to companies at various stages of development. These stages are defined as:

- Growth/Expansion Stage: Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, and facilitate a change in control or to execute a turnaround strategy.
- Later Stages: Financing to mature companies may be provided to help grow existing operations, improve performance or protect employment through an injection of capital and appropriate management support.
- Transitional Stage: Transitional Stage companies are established companies that are being transitioned to new ownership as part of their succession planning. the Trust may consider financing for the company or individual that is taking over such entity.

It is expected that loans and investments made by the Trust will become bankable at which time the enterprise may retire the Trust position in favour of a traditional lender, allowing the Trust's funds to be re-invested in other promising enterprises.

The Trust Management and Board of Directors review the credit risk policy annually. The Trust's Board of Directors have also approved the Lending Procedures and Guidelines that all loan applicants need to review and sign off on prior to submitting their application.





## Market Risk

Market risk is the fair value of future cash flows of a financial instrument that will fluctuate due to changes in market prices. Fair value risk is the potential for loss from an adverse movement in the value of a financial instrument. The Trust incurs fair value risk on its investments held and does not hedge its fair value risk.

The Trust's investment objectives are as follows:

- **Capital preservation:** the need to preserve the purchasing power of the capital base, in perpetuity;
- **Capital growth:** the desire to increase the value of the organization's funds;
- **Income generation:** the need to cover annual cash flows, ongoing expenses and the disbursement targets;
- **Project funding:** the desire to fund specific cash flow commitments or projects in the future.

The Trust manages its market risk through various means including the following:

- Limiting investment in any one company;
- Maintaining diversity in the portfolio;
- Investing into companies with a market capitalization greater than \$100 million; (Canadian) and \$1 Billion (US) at the time of purchase;
- Limiting holdings of fixed income by credit risk ratings and by issuer;

At the firm level, Fund Manager Phillips, Hager & North (PH&N) Chief Investment Officer is responsible for setting investment policies for every RBC Global Asset Management (GAM) and PH&N Fund. An investment mandate is established for every fund which places allowable limits on such factors as maximum individual position sizes, maximum sector exposures (both absolute and relative to the benchmark), exposure to small capitalization stocks and other illiquid investments, minimum credit quality for fixed income instruments, and other factors. The fund managers are responsible for ensuring their portfolios remain compliant with their investment mandates, and compliance is also monitored by individuals and systems outside the fund management team.

In addition to complying with the requirements of their investment mandates, the fund manager employs risk management processes specific to each asset class. PH&N's fixed income team, through the use of their proprietary bond management system called Bondlab, monitors each fixed income portfolio in real time for its exposure to movements in rates, shifts in the yield curve, movements in credit spreads, other factors. Bondlab also considers the correlations between movements in these factors, in addition to the direct exposures themselves. Within global equities, the portfolio managers use an Investment Grade rating system, under which they rate the quality of every stock under consideration for the portfolio based on such characteristics as balance sheet strength, profitability, and quality of management, and apply limits on the proportion of the portfolio that can be invested in lesser-quality companies. PH&N's Canadian equity fund managers evaluate companies on similar criteria, and also consider where a company's earnings, valuation and stock price fall in its likely range over the course of a market cycle to help estimate the downside risk for individual stocks.

Investment losses impact the Trust's ability to be sustainable as well as its ability to fund on-going operations and meet funding targets. The Trust historically, and to date, has the necessary funding and cash flows to meet its objectives.

## Internal Capacity Risk

An experienced management and staff team allows the Trust to achieve disbursement targets and maintain operating expenses at a low level relative to funding volume. The Trust maintains a small management and staff group of 5.8 FTE. Training and succession plans are in place to address the limited depth in staffing and potential prolonged absence of any key player, including the CEO, in order that entity funding processes are not unduly interrupted. The small size of management and staff requires a broad and deep skill set at all levels to be able to conduct the operations of the entity business model. The Trust is enhancing the infrastructure and ongoing staffing requirements necessary to manage and grow its loan and equity portfolio.

## Information Systems/Technology Risk

A robust software system is required to report individual project and aggregate portfolio performance over time. This is invaluable in increasing the efficiency of the Trust and enabling strong reporting, given its limited resources.

- In-house software systems are utilized for grant due diligence, Board approval, monitoring, disbursement and reporting. This enables the Trust to manage the full lifecycle of each grant application, improves the approval processes through use of comparative scoring and compliance standards and provides the means to track milestone progress.
- Margill Loan Manager Software is used to manage the Trust's loan and equity portfolio. Designed specifically for small lenders, Margill Loan Manager is a PC-based, simple-to-use, robust and inexpensive loan management solution. The program is capable of producing very complete, customized, financial and non-financial reporting.
- Simply Accounting Pro financial software helps the Trust manage its cash flows by tracking revenues and expenses and simplifying the budgeting and forecasting process. Its ability to track cash flows and its audit trail capabilities further increase efficiencies and reporting capabilities.
- A full suite of loan and equity legal templates have been developed and refined. The forms increase consistency between applications and reduce implementation and customization costs for our borrowers and investee companies.

## Disaster Recovery Risk

In the Fall of 2016, the Trust underwent a review of its computer systems and switched providers to Nerds on Site, including a replacement of its server and updated its email and back up storage. In addition, the Trust implemented stricter guidelines for what employees are able to install and download on their computers, as an extra security step in preventing malware and viruses.

The Trust's contingency plan to protect against computerized or paper records loss, computer hacking, and the event of fire or earthquake includes the following:

- The Trust installed QNAP back-up system, which has interchangeable drives that are rotated out on a monthly basis, the drives are then kept in a secure location. This back-up system covers the server (operating system included) in its entirety and all company, shared, and employee files, so in the event of a disaster, the images could be downloaded and have the system back up and running again.
- The Trust's replacement server has hardware redundancies built into its storage drives.
- In addition to QNAP, the Trust backs up its financial and client related files to the cloud via Shadow Craft. These files are stored in the cloud in Canada and do not cross international borders, so they are not subject to the Patriots Act.
- The Trust's email system is run through Microsoft's Office 365, emails are accessible and backed up through secure log-in either through Outlook on computers, or via the internet. These emails have 'Litigation Hold', which means all emails are stored in a special Microsoft server that is compliant with IT standards so as to be admissible in court.
- All client files are scanned and stored electronically and paper copies are stored in fire resistant cabinets.
- All operational computers are monitored by Nerds on Site to detect any malware on a 24/7 basis. In addition, Nerds on Site also monitors the Server on a 24/7 basis.



## Directors and Officers Liability and Omissions Risk

The Trust maintains a \$5 Million Policy for Directors and Officers Liabilities and Omissions Insurance, as well as adequate Property and \$2 Million General Liability Insurance.

## Liquidity Risk

Liquidity risk is the risk that the Trust will be unable to fund its obligations as they come due. The Trust's management oversees the Trust liquidity risk to ensure that the Trust has access to enough readily available funds to cover its financial obligations as they come due. The Trust's business requires such capital for operating and funding of development initiatives, grants and education awards.

The assessment of the Trust's liquidity position reflects management's estimates, assumptions and judgments pertaining to current and prospective trust specific market conditions and the related behavior of its borrowers and investees. The Trust has the necessary cash and cash-flows to meet its current and long term objectives.



# Strategic Plan Changes

The Trust established its long-term goals, in consultation with the Trust Board. The Trust has established processes and extensive knowledge of its stakeholders required to set goals that are significant to and inclusive of its stakeholders. The Trust's strategic plans outline the next three fiscal years of strategic initiatives. The strategic plan can be viewed on the Trust's website [www.sidit-bc.ca](http://www.sidit-bc.ca).

## Reporting Standards

In early 2012, the Office of the Auditor General of BC carried out an audit under section 11(6) of the Auditor General Act, which empowers the Auditor General to audit an individual or organization concerning a grant received from the government, to ensure that any of the grant's terms and conditions have been fulfilled. The purpose of this audit was to determine whether the Trust was complying with the requirements of its Act, and meeting public accountability reporting standards. The Auditor General developed their audit criteria based on the Trust's governing legislation that the Trust is required to follow and on recognized good practices that exist, although are not legislated requirements:

- Include discussion in our public accountability reports about how we are complying with legislated requirements.
- Incorporate the BC Reporting Principles into our annual reports.
- Develop and report annual goals, as well as key performance indicators that can be used to monitor progress in achieving those goals.

We believe that the recommendations presented by the Auditor General provide useful guidance on how to improve our public accountability reporting practices and create clarity for stakeholders. These recommendations were incorporated into the Annual Report and will be continuously improved.



# Environmental Scan

In 2016, as part of its strategic plan, the Trust undertook an environmental scan and the Board resolved that it would undertake to have the more robust report conducted every 5 years. The Socio-Economic Impact Assessment Report conducted in 2016 by Lochaven Management Consultants/ Urban Matters will be updated in 2021.

The Lochaven Socio-Economic Report conducted focused specifically on the Trust and how the Trust's programs impacted the communities of the Southern Interior.

The methodology used in the Socio-Economic report allowed Lochaven Management Consultants / Urban Matters to objectively answer the following questions:

1. What social and economic difference(s) or impacts has the Southern Interior Development Initiative Trust made to those enterprises, clients and communities to whom it seeks to serve;
2. How significant and far reaching are these impacts; and,
3. How consistent are they in terms of the Trust's mandate, principles, objectives and plans.

Accordingly, the report was conducted by adding or modifying economic indicators as required and expanding to include relevant social indicators. The investigations focused on the acquisition of both qualitative and quantitative impact related information; and employed both primary and secondary research. By definition, the approach included a process of scoping, direct fiscal assessment, surveying of a stratified sample of clients/ stakeholders, and the careful inputting and imputing of indirect/induced impacts.

## Results

The Researchers concluded that even though the ten years leading up to the report had been tumultuous, the Trust continued to have a positive and significant social, economic and employment impact within the Southern Interior. The Trust broadened its programming, in scope and reach and the Trust has matured as an organization. The Trust's funding programs have resulted in the creation of new enterprises and/or strengthening of others; the creation of new jobs and/or the preservation of others; the facilitation of important and innovative community initiatives; the promotion and support of new graduates and a more highly educated regional workforce and increased regional growth and prosperity.

The Researchers went on to state that although there was not an initial baseline, the impacts were positive and substantive. These positive impacts serve to emphasize the relevance, credibility and value of the Trust programming

The Report can be reviewed in its entirety at <https://sidiit-bc.ca/about-us/resources>.



# Strategic Goals

The Trust's objective is to maintain the Trust so that it is sustainable, increasing the value of the Trust over time and achieving the Trusts' desired ends within available means. The Board has established a core strategy, supported by five strategic goals and defined performance targets with metrics that track progress and measure each goal's achievement.

## Core Strategy

- Identify and support community development projects and regionally based commercial ventures that match the objectives of the Trust and demonstrate sustainability.
- Maintain the Trust so that it is financially sustainable, providing continual support for economic initiatives for the Southern Interior and increase the social and economic impact of the Trust over time.
- Supporting each of the Trust's five strategic goals are strategies, performance targets and metrics that track progress and measure goal achievement

## Strategic Goals

**Goal 1:** Enhance the Southern Interior economy by promoting greater economic growth, resiliency and diversification.

**Goal 2:** Preserve existing jobs, stimulate new employment and address skill shortages in the Southern Interior region.

**Goal 3:** Attract new capital to the Southern Interior region to drive incremental economic development activities.

**Goal 4:** Increase the value of the investment pool, thereby increasing opportunities to support regionally strategic investments in the Southern Interior.

**Goal 5:** Create and sustain public awareness of and support for the Trust's purpose, goals, achievements and successes with a focus on partnership development, collaboration and extending rural reach.

## Performance Targets and Metrics

Performance targets and metrics for each strategic goal assist the Trust and its stakeholders to measure and assess the Trust's progress, impact and results. Metrics are selected on the following criteria:

**Connection to our goals** – our progress in achieving desired outcomes and through them, our mission, vision and mandate.

**Longevity** – track impact over time; identify trends and provide information for performance improvement.

**Measurable** – metrics for which we can collect relevant, accurate data in a timely and affordable manner in support of the Trust's operational and strategic priorities.

Specific metrics focus on activities, behaviors, operational processes and outcomes critical to the delivery of an efficient, effective funding system and consistent with the Trust's Vision, Mission and Guiding Principles.

Metrics are evaluated annually to ensure they have integrity and are meaningful measurements of performance achievement, outcomes and impact. This results in ongoing refinement of metrics and data collection methods.

Overall, our performance metrics track and measure our strategy execution and goal achievement.

## **GOAL 1 ENHANCE THE SOUTHERN INTERIOR ECONOMY BY PROMOTING GREATER ECONOMIC GROWTH, RESILIENCY AND DIVERSIFICATION.**

### **Strategies**

1. Positively impact each region in the Southern Interior through strategic investments in communities, effective partnerships and by focusing on primary target industries.

#### **PERFORMANCE TARGETS AND METRICS:**

- a) Focus on primary targeted industries measured as cumulative \$ invested per sector.
  - b) Subject to proponent demand, positively impact the economy by investing in each region measured as cumulative number and \$ invested per capita by sub-region.
  - c) Achieve a minimum 2 times leverage of the Trust \$ funding, measured as the percentage of Trust dollars committed vs other investment and project financing approved and committed.
2. Invest in existing enterprises that are seeking to create diversification in their own business by introducing new products; targeting new markets; creating diversification through other means; ensuring successful business transition; or succession to the next generation.

#### **PERFORMANCE TARGETS AND METRICS:**

- a) Approve minimum annual investments of \$7 Million in fiscal 2019
  - b) Achieve cumulative investments of \$68 Million by 2021.
3. Invest in innovation and entrepreneurship and projects that assist individuals to create or expand businesses, develop innovative products, enhance services and utilize technologies.

#### **PERFORMANCE TARGETS AND METRICS:**

- a) Co-invest in Early Stage Seed Funds aligned with the Trust priorities and eligibility criteria.
- b) Achieve cumulative investment of \$500,000 commencing fiscal 2019.
- c) Achieve a minimum of 4 times leverage of the Trust \$ invested.
- d) Measure and report impact and outcomes based on investment partners' annual investee reports.

## Measurement

The following reflects cumulative disbursed funding by region on a per capita basis.

## Results

Regional impact will be evaluated as dollars per capita/per sub region and is provided for informational purposes only.

### GRANT FUNDING MANDATES BY REGION AND PER CAPITA

Regions	2018	Cumulative	Population	\$ Per Capita
Central Okanagan	\$125,000	\$1,040,478	194,882	\$5
Columbia Shuswap-TO	\$25,000	\$250,000	35,739	\$7
Fraser Valley		\$25,000	7,096	\$4
North Okanagan		\$348,022	84,354	\$4
Okanagan Similkameen	\$8,500	\$484,784	83,022	\$6
Thompson Nicola	\$100,000	\$1,249,666	132,663	\$9
Columbia Shuswap-K	\$3,000	\$178,000	15,001	\$12
Kootenay Boundary	\$112,000	\$1,018,726	31,447	\$32
Central Kootenay	\$75,000	\$686,088	59,517	\$12
East Kootenay	\$25,000	\$674,706	60,439	\$11
<b>Total</b>	<b>\$473,500</b>	<b>\$5,955,470</b>		



#### LOAN FUNDING MANDATES BY REGION AND PER CAPITA

Regions	2018	Cumulative	Population	\$ Per Capita
Central Okanagan	\$3,571,100	\$29,011,922	194,882	\$149
Columbia Shuswap-TO	\$0	\$435,934	35,739	\$12
Fraser Valley		\$500,000	7,096	\$70
North Okanagan	\$925,000	\$5,500,000	84,354	\$65
Okanagan Similkameen		\$4,385,674	83,022	\$53
Thompson Nicola		\$1,558,801	132,663	\$12
Columbia Shuswap-K			15,001	\$0
Kootenay Boundary		\$3,672,964	31,447	\$117
Central Kootenay		\$300,000	59,517	\$5
East Kootenay	\$845,000	\$3,496,600	60,439	\$58
<b>Total</b>	<b>\$5,341,100</b>	<b>\$48,861,895</b>		

#### EDUCATION BY REGIONS

	Total	Population	\$ Per Capita
Thompson Okanagan	\$4,255,250	537,756	\$8
Columbia Kootenay	\$1,683,000	166,404	\$10
	<b>\$5,938,250</b>	<b>704,160</b>	<b>\$8</b>

#### TOTAL FUNDING PER REGION AND PER CAPITA

Regions	Total	Population	\$ Per Capita
Central Okanagan	\$31,698,398	194,882	\$163
Columbia Shuswap-TO	\$955,987	35,739	\$27
Fraser Valley	\$569,708	7,096	\$80
North Okanagan	\$6,456,489	84,354	\$77
Okanagan Similkameen	\$5,475,217	83,022	\$66
Thompson Nicola	\$3,889,733	132,663	\$29
Columbia Shuswap-K	\$322,011	15,001	\$21
Kootenay Boundary	\$5,001,866	31,447	\$159
Central Kootenay	\$1,615,240	59,517	\$27
East Kootenay	\$4,770,966	60,439	\$79
<b>Total</b>	<b>\$60,755,615</b>		

## Discussion

From its original \$50 million government allocation, the Trust has invested \$49 million into business ventures in the Southern Interior as well as funded \$12 million in nonrepayable grants and education awards. \$29 million in principal and interest has been repaid as at the end of fiscal 2018. It is anticipated that this level of funding will help communities respond to challenges and opportunities in the near term while preserving a significant portion of the funds to ensure that the Trust has resources available to respond to future challenges and opportunities as they evolve.

Surplus funds of \$27 million are invested in liquid and market securities to provide for operating capital and create a reserve for future funding and investment opportunities. This level of funding assists communities in responding to challenges and opportunities in the near term, while preserving a significant portion of the funds to ensure that the Trust has resources available to respond to future challenges and opportunities as they evolve.

The primary objective for the Trust is to support economic development initiative opportunities based on project merit within the Southern Interior irrespective of geographic considerations. In line with the Trust's Act and its mandate, the Trust encourages submissions from throughout the Southern Interior.

Grant funding is proponent driven and while the Trust strives, to the best extent possible, that all regions of the Southern Interior have fair and equitable access to the Trust's funds, it does not have control over the results of distribution of funding. The Trust determines business enterprise risk based on a careful study of the business plan, past performance of the business enterprise, if applicable, and management capacity of the principals in order to gain a sufficient level of comfort that future cash flow and equity targets will be achieved.

Within the context of the SIDIT Act, the Trust balances the level of risk that is present, with the community economic benefits that are being created. However, the Trust will always satisfy itself that the potential of the deal presented is sound and prudent in order to protect the future of the fund.

In Fiscal 2018, the Board of Directors determined that it would change the stages of funding to have more of a balanced portfolio, and has added a category for companies looking for succession and transition funding, in order to help the next generation of business people to buy in and be successors to a well-managed company.

In the past, the Trust had the option, and still does for some of its loans, to convert a number of development initiative loans into equity of the business recipient. The Trust is moving away from this practice in order to ensure that its funds are returned and disbursed in a shorter timeframe of not more than 5 years. Equity investments are a more long-term venture. The Trust will revisit its lending strategy every year at its Strategic Planning session.

While the Trust completes due diligence procedures prior to any investment being funded, economic conditions have impacted the credit quality of many entities due to increased uncertainty in cash flows. We made the first development initiative investment in March 31, 2008 fiscal year. As the recipient companies are now further into the lifecycle of an early stage enterprise, it has become evident that certain investments are unlikely to be recovered.

A provision for losses is recorded when we no longer have reasonable assurance of timely collection of the full amount of principal and interest.

## **GOAL 2 PRESERVE EXISTING JOBS AND STIMULATE NEW EMPLOYMENT IN THE SOUTHERN INTERIOR REGION.**

### Strategies

1. Invest in new and existing commercial enterprises that will use the infusion of capital to preserve jobs and/or create new jobs through:

#### PERFORMANCE TARGETS AND METRICS:

- a) Create or preserve 3,250 jobs by 2021 at an annual rate of 250 jobs.
  - b) Measure annual and cumulative impact on job creation and retention as reported by existing and new Trust clients in annual reviews and by grant funds recipients in annual impact reports to the Trust.
  - c) Report impact by industry sector.
2. Invest a percentage of the income of the Fund into educational programs and internships focused on trades, technology and academic programs that address skill shortages and enhance economic growth in the region.

#### PERFORMANCE TARGETS AND METRICS:

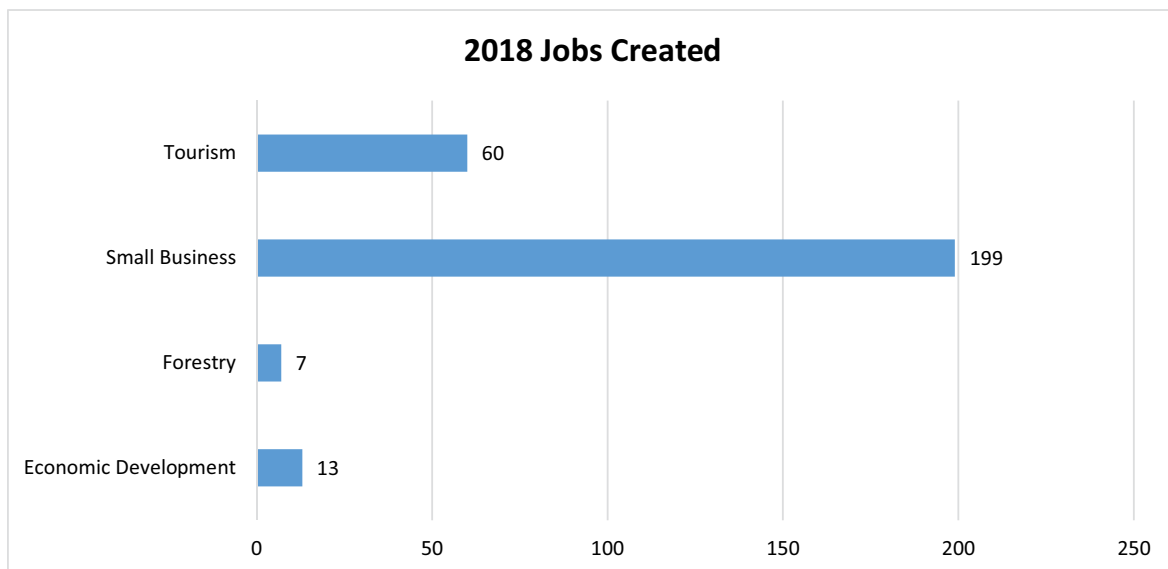
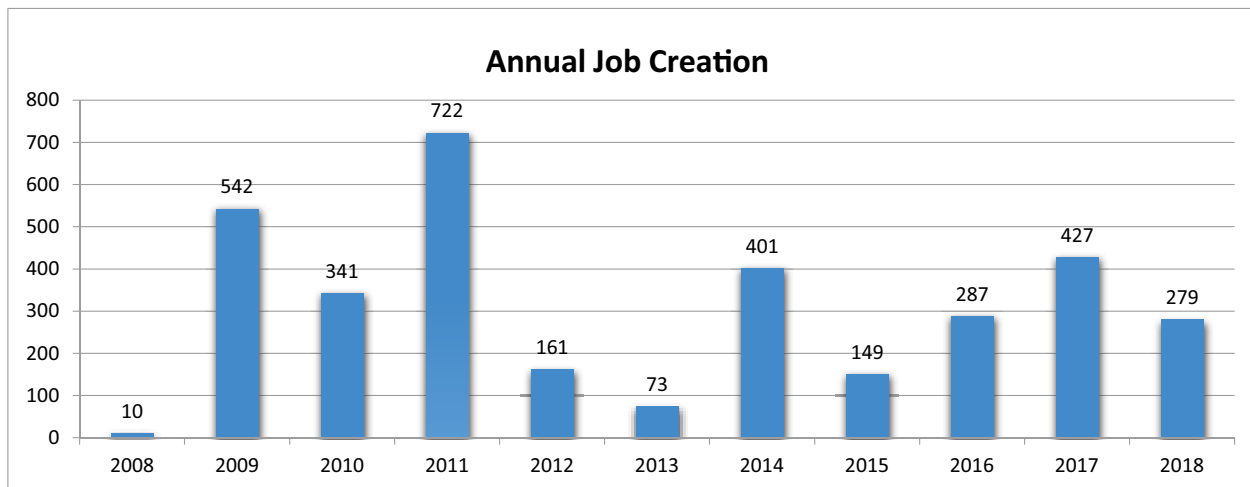
- a) Achieve cumulative investments of \$6.45 million by 2021.
- b) Approve annual investment of \$250,000 in programs and internships, allocated among the Trust's partners on the basis of number of students supported, alignment with the Trust's priority industries, impacts on employment and skill shortages.
- c) Ensure the Trust internship contributions are matched by recipient organizations.
- d) Measure impact through recipient annual performance reporting of program outcomes including: benefits to the Trust's priority target industries and employment; alignment with regional skill shortages; number of students supported and recipient success stories.
- e) Track student graduation rates.

### Measurement

Jobs reported are based on proponent estimates on direct employment to be created or preserved. Wages expenses are verified by comparison to financial statements or proponent reporting. Financial statements provided by business proponents are prepared, at a minimum, on a Review Engagement Basis.



## Results



### Number of Students Receiving SIDIT Grants

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
College of the Rockies	142	183	187	107	106	100	123	84	57	31	1120
Selkirk College	284	362	450	74	58	44	38	36	64	50	1460
Thompson Rivers University	493	558	590	58	65	58	62	81	50	92	2107
Okanagan College	582	593	468	102	50	50	50	75	50	55	2075
UBCO	0	0	0	29	50	50	40	65	40	38	312
UBCO–Medical	0	0	0	10	10	10	5	5	5	3	48
NVIT										7	7
BCIC	0	6	9	11	10	10	5	1	0	0	52
	1501	1702	1704	391	349	322	323	347	266	276	7181

## Discussion

### JOB CREATION

As previously noted in this report, the Trust conducted a Socio-Economic Report in 2016, which focused specifically on the Trust and how the Trust's programs impacted the communities of the Southern Interior. The Researchers concluded that even though the ten years leading up to the report had been tumultuous, the Trust continued to have a positive and significant social, economic and employment impact within the Southern Interior. The researchers went on to state although there was not an initial baseline, the impacts were positive and substantive. These positive impacts serve to emphasize the relevance, credibility and value of the Trust's programming.

The Report can be reviewed in its entirety on our website at: <https://sidiit-bc.ca/about-us/resources>

### LABOUR FORECAST

A labour market outlook looks at trends that are anticipated in the future labour market. According to BC's 2017 Labour Market Outlook, 12 percent of BC residents live in the Thompson Okanagan, and one in ten BC workers call the Thompson Okanagan home, although they may work outside the region. Over the next ten-year forecast period, employment in the Thompson Okanagan is anticipated to increase 1 percent on average each year. Through 2027, 96,100 job openings are expected, of which 74 percent will replace retirees and 26 percent will be generated by economic growth.

The Kootenay economic region has 3 percent of the Province's workforce. Over the outlook forecast period to 2027, the Kootenay Region is expected to have 24,600 job openings, with 21 percent generated through economic growth and the rest due to retirements. Employment is forecast to increase at an average of 0.8 percent per year.

BC's 2017 Labour Market Outlook can be viewed at:

[https://www.workbc.ca/getmedia/12e9c92b-172a-47ee-bdfa-261b06efc37c/BC\\_Labour\\_Market\\_Outlook\\_2017\\_English.PDF.aspx](https://www.workbc.ca/getmedia/12e9c92b-172a-47ee-bdfa-261b06efc37c/BC_Labour_Market_Outlook_2017_English.PDF.aspx)

### EDUCATIONAL SUPPORT

The Trust engages with six post-secondary institutions operating in the Southern Interior as delivery partners for the Trust's investment in education. The participating institutions: College of the Rockies; Selkirk College; Okanagan College; University of British Columbia Okanagan; Thompson Rivers University; and Nicola Valley Institute of Technology, deliver programs and manage awards for trades, technology and applied sciences. Awards are based on financial need and range in size from \$500 to \$5000 per student recipient.

## **GOAL 3 ATTRACT NEW CAPITAL TO THE SOUTHERN INTERIOR REGION TO DRIVE INCREMENTAL ECONOMIC DEVELOPMENT ACTIVITIES.**

### Strategies

1. Attract capital into the region and contribute to the economic sustainability of the community by providing grants supporting community economic initiatives.

#### PERFORMANCE TARGETS AND METRICS:

- a) Achieve cumulative investments of \$7 Million in support of community economic initiatives by 2021.
  - b) Advance a minimum of \$500,000 annually in grants to community economic initiatives with a priority on projects that enhance access to technology and economic opportunities in smaller and rural communities.
  - c) Measure impact through annual recipient and partner reporting on immediate and ongoing project outcomes.
2. Through leverage and partnerships, achieve a multiplier effect through the Trust's loans, equity investments and grants.

#### PERFORMANCE TARGETS AND METRICS:

- a) Achieve minimum 4:1 leverage of the Trust's grant funding defined as an investment of \$4 from sources unrelated to the Trust for every \$1 invested by the Trust's as verified by third party review of project funding.
- b) Achieve minimum 2:1 leverage of the Trust's loan and equity investments defined as investment of \$2 from other sources (i.e. private equity/institutional investors/conventional and development lenders) for every \$ invested by the Trust.
- c) At proponent application and annual review, track project financing from other sources. Report annual and cumulative results.
- d) Leverage partnerships through collaboration on best practices and joint business and community economic development initiatives.
- e) Track and report annually on partnership activities and impact.
- f) Track and report annually on data collected on grants.

### Results

\$473,500 has been funded in support of community economic initiatives in 2018 and cumulatively \$6 million has been approved as at fiscal year-end 2018. This represents 100% of our cumulative target. Our leverage to date is 9.75 to 1. Our investments of \$49 million into loans and equity investments has attracted an additional \$126 million into the region representing leverage of 2.26 for every \$1 invested by the Trust.



Funding partners for community economic initiatives include the following:

- Provincial Government
  - Social Planning and Research Council
  - BC 150 Celebrations Fund
  - BC Innovation Council
  - BC Lottery Foundation
  - Jobs Opportunities Program
  - Ministry of Aboriginal Relations and Reconciliation
  - Ministry of Forests, Lands and Natural Resource Operations
  - Ministry of Jobs, Tourism & Skills Training
  - Ministry of Community, Sports and Cultural Development
  - Ministry of Transportation & Infrastructure
  - Southern Interior Beetle Action Coalition
  - Rural Economic Diversification
  - Rural Dividend Fund
- Federal Government
  - Business Development Bank of Canada
  - Farm Credit Corporation
  - Community Futures Development Corporations
  - Women's Enterprise
  - Heritage Legacy Fund
  - P3 Canada
  - Service Canada – Youth Employment Strategy

- Western Economic Diversification
- Chambers of Commerce
- Credit Unions and Credit Union Foundations
- First Nations Groups
- Colleges, Universities, and other Education Facilities
- Union of BC Municipal Governments
- Not-for-Profit Organizations, Foundations, and Cooperatives
- Trusts

Funding partners for business loans and equity investment initiatives include the following:

- Atrium Ventures VCC Inc.
- Business Development Bank of Canada;
- Farm Credit Corporation
- Community Futures Development Corporations;
- Women's Enterprise;
- Banks;
- Credit Unions;
- Venture Capital Corporations;
- Proponent equity;
- Angel investors;
- National Research Council Canada – Industrial Research Assistance Program;
- Scientific Research and Experimental Development – Federal Tax Incentive Program.

## Discussion

We define an economically sustainable community as a place where:

- There is a high quality of living that attracts people to the community and keeps them there;
- There is ample economic diversity and opportunity.

To help strengthen and build sustainable communities, we invest in initiatives that:

- Have regional economic impact;
- Support the creation, preservation or enhancement of employment;

- Support economic diversification and sustainability within Southern Interior communities;
- Tap into and take advantage of the expertise of people who live in the Southern Interior;
- Build on the region's tourism sector;
- Capitalize on the innovation and entrepreneurship of Southern Interior communities and businesses;
- Build on the industrial strength of the Southern Interior.

## Grant Program

The Grant Program provides non-repayable funding for municipalities, regional districts, First Nations, registered non-profit societies, institutions, and industry associations to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

Projects that may be ineligible under the Trust's guidelines, will be considered if they are from communities with a population of under 25,000, but projects still need to demonstrate measurable economic impact. In addition, multi-year funding may be considered for initiatives or activities that take longer than one year to fully develop, or to achieve or document results that are meaningful or build sustainability.

All projects must be consistent with the Act, vision and mission of the Trust and preference is given to initiatives with regional benefits. Benefits are measured by increased tax base, new job creation, incremental revenue generation and economic diversification.

The Trust updated its Grant Policy as at March 22, 2018. The updated Policy, as well as all of the Trust's Bylaws and Policies may be located on the Trust's website – [www.sidit-bc.ca](http://www.sidit-bc.ca) under the resource section.

## Thompson Okanagan Grants

- Accelerate Okanagan (AO) / BCIC
- Arts Council of the North Okanagan
- Canadian Home Builders Association
- Central Okanagan Community Futures
- Central Okanagan Foundation
- Community Dental Access Centre Society
- Community Futures of North Okanagan
- Community Futures Okanagan Similkameen
- Chase & District Lions Community Club
- Gold Country Communities Society
- Grindrod Recreation Association
- Hope Business and Development Society
- Kamloops Farm Fresh Processing Initiative
- Kamloops Innovation Centre (KIC) / BCIC
- Kelowna Habitat for Humanity Society
- Kelowna Innovation Society
- Kettle Valley Railway Society
- Larch Hills Nordic Society
- Lake Country Food Assistance Society
- Loose Bay Campground Society
- Lower North Thompson Community Forest Society
- Myra Canyon Trestle Restoration Society
- Nicola Valley Community Theatre Society
- NK'Mip Desert Heritage Society
- North Shuswap Health Centre Society
- North Thompson Fall Fair & Rodeo Association
- O'Keefe Ranch & Interior Heritage Society
- Okanagan Car Share Co-Op
- Okanagan Research & Innovation Centre
- Okanagan Similkameen Film Commission Society
- Penticton Centre for Exceptional Learning Society
- Princeton, Town of
- Regional District of North Okanagan
- Regional District of Okanagan Similkameen
- Revelstoke Nordic Ski Club
- S.S. Sicamous Marine Heritage Society
- Salmon Arm Folk Music Society
- Salmon Arm Museum and Heritage Association
- Shuswap Hut & Trail Alliance Society
- Sounds of Light Multicultural Society
- Sun Peaks Education Society
- Sun Peaks Health Association
- Sun Peaks Mountain Resort Municipality
- Thompson Nicola Regional District
- Thompson Okanagan Tourism Association
- Thompson Rivers University
- University of British Columbia Okanagan
- Venture Kamloops Business Development Society
- Yellowhead Community Services Society

## Columbia Kootenay Grants

- BDC -Small Business Productivity Project
- Black Jack Cross Country Ski Club Society
- British Columbia Community Forest Association
- Castlegar, City of
- CFDC of Greater Trail
- Christina Lake Chamber of Commerce
- Columbia Valley Greenways Trail Alliance
- Cranbrook & District Community Foundation
- Creston & District Community Resource Centre Society
- Fernie Chamber of Commerce
- Fly YXC Alliance Society
- Friends of Fort Steele Society
- Fruitvale, Village of
- Golden Cycling Club
- Golden Nordic Ski Club Society
- Grand Forks and Boundary Regional Agricultural Society
- Grand Forks, City of
- Harrop-Procter Community Co-op
- Kaslo, Village of
- Kimberley, City of
- Kootenay Aboriginal Business Advocates Society
- Kootenay Association for Science (KAST) / BCIC
- Kootenay Employment Services Society
- Kootenay Region Association for Community Living
- Kootenay Rockies Innovation Council (KRIC) / BCIC
- Little Lakers Learning Centre Society
- Lower Columbia Initiatives Corp
- Nakusp Centennial Golf Club
- Nakusp, Village of
- Nelson Civic Theatre Society
- Nelson, City of
- Phoenix Foundation of the Boundary Communities
- Red Mountain Academies Association
- Rossland, City of
- Rossland Historical Museum Society
- Salmo Valley Trail Society
- Selkirk College
- Silverton, Village of
- Trail, City of
- Village of Canal Flats
- West Kootenay Herb Growers Cooperative
- Windermere District Farmers' Institute and Livestock Association



## **GOAL 4 INCREASE THE VALUE OF THE INVESTMENT POOL, THEREBY INCREASING OPPORTUNITIES TO SUPPORT REGIONALLY STRATEGIC INVESTMENTS IN THE SOUTHERN INTERIOR.**

### Strategies

1. Prudently manage the Trust's credit investment risk by establishing and following clear guidelines for assessing lending and investment opportunities and by setting maximum limits of funding at various stages of development and categories of risk. Provide ongoing business mentoring and monitoring to investee companies to enhance their performance and success.

#### PERFORMANCE TARGETS AND METRICS:

- a) Balance investment of the fund pool in companies at various stages of development by limiting exposure to the following percentages: 5% at seed stage, 15% early stage, 50% growth stage, 30% mature stage.
  - b) Limit loan size by stage of development to: \$200,000 seed stage, \$500,000 early stage, \$1,000,000 growth, expansion or mature stage.
  - c) Monitor the fund pool risk for balanced investment in specific categories of risk based on loan purpose, proponent's industry sector and operational performance.
  - d) Proactively manage portfolio risk by downgrading risk at the time of material adverse changes, and by appropriate provision for losses..
2. Achieve a return on market investment portfolio (ROI) at or above industry benchmarks. Prudently manage the Trust's market investment risk by establishing and following investment policy guidelines that set out investment risk tolerance and portfolio structure. Increase the value of the trust over time.

#### PERFORMANCE TARGETS AND METRICS:

- a) Engage high-quality investment management professionals to manage the market investment portfolio and achieve target rates of return on investment, established by the Trust's Board of Directors and specified in the Trust's investment policy and bylaws.
- b) Annually establish target return on investment.
- c) Report and manage investments on the basis of investment type and risk, benchmarked against industry performance for each category of investment as provided by the professional investment manager.
- d) Report on actual net return achieved vs target ROI and vs industry benchmark performance for each category of investment, as well as the overall portfolio.

# Loans

## Performance Targets

Increase the value of the Trust over time.

### PERFORMANCE METRICS:

- Balanced Portfolio Risk Mix:
- Achieve and sustain a balanced risk mix in the loan and investment portfolio, based on investee's stage of business development, loan/investment purpose, life cycle and operational performance.
- Prudent Portfolio Management:
  - » Pricing loans and equity investments appropriately based on risk, with higher returns priced into higher risk transactions.
  - » Proactively manage and report on portfolio risk, including downgrading of risk at the time of material adverse changes, and provision for losses.
  - » Quarterly and annually report on lending and equity investment portfolio returns on investment (ROI), itemized by category of risk and with returns calculated to include loans and equity investments written off and provisions for losses.
  - » Include updated exit strategies in reports on loan and equity investments.

The Loan/Investment Business stages were redefined at the end of Fiscal 2017, and will be updated in the Trust's Strategic Plan in Fiscal 2018, as follows:

**Growth/Expansion Stages:** Companies at this stage are established businesses with well-defined products and markets, tangible assets used in providing services, an established management team, and a track record of revenue and profit generation. Funding at this stage can be provided to help grow or expand operations, enter new markets, finance an acquisition, and facilitate a change in control or to execute a turnaround strategy.

**Later Stage:** Financing to mature companies may be provided to help grow existing operations, improve performance or protect employment through an injection of capital and appropriate management support.

**Transitional Stage:** Transitional Stage companies are established companies that are being transitioned to new ownership as part of their succession planning. The Trust may consider financing for the company or individual that is taking over such entity.

## TARGET INVESTMENT FUND ALLOCATION AND LEVERAGE

Stage of Business	Maximum \$ Invested	Target Leverage Other/Trust	Target Fund Allocation*
Growth Capital	\$1,000,000	3:1	50%
Later Stages	\$1,000,000	3:1	30%
Transitional Stage	\$1,000,000	2:1	20%

\*value is based on current balances and monitored on at least an annual basis

## CURRENT FUND ALLOCATION

Stage of Business	Target Fund Allocation	Actual	Actual Allocation
Start Up Phase	0%	\$2,003,900.06	5%
Early Stage	0%	\$9,003,995.44	25%
Growth / Expansion Stages	50%	\$17,192,665.24	48%
Later / Mature Stages	30%	\$7,756,337.86	22%
Transitional Stage	20%	0	0
		<b>\$35,956,898.60</b>	<b>100%</b>



## Discussion

The Trust's loan and equity portfolio is dynamic and can fluctuate significantly with new debt and debt repayment. Changes in economic growth creates opportunities, as well as challenges, for the Trust, however the potential to expand core lending activities and opportunities arise by serving new types of customers.

Projects supported by the Trust have a minimum of matching funds invested by either the project proponent or other parties. When security is provided in asset-based lending scenarios, leverage ratios used by the Trust will reflect standard bank loan to value criteria. Exceptions to this policy may be approved when the lending decision provides protection of the Trust's investment.

The structure of the Trust's equity investments is consistent with best business practices in equity investment procedures. The structure of the Trust's loans is consistent with traditional lending criteria. In general terms, amortization periods do not exceed the life expectancy of the assets being secured and the loan term will typically be five years or less.

The purpose of all loans or investments funded by the Trust complies with the Trust Act. Fees are market-based and rates appropriately represent the inherent risk of each business circumstance. It is envisioned that the loans made by the Trust will eventually become bankable, at which time the enterprise may retire the Trust's position in favour of a traditional lender allowing the Trust's funds to be re-invested in other promising enterprises.

In exchange for the high risk that the Trust assumes by investing in smaller and less mature companies, the Trust incorporates terms and conditions, positive and negative covenants, milestone targets, performance measures, and monitoring criteria in equity investment agreements that are intended to control company decisions and actions, in addition to holding a portion of the company's ownership (and consequently value). The Trust's role in the ongoing operation of the enterprises that it invests is not passive. Generally, the Trust has the right to: appoint monitors, appoint candidates for seats on the Boards of the enterprises that the Trust invests in, and hold observer roles.

## Results

The Trust has advanced \$49 million into business ventures. \$29 million in principal and interest has been repaid to date. Our committed investment of \$49 million in loan and equity investments has attracted an additional \$175 million (Project cost minus SIDIT Advanced) into the region representing a leverage of \$2.26 for every \$1 invested by the Trust.

Trust assets, originally \$50 million, are currently \$48.3 million as at March 31, 2018 after disbursement of \$61 million into economic development initiatives in the Southern Interior. In 2006, the Government of British Columbia enacted legislation launching the Trust with a \$50 million, one time allocation. Twelve years later with \$61 million of projects funded and disbursed, the Trust is proud to have accomplished an overall economic impact exceeding \$322 Million.

## Thompson Okanagan Loans

- AAA Internet Publishing Inc. dba WTFast Inc.
- Allen Brands Inc. dba Big Surf Beer
- Always On UPS Systems Inc.
- Assured Software Limited
- Athena Farm Holdings Ltd.
- Atrium Ventures Inc.
- Awesense Wireless Inc.
- Bensay Innovative Inc.
- Britewood Industries Ltd.
- Catalyst Healthcare Ltd.
- Clear Water Springs Ranch
- Complete Home Energy Ltd.
- CS Manufacturing Inc.
- Delta C Technologies Inc.
- Diacarbon Energy Inc.
- FreshTech Systems Canada Inc.
- GC Green Carbon Inc.
- Great Bear Enterprises Ltd.
- Greenstep Solutions Inc.
- Heimann & Sons Masonry Ltd.
- Helios Global Technologies Ltd.
- Immersive Ventures Inc.
- International Road Technologies Ltd.
- Invaron Pharmaceuticals Inc.
- Jupiter Avionics Corporation
- Just Be Friends Kids Inc. (MAZU)
- Kelowna Visual and Performing Arts Centre Society
- Kettle Valley Moulding & Millwork Inc.
- Lemonade GameLabs Inc.
- Mario's Towing Inc.
- Mathtoons Media Inc.
- Matichuck Holdings Ltd.
- New Era Nutrition Inc.
- Nor Val Rentals Ltd.
- Okanagan Hockey Group Inc.
- Okanagan Label and Print Ltd.
- Pareto Systems Inc.
- Pre Labs Inc.
- Pro Smart Developments Inc.
- Pryme Group Imagery Inc.
- QHR Technologies Inc.
- Regal Ridge Development
- Reliant Web Hosting Inc.
- Rfind Systems Inc.
- Rhinokore Composites Ltd.
- Ruttan Enterprises Ltd.
- Sedo International Foods
- Signalink Technologies Inc.
- Sky Surfer Technologies Inc.
- Soil Mate Networks Inc.
- SST Wireless Inc.
- The Dubh Glas Distillery Ltd.
- Thermo Matrix Industries Ltd.
- Thompson River Veneer Products
- Tim C. Van Horlick Industry Inc.
- Tip-It Waste Solutions Inc.
- Two Hat Security Research Corp.
- Upward Solutions Inc.
- Vericorder Technologies Inc.
- Vineyard Networks Inc.
- Visland Media Inc.
- Volinspire Community Contribution Company Inc.
- Waveteq Communications Inc.
- West Equipment Rentals Ltd.
- Wildrides.ca Incorporated

## Columbia Kootenay Loans

- AC Global Systems Ltd.
- Boundary Sawmill Inc.
- Cherry Creek Holding Ltd.
- Cranbrook Society for Community Living
- Elevation Industries Inc.
- Golden Timber Frames Limited
- Jhaj & Stewart Brothers Nursery Ltd.
- Mineral Mountain Zipline Ltd.
- Mrs. Palmers Pantry Inc.
- Palmer Bar Holdings Inc.
- Red Mountain Resorts
- Ron Donaldson Relocation Services
- Selkirk Security Services Inc.
- Timely Networks Inc.
- Valhalla Technologies Inc.
- Zak Ventures Inc.

## Investment Portfolio

The return in fiscal 2018 for the PH&N portfolio was 3.6%. The overall return since inception was 6.5% as compared to a composite benchmark of 5.7% and to the Canadian Consumer Price Index of 2.3%. The portfolio, originally \$25 million at inception, is currently valued at \$27 million.

### PERFORMANCE METRICS:

- Annually establish target return on market investment.
- Report and manage market investments on the basis of investment type and risk, benchmarked against industry performance for each category of investment as provided by the professional investment manager.
- Report on actual net return achieved vs target ROI and vs industry benchmark performance for each category of market investment, as well as the overall portfolio.

### TARGET ASSET ALLOCATION AND RANGES

Asset Class	Minimum*	Target*	Maximum*
Canadian Equities	12.5%	20%	27.5%
Foreign Equities	22.5%	30%	37.5%
Total Equities	35%	50%	65%
Universe Bonds	7%	17%	27%
Mortgages	13%	23%	30%
High Yield Bonds	0%	5%	10%
Total Bonds	30%	45%	60%
Cash & Short-Term	2%	5%	8%

\*Percentage of portfolio at market value.

As of March 31, 2018		% of Total Portfolio	Current Benchmark %
<b>Market Value</b>	<b>\$27,497,663</b>		
Asset Mix (% of total market value)	Cash	4.9	5.0
	Mortgages	25.0	23.0
	Universe Bonds	18.1	17.0
	High Yield Bonds	1.5	5.0
	Canadian Equities	20.0	20.0
	Global Equities	30.5	30.0



## INVESTMENT RETURNS

	Year Ended Mar/2018 %	Year Ended Mar/2017 %	Year Ended Mar/2016 %	Year Ended Mar/2015 %	Since Inception* (annualized) %
<b>Southern Interior Development Initiative Trust</b>	<b>3.6</b>	<b>8.1</b>	<b>4.7</b>	<b>16.3</b>	<b>6.5</b>
<i>Composite Benchmark**</i>	<u>3.6</u>	<u>10.6</u>	<u>-1.8</u>	<u>11.4</u>	<u>5.7</u>
<i>Difference</i>	+0.0	-2.5	+6.5	+4.9	+0.8
Canadian Consumer Price Index	2.3	1.6	1.3	1.2	1.7
Canadian Equities	1.0	12.3	3.8	16.5	5.6
S&P/TSX Capped Composite Index	1.7	18.6	-6.6	6.9	4.5
Global Equities	6.6	11.4	8.8	28.1	8.2
MSCI World Net Index	9.8	18.3	-0.7	22.1	7.9
Fixed Income	2.9	4.3	1.7	8.2	5.3
Fixed Income Benchmark	0.5	1.7	0.9	8.3	4.2
Money Market	1.2	1.0	0.8	1.2	1.1
FTSE TMX Canada 30 Day TBill Index	0.8	0.5	0.5	0.9	n/a

The Trust's investment portfolio is managed by Philips, Hagar and North Investment Management (PH&N IM). Founded in 1964, PH&N IM has grown to become one of Canada's leading investment management firms with \$100 billion in assets under management. In 2008, PH&N IM was acquired by Royal Bank of Canada, providing access to significant additional resources to evolve their services and strategies in tandem with their clients' increasingly sophisticated investment needs. PH&N IM have extensive experience managing balanced portfolios and currently manage \$10 billion in balanced mandates for more than 200 institutional clients.

Their key objective is to add value while controlling risk. Their approach is characterized by teamwork and long-term thinking. Analysts are responsible for individual security selection, portfolio construction and overall strategy. Portfolio managers ensure the implementation of each client's asset mix and investment guidelines. PH&N IM provides a full range of investment funds, including the traditional asset classes of stocks, government bonds and money market investments, as well as less-traditional asset classes and strategies such as corporate bonds and mortgages.

The Trust's portfolio is positioned to protect its capital and outperform its benchmark in periods of stock market weakness, primarily due to the use of a low volatility equity strategy. It may however underperform in periods of stock market strength.

## Discussion

After an extended period of strong performance for risk assets and unusually low volatility, most risk assets corrected somewhat in the first quarter of 2018, and volatility return to capital markets. Prior to the decline, the S&P 500 Index had gone more than 300 days without a 3% correction – the longest streak on record. While stocks are now off their recent lows in most regions, volatility continued throughout the quarter and many indexes suffered declines of up to 10%. As a result, stocks are moderately more attractive than they were prior to the correction, according to the global stock-market valuation composite, but the potential for upside is lower than at earlier points in the bull market.

Amid the market turbulence, macroeconomic conditions remained calm and last year's strong global economic environment persisted into 2018. Global manufacturing remains in high gear, the rate of growth is the fastest it has been in years, and the geographic breadth of the upturn suggests a durability to the trend. Regionally, the U.S. economy is particularly strong right now and is receiving further support from a weaker dollar and fiscal stimulus. The Canadian economy enjoyed a stellar 2017 and though it will likely lose some momentum over 2018, it continues to be buoyed by stabilizing oil prices and strong global demand. Emerging markets are accelerating nicely after bottoming in 2015 and will on average grow much more quickly than the developed world; however, as they mature, their natural speed limit is declining. All things considered, looking ahead future growth appears set to be better than the post-crisis norm, but still less than the pre-crisis standard.

Against this backdrop, The Trust's investment portfolio earned a return of 3.6% in the year ended March 31st, 2018, which was in-line with its benchmark. Although still positive, last year's portfolio return was lower than previous years as equities grapple with heightened levels of volatility and universe bonds digest rising interest rates. The since inception return for the Trust's portfolio remains strong, and is ahead of the Consumer Price Index +3% target. The Trust's low volatility strategies (Canadian and Global) are well positioned should there be weaker equity markets, and the diversified nature of the fixed income holdings (conventional and higher yielding mortgages, high yield bonds) are less sensitive to rising interest rates which has bode well for performance.

Reflecting the balance of risks and opportunities, the Trust's asset mix is now closer to neutral than it has been in many years. Equities are not as attractive as they were at previous points in the cycle but, the potential upside in corporate profits is worth a mild overweight in stocks. In fixed income, the Trust has held big underweights for a long time but have been narrowing that gap as the business cycle matures and yields move higher. The outlook for bonds remains somewhat unappealing, but the recent rise in yields has lowered valuation risk, and bonds serve as ballast against rising volatility and/or unexpected deterioration in corporate profits.

## **GOAL 5 CREATE AND SUSTAIN PUBLIC AWARENESS OF AND SUPPORT FOR SIDIT'S PURPOSE, GOALS, ACHIEVEMENTS AND SUCCESSES WITH A FOCUS ON PARTNERSHIP DEVELOPMENT, COLLABORATION AND EXTENDING RURAL REACH.**

### Strategies

1. Focus on collaborative partnership development and extending rural reach.

#### PERFORMANCE TARGETS AND METRICS:

- a) Measure and report annually on the extension of the Trust's profile and community reach including: media profile/hits, community and partner presentations, joint activities, testimonials and success stories
- b) Support and facilitate Staff, Regional Advisory Committee and Board member presentations and ambassadorship by providing a "toolkit" for use in presenting and promoting the Trust to community stakeholders.
- c) Distribute a press release for every Trust loan, investment and grant.

2. Deliver customized messages to specific stakeholder group using a variety of communication tools. Target audiences and stakeholders include:

#### PERFORMANCE TARGETS AND METRICS:

##### Business Community

- Potential and Existing Investee Companies and Organizations
- Chambers of Commerce/Boards of Trade
- Business/Industry Associations
- Economic Development Agencies
- Tourism Associations
- Professional Service Providers (i.e., lawyers, accountants, bankers)

##### Lending Partners

- Financial Institutions/Banks/Credit Unions
- Development Lenders and Investors (BDC/CFDC/WEC)
- Federal/Provincial/Institutional Grant Funders
- Private Equity Groups

##### Educational Partners

- Universities and colleges
- Accredited training schools

##### Government/Communities

- Municipal Governments
- Regional Advisory Committees
- Community-Based Organizations Involved in Community and/or Economic Development Activities
- First Nations
- The General Public
- Members of the Legislative Assembly
- Senior Ministry officials
- SIDIT Area Members of Parliament

#### PERFORMANCE TARGETS AND METRICS:

- a) Share client success stories in all forms of media (print, publications, social media).
- b) Encourage the impact of Staff, Regional Advisory Committee and Board members' presentations and ambassadorship by providing a "toolkit", including video and print materials for use in presenting and promoting the Trust to stakeholders in their communities.



## Results

### PARTNERSHIP WITH UNIVERSITY OF BC OKANAGAN

In Fiscal 2018, the Trust collaborated with the University of BC, Okanagan Campus by investing \$50,000 in the UBC Okanagan co-op student program. The pilot program makes available grants of up to \$5,000 to qualifying businesses in the Southern Interior region of B.C. looking to bring on a co-op student from the pre-screened talent pool for the first time. The goals of the grant program are to develop co-op experiences and opportunities, encourage small- to medium-sized enterprises in the Southern Interior to hire a co-op student, support regional resident recruitment efforts by helping students access employment off-campus, as well as create a bridge between communities and the Okanagan campus of UBC.

The program has a particular focus on co-op work experiences that demonstrate direct impact and community development around agriculture, forestry, pine beetle recovery, transportation, tourism, mining, small business, economic development and energy matters. The Trust has provided 50% of the wage costs for students up to \$5000.

### BUSINESS ADVISORY SERVICES PROGRAM

The Business Advisory Services Program was launched in Fiscal 2016. The Trust's Board of Directors determined that the program was not sustainable and cancelled the program in October 2017.

### 2016 SOCIO-ECONOMIC REPORT

The Socio-Economic Report, prepared by Lochaven Management Consultants/Urban Matters in 2016, focused specifically on the Trust and how the Trust's programs impacted the communities of the Southern Interior. The report focused on the acquisition of both qualitative and quantitative impact related information; and employed both primary and secondary research. By definition, the approach included a process of scoping, direct fiscal assessment, surveying of a stratified sample of clients/ stakeholders, and the careful inputting and imputing of indirect/induced impacts. The Report in its entirety can be viewed on the Trust's website at: <https://sidit-bc.ca/application/files/2814/8711/2619/SIDITImpactAssessment-SPREADS.pdf>

### TRUST COMMUNICATIONS

The Trust attended and presented to a number of different organizations in Fiscal 2018, including both the Southern Interior Local Government Association and the Association of Kootenay and Boundary Local Government conferences in April 2017 and at the UBCM in September 2017 to Minister Bruce Ralston.

In addition to the programs and reports noted above, the Trust publishes a quarterly newsletter on funded grants and loans, as well as setting out the full list of approved grant and loan recipients in this Annual Report. The Trust continues to attend and provide useful information on its programs to businesses and municipalities in the Southern Interior.

## Discussion

The Trust's Board of Directors, are working to develop a communications plan that will measure awareness and support for the Trust's economic initiatives in the Southern Interior.

# Post Secondary Grants

In 2017/18 The Trust provided \$250,000 to fund student scholarships, bursaries and co-op program. This commitment greatly enhances SIDIT's mission to provide student learning opportunities, create and advance knowledge and understanding, and enhance the economic and social well-being of the communities in the Southern Interior.

## Testimonials

### SIDIT SCHOLARSHIP RECIPIENT FROM THE UNIVERSITY OF BRITISH COLUMBIA OKANAGAN



**Kiana Marty, First Year, Nursing**

*"I chose to major in nursing so that I can help support families as they get through some of the hardest times of their lives. I have seen first-hand the impact nurses have on their patients and their families, having been by my mom's side as she deals with a multitude of chronic health issues. The kindness shown by her nurses led me to this career path and I hope to be able to make a difference in my future patient's lives in the same way my mom's nurses have impacted me. In the future, I hope to travel to countries where health care is not as accessible as it is here so that*

*I can use my skills to impact people who may not have the care otherwise. I am forever thankful for SIDIT's contribution to my education as without donors like you, I would not be here today. Anyone who has received a bursary knows just how critical they are to fund post-secondary education. So, I say again, thank you."*



**Arielle Arcega, BSC' 14, First Year, Nursing**

*"I have already received my Bachelor of Science in Biology at UBC Okanagan, and it took me a couple of years to decide what I really wanted to do as a career. I finally decided to do the whole process again because I want a secure and rewarding job where I can make a difference in people's lives on a daily basis. My biology background has helped me a lot in the program already and being an older student has made me more appreciative of being able to pursue my dreams. I would like to send a warm thank you to SIDIT for helping me on my journey and supporting*

*students like me who are paying for school by themselves. I am grateful that UBC has programs and people like these that are willing to help students like myself."*



## SIDIT SCHOLARSHIP RECIPIENTS FROM SELKIRK COLLEGE



**Dave Stevens**

*"I am writing to express my sincere appreciation for this bursary money. My goal has been to get a forestry diploma because I had previously researched that it was in growing demand for the province. I am so close to completing that goal now and have almost secured a job to go straight to. This money has helped me pay rent for a whole month, which is huge! Things like this really help take the stress out of what is a huge commitment to make in changing your life. I have managed to maintain excellent grades so far and hope to finish as strong as I have started.*

*Thanks again and kind regards."*



**Stephanie Bihun**

*"My name is Stephanie Bihun and I am a 2017-2018 recipient of the SIDIT Bursary. I am honored to receive this award and would like to express my sincere gratitude for the tremendous support that your organization has provided me through this endowment. Without a doubt, this scholarship will play a key role in achieving my educational dreams. Because of your generosity, the financial burden placed on me will be reduced. This means I can spend more time on my studies, research and extracurricular activities and less time worrying about my finances. I look forward to successfully*

*completing my degree Bachelor of Science at Selkirk College in 2020 and continuing my work as a registered nurse. I plan to pursue to my nursing to a master's level and hope to be able to work in the West Kootenays as a Nurse Practitioner. I aim to run my own clinical practice locally (Nelson, Castlegar, Trail, South Slocan Valley) to help with the shortage of physicians. I thank you once again for your generous financial support in this endeavor."*

## SIDIT SCHOLARSHIP RECIPIENT FROM OKANAGAN COLLEGE



### Dan Sutherland with wife and daughter

*"With a young family (my daughter is just 6 months old) improving my skills to start a new career is difficult enough. Without the help of grants and bursaries it would be nearly impossible. I'm very grateful to be receiving this support."*

Claudette Everitt, SIDIT Board Chair & Jean-Marc Lacasse, SIDIT CEO with Okanagan College SIDIT Education Award recipients, May 3, 2018.





# Management Discussion and Analysis

This discussion and analysis of financial position and results of operations of the Trust was prepared on May 23, 2018, and it should be read in conjunction with our audited financial statements and related notes for the year ended March 31, 2018.

The financial information in this report is prepared in accordance with Canadian accounting standards for not-for-profit organizations and is reported in Canadian dollars. Totals and percentages may not always add up due to rounding.

## Nature of Operations

The Trust was established as a corporation in 2005 by the Southern Interior Development Initiative Trust Act and operates as a not-for-profit economic development trust. As a non-profit corporation, the Trust is exempt from income taxes and is not a GST registrant and therefore pays GST and provincial sales tax and receives no rebates on taxable purchases.

The Trust is not an agent of the government.

## Internal Control Over Financial Reporting

The Fiscal 2018 evaluation of the effectiveness of internal control over financial reporting did not identify any control gaps that are likely to materially affect to the Trust.

## Revenue Sources

The Trust received a one-time development allocation payment from the BC Provincial Government in the amount of \$50 million.

100% of our operational funding comes from returns on market investments and development initiatives, including loan interest and application fees.

The model is premised on generating sufficient revenue to allow the Trust to break even over the business cycle. Surpluses are generated during high points in the market's cycle and may generate deficits during bear market periods.

Category	Source	Fiscal 2018	Fiscal 2017
Investment Income	Phillips Hager & North–Mutual Funds and Bonds	32%	48%
Development Initiative Income	Private Companies	68%	52%

## Investment Income

The Trust's prime investment objectives for surplus funds are to meet the Trust's financial obligations related to disbursements in support of economic development initiatives and its day to day operations while preserving and expanding reserves necessary to meet future opportunities and obligations.

The Trust invests in highly liquid, high quality money market instruments, government securities, investment-grade corporate debt securities, Canadian equities, foreign equities, pooled funds, closed-end investments, companies and other structured vehicles in any or all of the above permitted investment categories.

## Development Investment Income

The Trust lends to, and invests in, promising commercial enterprises that may not qualify for credit through traditional sources, balancing the level of risk that is present, with the community economic benefits that are being created, and the long-term potential that future cash flow and equity targets will be met. Interest rates are risk based.

## Contributions

The Trust has an agreement with the British Columbia Innovation Council to jointly support student scholarships within our area.

## Expenses

The Trust is committed to managing its operational expenses so they do not exceed expected revenue over the business cycle. This is accomplished by preparing an annual budget that is approved by the Board of Directors, monthly budget variance reporting to the Board's Management Committee, and requiring Board approval of significant unbudgeted expenses, and continually improving its processes.

## Analysis of Fiscal 2018 Operating Results Compared to Budget

	2018 Actual	2018 Budget	Variance to Budget
<b>REVENUES</b>			
Income on Investments	\$818,383	\$800,000	\$18,383
Unrealized Gains / Losses	-\$712,900	\$0	-\$712,900
Realized Gains	\$875,979	\$735,500	\$140,479
Income on Development Initiatives	\$1,843,790	\$1,738,000	\$105,790
Other Revenue	\$216,925	\$200,000	\$16,925
Business Advisory	\$44,359	\$153,000	-\$108,641
Contributions	\$0	\$12,500	-\$12,500
<b>EXPENSES</b>		<b>\$3,639,000</b>	
Board Costs	\$38,274	\$38,000	-\$274
Education Awards and Grants	\$723,500	\$775,000	\$51,500
Office and Administration	\$225,148	\$250,000	\$24,852
Business Advisory	\$60,603	\$194,000	\$133,397
Professional / Consulting / Investment	\$412,768	\$375,000	-\$37,768
Salaries and Benefits	\$756,997	\$807,000	\$50,003
Provision for Loans	\$3,373,895	\$1,200,000	-\$2,173,895
		<b>\$3,639,000</b>	
<b>Gain / Deficiency</b>	<b>-\$2,504,650</b>	<b>\$0</b>	<b>-\$2,504,650</b>

## Revenue

### INCOME ON INVESTMENTS / UNREALIZED GAINS (LOSSES)

With global capital markets volatile in early 2018, investment returns combined with unrealized gains and losses resulted in a combined gain of 3.6% overall but fell short of budget projections.

### INCOME ON DEVELOPMENT INITIATIVES

The Trust exceeded our budgeted loan interest as it had several early loan payouts in Fiscal 2018.

### OTHER REVENUE

The Trust collected slightly more fees on loans due to loan applications not being completed in Fiscal 2018.

### BUSINESS ADVISORY

The Board of Directors discontinued Business Advisory Program October 2017, and as a result the Program did not meet budget.

### CONTRIBUTIONS

British Columbia Innovation Council (BCIC) drew nothing out of the budgeted amount for payout to students. The remaining student grants should be paid when students have qualified for the awards.

## Expenditures

### BOARD COSTS

The Board costs for meetings were on budget.

### EDUCATION AWARDS AND GRANTS

The Trust funds education awards in partnership with others. The Education institutions decide which students receive funds and how funding is disbursed. Our Education budget variance of \$25,000 is due to BCIC drawing out less than the budgeted amount for payout to BCIC/Trust funded programs. BCIC's 50% share of funding is reflected in "Contributions".

A Grant budget variance of \$26,500 is due to previously committed grants being postponed to the next fiscal year end due to the proponents not being able to verify matching funding. The Trust did meet its Strategic Target for grants funded by 2018, which totaled \$6,000,000.

### OFFICE AND ADMINISTRATION

There was a \$24,851 surplus in operations due to amortization, conference, communication and travel costs being lower.

### SALARIES AND BENEFITS

The \$50,003 surplus in administration salaries was due to not having all staff positions filled during the year.

### BUSINESS ADVISORY

As previously noted, the BAS program was discontinued in October 2017, which resulted in lower expenses.

### PROFESSIONAL ACCOUNTING

Accounting fees were on budget and no additional services were contracted, which resulted in a surplus of \$1,441. A deficit of \$25,491 was realised for consulting services due to the hiring of an external compliance audit consultant to ensure that internal practices were compliant with the Trust's Policies and Bylaws. A surplus of \$10,666 was realised with lower investment management fees. Legal costs were over budget by \$26,311 due to legal work related to various loans, updating of policies and personnel issues. A surplus of \$1,927 was realised in Web and Data base fees due to efficiencies with 'Nerds on Site' for computer support.

### PROVISION FOR DEVELOPMENT INITIATIVE LOSSES

An additional provision of \$2,173,895 has been made against certain outstanding development initiative investments which management considers unlikely to be recovered.



## Financial Position

### ASSETS AND LIABILITIES

	2018	2017	2016	2015	2014
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$848,438	\$862,054	\$356,951	\$1,107,445	\$1,518,509
Accounts Receivable	\$0	\$0	\$0	\$162,016	\$640,625
Prepaid Expenses	\$7,134	\$10,720	\$5,381	\$6,701	\$8,478
CP of Development Initiatives	\$1,852,267	\$871,504	\$2,096,614	\$3,488,859	\$447,384
	<b>\$2,707,839</b>	<b>\$1,744,278</b>	<b>\$2,458,946</b>	<b>\$4,765,021</b>	<b>\$2,614,996</b>
Investments	\$18,050,405	\$29,283,422	\$29,601,310	\$30,753,080	\$30,048,349
Development Initiatives	\$27,497,663	\$19,721,853	\$18,606,431	\$14,949,834	\$17,140,914
Property and Equipment	\$31,494	\$34,841	\$19,428	\$33,270	\$43,074
	<b>\$48,287,401</b>	<b>\$50,784,394</b>	<b>\$50,686,115</b>	<b>\$50,501,205</b>	<b>\$49,847,333</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Current Liabilities:</b>					
Accounts Payable	\$137,337	\$129,680	\$78,778	\$58,688	\$60,940
Deferred Contributions	\$12,500	\$12,500	\$12,500	\$14,500	\$255,500
	<b>\$149,837</b>	<b>\$142,180</b>	<b>\$91,278</b>	<b>\$73,188</b>	<b>\$316,440</b>
<b>Funding Balance:</b>					
<b>Regional Account</b>					
Externally Restricted	\$48,137,564	\$50,642,214	\$50,594,837	\$50,428,017	\$49,530,893
	<b>\$48,287,401</b>	<b>\$50,784,394</b>	<b>\$50,686,115</b>	<b>\$50,501,205</b>	<b>\$49,847,333</b>

## Assets

### CASH AND CASH EQUIVALENTS

Cash equivalent assets are monies currently held in Vantage One Credit Union.

### ACCOUNTS RECEIVABLE

Accounts receivable include accrued interest on CFDC Development Initiatives for the first quarter of fiscal 2018.

### PREPAID EXPENSES

Prepaid expenses are monies paid for insurance and rent deposits paid in advance.

### CURRENT PORTION OF DEVELOPMENT INITIATIVES

This includes that portion of Development Initiatives that are due and payable in the next year.

### DEVELOPMENT INITIATIVES

As part of the Trust's mandate, funding is provided for business ventures. This funding is provided through development initiatives.

### INVESTMENTS

The principal financial instruments affecting financial conditions and results of operations are bonds and equity investments. The investments expose the Trust to global market risk, as well as interest rate risk. Although the short-term nature of the Trust's cash and money market investments limits the impact of fair value fluctuations,

longer term bonds and debentures will have greater interest rate sensitivity. The Trust manages interest rate risk by monitoring portfolio duration and yields with the fund administrator. Liquidity risk is low as market investments are in pooled fund units redeemable within a short time period. The Trust's funds are invested with Phillips, Hager & North Investment Management.

### PROPERTY & EQUIPMENT

Capital assets include office furniture, computer hardware and software with the net book value of \$31,494 after depreciation.

## Liabilities

### ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable includes monies owed to a loan client. Accrued liabilities of \$19,635 are for accounting fees.

### CURRENT PORTION OF DEFERRED CONTRIBUTIONS

This represents \$12,500 of the unspent externally restricted grant from the British Columbia Innovation Council.

## Equity

### REGIONAL ACCOUNT

This account has decreased by \$2,504,650 due to loan provisions.

## Profit and Loss Actuals

	2018	2017	2016	2015	2014
Income on Investments	\$818,383	\$789,792	\$754,566	\$893,694	\$761,868
Income Development Initiatives	\$1,843,790	\$2,235,436	\$1,564,666	\$1,858,465	\$1,421,093
Other Revenue	\$216,925	\$220,095	\$449,294	\$255,447	\$204,345
Contributions	\$0	\$0	\$2,000	\$241,000	\$177,639
Business Advisory	\$44,359	\$57,464	\$0	\$0	\$0
<b>Total Revenues</b>	<b>\$2,923,457</b>	<b>\$3,302,787</b>	<b>\$2,770,526</b>	<b>\$3,248,606</b>	<b>\$2,564,945</b>
Board Costs	\$38,274	\$32,047	\$24,924	\$22,833	\$17,453
Education Awards and Grants	\$723,500	\$726,511	\$707,173	\$930,000	\$1,235,750
Office and Administration	\$225,149	\$207,881	\$148,465	\$147,143	\$133,591
Professional Fees	\$412,768	\$321,096	\$399,161	\$201,480	\$176,224
Salaries and Benefits	\$756,997	\$683,930	\$652,813	\$578,627	\$466,792
Business Advisory	\$60,603	\$185,147	\$0	\$0	\$0
<b>Total Expenses</b>	<b>\$2,217,291</b>	<b>\$2,156,612</b>	<b>\$1,932,536</b>	<b>\$1,880,083</b>	<b>\$2,029,810</b>
<b>Excess of Revenue over Expenses</b>	<b>\$706,166</b>	<b>\$1,146,175</b>	<b>\$837,990</b>	<b>\$1,368,523</b>	<b>\$535,135</b>
Unrealized Gain(Loss) Investments	-\$712,900	\$111,871	-\$889,793	\$2,691,174	\$2,190,751
Realized Gain(Loss) on Investments	\$875,979	\$1,402,216	\$1,424,780	\$1,175,949	\$446,938
Provision for Development Initiative Losses	-\$3,373,895	-\$2,612,885	-\$1,206,157	-\$4,338,522	-\$1,188,743
	<b>-\$2,504,650</b>	<b>\$47,377</b>	<b>\$166,820</b>	<b>\$897,124</b>	<b>\$1,984,081</b>

## Liquidity

Cash flow, excluding provision for development initiative losses and unrealized loss on investments, was negative for the year at \$13,616. The year ended with \$848,438 in cash and cash equivalents.

As previously discussed, the Trust's revenue model may result in surpluses and deficits over the business cycle due to revenues fluctuating while costs remain mainly fixed. The Trust has sufficient liquidity and capital resources to fund operations through a sustained market downturn.

## Statement of Cash Flows

	2018	2017
<b>CASH PROVIDED BY (USED IN):</b>		
<b>Operations:</b>		
Excess of Revenues Over Expenses	-\$2,504,650	\$47,377
<b>Items Not Involving Cash:</b>		
Amortization	\$6,246	\$8,227
Fair Value Re-measurement of Investments	\$712,900	-\$111,871
Gain on Disposal of Investments	-\$875,979	-\$1,402,216
Provision for Development Initiative Losses	\$3,373,895	\$2,612,885
	<b>\$712,412</b>	<b>\$1,154,402</b>
Change in Non-cash Operating Working Capital	\$11,243	\$45,563
Funding of Development Initiatives	-\$5,343,778	-\$3,759,805
Repayment of Development Initiatives	\$2,660,569	\$1,256,607
	<b>-\$1,959,554</b>	<b>-\$1,303,233</b>
<b>Investments:</b>		
Proceeds on Sale of Investments	\$5,033,511	\$9,318,657
Purchase of Investments	-\$3,084,673	-\$7,486,682
Acquisition of Property and Equipment	-\$2,900	-\$23,639
	<b>\$1,945,938</b>	<b>\$1,808,336</b>
Increase (Decrease) in Cash and Cash Equivalents	-\$13,616	\$505,103
Cash and Cash Equivalents, Beginning of Year	\$862,054	\$356,951
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$848,438</b>	<b>\$862,054</b>



## Commitments:

As at March 31, 2018, the Trust has committed funding and deferred contributions of \$37,500 as follows:

Project/Recipient	Description	Amount	Anticipated Disbursement Timing - Fiscal
British Columbia Innovation Council	Co-funding of innovation, commercialization and academic awards	\$12,500	2019
Various development initiatives and grants	Conditionally approved grants	\$25,000	2019

## Future Outlook

### BUDGET AND 3 YEAR PROJECTIONS

	2019 Budget	2020 Projected	2021 Projected
Investment Revenues	\$1,445,000	\$1,420,000	\$1,420,000
Development Initiative Revenues	\$1,769,000	\$1,820,000	\$1,875,000
Other Revenues	\$150,000	\$150,000	\$150,000
Contributions	\$0	\$0	\$0
<b>Total Revenues</b>	<b>\$3,364,000</b>	<b>\$3,390,000</b>	<b>\$3,445,000</b>
Education Awards	\$250,000	\$250,000	\$250,000
Grants	\$500,000	\$500,000	\$500,000
<b>Total Education and Grants</b>	<b>\$750,000</b>	<b>\$750,000</b>	<b>\$750,000</b>
Wages and Benefits	\$785,000	\$810,000	\$855,000
Board Expenses	\$50,000	\$50,000	\$50,000
Admin Costs	\$236,000	\$240,000	\$245,000
Professional Services	\$343,000	\$340,000	\$345,000
<b>Total Expenses</b>	<b>\$1,414,000</b>	<b>\$1,440,000</b>	<b>\$1,495,000</b>
<b>Total Expenses and Grants</b>	<b>\$2,164,000</b>	<b>\$2,190,000</b>	<b>\$2,245,000</b>
<b>TOTAL INCOME OVER EXPENSES</b>	<b>\$1,200,000</b>	<b>\$1,200,000</b>	<b>\$1,200,000</b>
Provision for Development Initiative Loss	\$1,200,000	\$1,200,000	\$1,200,000
<b>NET INCOME</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Revenues

Investment income is expected to be 5% as the Trust is forecasting a slow growing global economy. The Trust has not made forecasts for unrealized gains/losses.

Development Initiative interest income is calculated on 8% returns on development initiative balances net of provisions.

Non-interest revenues and partner contributions are budgeted to remain steady for the next few years.

## Expenses

Education awards will remain steady.

The financial statements are recorded on a cash basis, meaning that disbursements are made to projects regardless of the year for which the funds were budgeted. In the annual budget, previous years uncommitted funds are accounted for and are also available for disbursement.

Salaries and benefits are projected to increase for inflationary and experience components.

All other expenses are carefully controlled and most have inflationary increases to the categories.

# Management's Responsibility and Certification

The Trust's Management is responsible for ensuring that the financial statements and other financial information in this annual report is complete and accurate. Management has prepared the financial statements according to Canadian accounting standards for not-for-profit organizations.

Management certifies that:

- *It oversaw the design of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian accounting standards for not-for-profit organizations;*
- *It has reviewed the financial statements and other information in this annual report;*
- *It believes the report reflects all material facts for the period covered;*
- *It does not believe the report misstates any material fact.*

Management believes that the financial statements and other financial information in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Trust as of the dates and for the periods presented. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

The Board is responsible for establishing prudent rules of business and conduct. It is the Trust's policy to maintain the highest standards of ethics in all its activities. The Trust has employee and director conduct policies, including conflict of interest rules, to achieve those standards.

The Board is also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and has appointed an independent audit committee to oversee the financial reporting process. The committee members are independent directors who do not participate in the day-to-day operations of the Trust. The audit committee meets annually with management and the external auditors to review the:

- *Financial statements,*
- *Adequacy of financial reporting, accounting systems and controls, and*
- *External audit functions.*

The external auditors have full and open access to the audit committee, with and without the presence of management. The audit committee has reviewed these financial statements and has recommended the Board approve them.



Helen Patterson  
Chief Financial Officer



KPMG LLP  
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Vernon BC V1T 9A2  
Canada  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Southern Interior Development Initiative Trust

We have audited the accompanying financial statements of Southern Interior Development Initiative Trust, which comprise the statement of financial position as at March 31, 2018, the statement of operations and changes in fund balances and cash flows for the year then ended, and notes, comprising 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 accounting standards for not-for-profit organizations, 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.

### *Auditors' 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 our 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, we consider 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*

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.





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*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southern Interior Development Initiative Trust as at March 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

June 26, 2018

Vernon, Canada

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

### Statement of Financial Position

March 31, 2018, with comparative information for 2017

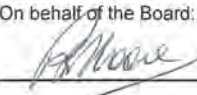

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 848,438	\$ 862,054
Prepaid expenses	7,134	10,720
Current portion of development initiatives (note 3)	1,852,267	1,814,224
	<u>2,707,839</u>	<u>2,686,998</u>
Development initiatives (note 3)	18,050,405	18,779,133
Investments (note 4)	27,497,663	29,283,422
Property and equipment (note 5)	31,494	34,841
	<u>\$ 48,287,401</u>	<u>\$ 50,784,394</u>

### Liabilities and Fund Balance

Current liabilities:		
Accounts payable and accrued liabilities	\$ 137,337	\$ 129,680
Deferred contributions	12,500	12,500
	<u>149,837</u>	<u>142,180</u>
Regional Account	48,137,564	50,642,214
Commitments and contingencies (note 6)		
	<u>\$ 48,287,401</u>	<u>\$ 50,784,394</u>

See accompanying notes to financial statements.

On behalf of the Board:

 Director
  Director

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

### Statement of Operations and Changes in Fund Balance

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Income on development initiatives	\$ 1,843,790	\$ 2,235,436
Fees and other	216,925	199,095
Business advisory services	44,359	57,464
	2,105,074	2,491,995
Education awards and grants	(723,500)	(726,511)
Provision for development initiative losses	(3,373,895)	(2,612,885)
	(1,992,321)	(847,401)
General and administrative expenses:		
Amortization	6,246	8,227
Board costs	38,274	32,047
Business advisory services	60,603	185,147
Consulting fees	200,491	134,331
Insurance	5,859	6,112
Office and administration	213,044	172,543
Professional fees	96,943	93,531
Salaries and benefits	756,997	683,930
	1,378,457	1,315,868
Deficiency of revenues over expenses from operations	(3,370,778)	(2,163,269)
Investments:		
Fair value re-measurement of investments	(712,900)	111,871
Gain on disposal of investments, net	875,979	1,402,216
Income earned	818,383	789,793
Investment management fees paid	(115,334)	(93,234)
	866,128	2,210,646
Deficiency of revenues over expenses	(2,504,650)	47,377
Regional account, beginning of year	50,642,214	50,594,837
Regional account, end of year	\$ 48,137,564	\$ 50,642,214

See accompanying notes to financial statements.

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

### Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
(Deficiency) excess of revenues over expenses	\$ (2,504,650)	\$ 47,377
Items not involving cash:		
Amortization	6,246	8,227
Fair value re-measurement of investments	712,900	(111,871)
Gain on disposal of investments	(875,979)	(1,402,216)
Provision for development initiative losses	3,373,895	2,612,885
	712,412	1,154,402
Change in non-cash operating working capital	11,243	45,563
Funding of development initiatives	(5,343,778)	(3,759,805)
Repayments of development initiatives	2,660,569	1,256,607
	(1,959,554)	(1,303,233)
Investing:		
Proceeds on sale of investments	5,033,511	9,318,657
Purchase of investments	(3,084,673)	(7,486,682)
Acquisition of property and equipment	(2,900)	(23,639)
	1,945,938	1,808,336
(Decrease) increase in cash and cash equivalents	(13,616)	505,103
Cash and cash equivalents, beginning of year	862,054	356,951
Cash and cash equivalents, end of year	\$ 848,438	\$ 862,054

See accompanying notes to financial statements.



## **SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST**

Notes to Financial Statements

Year ended March 31, 2018

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### **Nature of operations:**

Southern Interior Development Initiative Trust (the "Trust") was formed in February 2006 under the Southern Interior Development Initiative Trust Act (the "Act") and shortly thereafter received a one-time contribution from the Province of British Columbia. The Trust is a not-for-profit entity and is exempt from income tax under section 149 of the Income Tax Act.

The vision of the Trust is a future where economic opportunities are enabled, providing long-lasting measurable benefits to communities, a future where regional investment creates significant positive impacts across the region where smaller communities are given opportunities to remain or become economically sustainable, and a future where there is a strong and diversified economy in the Southern Interior that supports the development of viable, healthy, vital and sustainable communities throughout. The mission of the Trust is to support regionally strategic investments in economic development projects that will have long-lasting and measurable regional benefits for the Southern Interior.

### **1. Significant accounting policies:**

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The Trust's significant accounting policies are as follows:

#### **(a) Fund accounting:**

The Trust reports its activities on a fund accounting basis. The Trust currently has a General Fund (with a \$nil balance) and a Regional Account Fund, which is externally restricted. The Regional Account includes balances which are invested in property and equipment and represents the amount currently available for development initiatives and administrative costs.

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

### 1. Significant accounting policies (continued):

(b) Revenue recognition:

The Trust follows the restricted fund method of accounting for contributions. Under the Act, the Trust has one Regional Account fund that reports contributions restricted to activities outlined in its respective strategic plan. The externally restricted one-time contribution has been recognized in the year received. Externally restricted contributions not related to the Act are recognized as revenue in the year in which the related expenses are recognized, all within the General Fund.

Income is recognized when the service has been provided or earned, provided that collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the price is fixed or determinable. All income is included in the Regional Account, in accordance with the Act.

(c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposit which are highly liquid with original maturities of less than three months. Any cash or cash equivalents held in investment portfolios is included with investments.

(d) Property and equipment:

Property and equipment are stated at cost, less accumulated amortization. Amortization is provided using the declining balance method and following annual rates:

Asset	Rate
Office furniture	20%
Leasehold improvements	20%
Computer hardware	30%
Computer software	50%

(e) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of development initiatives. Actual results could differ from those estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the statement of operations in the year in which they become known or are revised.

## **SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST**

Notes to Financial Statements (continued)

Year ended March 31, 2018

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### **1. Significant accounting policies (continued):**

#### **(f) Financial instruments:**

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. The Trust accounts for all convertible debt instruments by initially measuring the equity component of the non-publicly tradeable entity at \$nil. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Trust has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Trust determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Trust expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future year, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

### **2. Cash and cash equivalents:**

Cash and cash equivalents includes cash held in trust of \$110,647 (2017 - \$110,044) that is restricted in its use to offset a corresponding liability.

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

### 3. Development initiatives:

At year end, there are 79 (2017 - 68) development initiatives outstanding as follows:

	Gross	2018 Net	2017 Net
Loans - direct	\$ 14,098,926	\$ 11,065,880	\$ 9,343,720
Loans - convertible	10,596,459	4,844,838	6,859,564
Loans via Community Futures Development Corp. ("CFDC")	212,258	212,258	340,385
Equity - common shares	4,469,084	2,332,841	2,543,155
Equity - preferred shares	5,028,582	1,446,855	1,506,533
	34,405,309	19,902,672	20,593,357
Less current portion		(1,852,267)	(1,814,224)
Total	\$ 34,405,309	\$ 18,050,405	\$ 18,779,133



## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

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### 3. Development initiatives (continued):

- (a) Loans - direct:  
The Trust has 31 (2017 - 23) direct loans outstanding which bear interest at rates that range from 4.70% to 14.00% per annum. Interest and principal amounts are due at various dates between April 1, 2018 and March 1, 2029. Included in Loans - direct is real property received from exercising rights to collateral which will be used to repay the loan receivable upon court approval. The net proceeds expected to be collected by (the "Trust") is the current fair market value of the property of \$775,000 less a priority claim payable to the Canada Revenue Agency of approximately \$320,000 less any applicable legal and property transfer fees.
- b) Loans - convertible:  
The Trust has 30 (2017 - 30) convertible loans that bear interest at rates that range from 8% to 14% per annum. Interest and principal amounts are due at various dates between April 1, 2018 and August 1, 2021. The loans are convertible to common shares of the companies, which are non-publicly traded, at the option of the Trust. No value has been ascribed to the convertible option.
- (c) Loans via CFDC:  
The Trust has 4 (2017 - 4) loans made via CFDC's Southern Interior Business Investment Fund which bear interest at rates that range from 5.2% to 8.5% per annum. The principal amounts are due at various dates between April 1, 2018 and May 15, 2024.
- (d) Equity - common shares:  
The Trust has 9 (2017 - 6) common share investments.
- (e) Equity - preferred shares:  
The Trust has 5 (2017 - 5) preferred share investments that bear dividends of 8% per annum.

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

### 3. Development initiatives (continued):

The change in provision for development initiative losses for the year was as follows:

		Change in provision, net of write-offs and recoveries	
	2017		2018
Loans - direct	\$ 889,205	\$ 2,143,841	\$ 3,033,046
Loans - convertible	4,844,105	907,516	5,751,621
Equity - common shares	2,136,243	-	2,136,243
Equity - preferred shares	3,259,189	322,538	3,581,727
	<u>\$ 11,128,742</u>	<u>\$ 3,373,895</u>	<u>\$ 14,502,637</u>

In addition to the adjustments to the above noted provision, during the year \$nil (2017 - \$28,492) was directly recovered in the statement of operations. These amounts had previously been allowed for and included in the provision for development initiatives.

### 4. Investments:

	2018	2017
Bonds, measured at amortized cost	\$ 5,386,463	\$ 6,042,770
Equities, measured at fair value	16,890,206	17,989,392
Money market, measured at amortized cost	5,220,994	5,251,260
	<u>\$ 27,497,663</u>	<u>\$ 29,283,422</u>

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

### 4. Investments (continued):

Details of investment activity during the year is as follows:

	2018	2017
Opening balance	\$ 29,283,422	\$ 29,601,310
Income earned and reinvested	815,004	786,259
Withdrawals	(2,648,508)	(2,525,000)
Gains on disposal of investments, net	875,979	1,402,216
Investment management fees paid	(115,334)	(93,234)
	28,210,563	29,171,551
Fair value re-measurement	(712,900)	111,871
	\$ 27,497,663	\$ 29,283,422

The annual weighted average rate of return for 2018 was 3.58% (2017 - 8.13%).

Investments are used as security for certain finance facilities as described in note 6.

### 5. Property and equipment:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 39,044	\$ 22,381	\$ 16,663	\$ 18,565
Computer hardware	40,786	27,288	13,498	13,610
Computer software	11,253	9,920	1,333	2,666
Leasehold improvements	15,488	15,488	-	-
	\$ 106,571	\$ 75,077	\$ 31,494	\$ 34,841

## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

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### 6. Commitments and contingencies:

The Trust has issued letters of credit through its financial institution to provide guarantees of up to \$6,000,000, secured by investments. The Trust has issued letters of credit of \$1,559,500 (2017 - \$500,000) at March 31, 2018.

As of March 31, 2018, the Trust has committed funding of approximately \$25,000 (2017 - \$87,500) in grants.

The Trust has indemnified Heritage Credit Union ("Heritage") in the amount of \$908,610 (2017 - \$1,113,319) in an agreement whereby Heritage paid out the Trust's amount owed on a development initiative loan. The indemnity was provided to Heritage against potential losses incurred on the loan. No amount has been recognized in the financial statements for this indemnification.

The Trust's total commitments, under operating leases for premises, exclusive of occupancy costs, are as follows:

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2019	\$	44,886
2020		49,584
2021		37,188
	\$	131,658

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## SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST

Notes to Financial Statements (continued)

Year ended March 31, 2018

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### 7. Financial risks and concentration of risk:

The Trust manages its investment portfolio to earn investment income and invests according to a policy approved by the Board. The Trust is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

Concentration of risk:

#### (a) Credit risk

Credit risk refers to the risk that development initiative counterparties may default on their contractual obligations resulting in a financial loss. Management mitigates this risk by limiting exposure to each counterparty by dollar amount and industry sector, by maintaining a balanced portfolio and by ensuring that proper due diligence is performed before funding is committed. The Trust assesses on a continuous basis, development initiatives and provides for any amounts that are not collectible in the provision for losses.

#### (b) Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and other price risks.

##### (i) Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Trust is exposed to this risk on its investments in U.S. and other international equities quoted in an active market. At year end, the Trust has \$8,391,188 (2016 - \$9,147,270) in U.S. and other international equities.

##### (ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Trust is exposed to interest rate risk with respect to its investment in bonds.

##### (iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Trust is mainly exposed to other price risk through its investments in equities.

## **SOUTHERN INTERIOR DEVELOPMENT INITIATIVE TRUST**

Notes to Financial Statements (continued)

Year ended March 31, 2018

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### **8. Comparative information:**

Certain comparative figures have been reclassified from those previously presented to conform to the presentation of the 2018 financial statements.

# Notes

# *Southern Interior*

## DEVELOPMENT INITIATIVE TRUST

### CONTACT INFORMATION

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### INVESTMENT MANAGERS

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### AUDITORS

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