



ANNUAL REPORT 2002-2003

May 2003

To reach the Society:

P.O. Box 685, Terrace, BC, V8G 4B8.
www.ndf.gov.bc.ca
nkdfund@telus.net
Phone: 250-635-8799
Fax: 250-635-8798
Toll free phone: 877-478-3863



ANNUAL REPORT 2002-2003

Table of Contents

1.0	Chairman's Report	2
2.0	Society Overview	
2.1	Mandate	3
2.2	Background	3
2.3	Investment Area	3
2.4	Guiding Principles	4
2.5	Society Management	5
2.6	Government Relations	5
3.0	Goals and Achievements	
3.1	Operations Overview	7
3.2	Programs Overview	8
3.3	Community Legacy Fund Program	8
3.4	Business Loans Program	8
3.5	Community Grant Program	9
4.0	Grants Program Details	9
5.0	Financial Highlights	15

Appendix A: Audited Financial Statements

Appendix B: Program Guidelines 2003-2004

1.0 CHAIRMAN'S REPORT – 2002-2003

The Nechako-Kitamaat Development Fund Society has had a difficult year, with activities being suspended from June to February during a government-led performance review. We were only able to approve funding for three new projects at our May 2002 meeting when we were asked to stop all program spending. It was frustrating seeing so much hardship in the communities of our investment area and not being able to assist.

Then, on May 31, 2002 six of our directors' positions expired and because of the unknowns created by the review the directors were not re-appointed until February 2003. As a result we only held two board meetings, and relied on five conference calls to maintain the day-to-day business of the Society. I am particularly grateful to Bob Murray, District Manager of the Lakes Forest District, for his remarkable dedication to his role as Acting Chair while my appointment lapsed. He has resigned from the board now to focus on his increasingly busy job and we will miss his lively and intelligent contributions.

We did make a difference for a few communities this year. We issued \$234,684 of grant payments to three projects continuing from prior years and to three new projects. We were also pleased to see new business loans of \$24,528 get approved and matched by Community Futures funds before we had to freeze the loan account.

We ended the year reorganizing our programs to reflect the requests resulting from the government review. The most important changes are that we have cancelled our Business Loans Program and expanded our investment area to include Fraser Lake and Burns Lake. Another important issue that we still have to fully digest, is whether the Society can continue to consider its funds and programs as "perpetual" (such that our spending would not exceed the earnings on our investments) or whether we are now expected to spend much more quickly than investments can grow.

The year ahead should bring more clarity to that and other unresolved questions. With the review now complete, we are very glad that our grant program is back in business and we expect to have a very busy year ahead supporting community-based projects.

I would again like to express my appreciation to all Board members for their support and dedication during a year filled with uncertainties, as well as a special thanks to Lisa for her patience and endeavours in getting NKDF back on track. We would especially like to welcome Colleen Nyce, a new director representing Alcan and Brenda Janke, a new director representing the Ministry of Competition, Science and Enterprise.

Dave Merz, Chairman

2. Society Overview

2.1 Mandate

The Nechako-Kitamaat Development Fund (NKDF) Society's funding programs are designed:

To support sustainable economic activity in northern communities affected by the Kitimat-Kemano project and by the creation of the Nechako Reservoir. NKDF spends the income from its long-term investments on programs and projects that meet each community's goals for economic development and community stability.

2.2 Background of the Fund

In 1997, the Government of British Columbia and Alcan Inc. each contributed \$7.5 million to create the BC-Alcan Northern Development Fund. This BC-Alcan Agreement settled the legal issues between Alcan and the BC Government that arose from cancellation of the Kemano Completion Project. In January 1998 an Advisory Board for the Northern Development Fund was formed. Its job was to advise the government on how the Fund should be run to stimulate economic growth. In April 1998, the legislature passed Bill 5, the "BC-Alcan Northern Development Fund Act."

Enabled by this Act, and by the recommendations of the Advisory Board, the NKDF Society was incorporated on August 18, 1999. The Minister of Competition, Science and Enterprise appoints board members to represent the communities of the Nechako-Kitamaat area.

2.3 Investment Area

The investment area for the NKDF is limited to those communities with evidence of impacts from Alcan's Nechako Reservoir and Kemano power project. This includes most communities from Vanderhoof to Burns Lake (including Southside), and Kitamaat Village.

Eligible applicants are legally incorporated non-profit organizations. NKDF investments may be made in Northwestern BC outside the normal investment area, providing there is direct economic and/or job creation benefit to the Nechako-Kitamaat Region.

2.4 Guiding Principles of the Fund

The management of the NKDF is guided by the following principles:

COMMUNITY ECONOMIC DEVELOPMENT	The NKDF will invest in community economic development projects and/or programs that are supported by the community.
JOB CREATION & ENHANCEMENT	Creating new jobs and enhancing existing jobs are priorities of the NKDF.
SUSTAINABLE EMPLOYMENT	Priority of the Fund will be to support long term employment both full time and seasonal.
COMMUNITY INTERRELATIONSHIPS	The fund recognizes the value of interrelationships of communities. Consideration will be given to proposals that originate outside the Nechako Region and Kitimaat Village if they demonstrate a benefit to those areas.
CLEAR AND ACCESSIBLE	The fund will have policies and programs that are accessible with clearly defined evaluation criteria.
FIRST NATIONS PARTICIPATION	First Nation participation in the fund will not prejudice the First Nation land claim process.
LOCAL CONTROL	The majority of members of the NKDF Board will reside in the investment area. The Board will determine the ongoing management of the fund consistent with provincial government policy.
BENEFITTING FUND	The NKDF is intended to create benefits through sustainable community economic development. It is not intended to be compensation for those who believe themselves to have been negatively affected by the Kitimat-Kemano Project, the creation of the Nechako Reservoir or the cancellation of the Kemano Completion Project.
COOPERATIVE VENTURES	The NKDF can be utilized in cooperative ventures along with other funding sources.
NO DUPLICATION	The NKDF will not duplicate but may augment existing economic development programs.
LEGACY FUND	The NKDF will be managed through a legacy fund of \$10 Million invested to grow to protect the purchasing power of \$15 Million over time.*
WORKING FUND	The NKDF will place an initial \$5 Million in a working fund to invest in grant programs.*
FUTURE OPPORTUNITIES	Future growth of the legacy fund and working fund will be used to provide additional economic and social benefits over time.

2.5 Society Management

The NKDF Society is governed by a northern-based Board of nine appointees who live in the investment area and represent a range of interests. Current board seats (all of which will be expiring within the 2003-2004 fiscal year) are held by:

- Alan Blackwell, Ootsa Lake
- Percy Campbell, Kitamaat Village Council
- Brenda Janke, BC Government
- Dave Merz, Fort Fraser (Chair)
- Karen Nyce, Haisla First Nation
- Colleen Nyce, Alcan
- Glenda Olson, Vanderhoof
- Frank Read, Vanderhoof
- Bill Stewart, Prince George (Secretary/Treasurer)

Management services are provided through a part-time contract with Lisa Dunn who is based in Terrace.

2.6 Government Relations

Since the Society's incorporation in 1999, the provincial government has transferred \$4.36 million from the Northern Development Fund to the NKDF Society for its operations and programs. The balance of the original \$15 million remains under the control of the BC Investment Management Corporation. (See financial statements for detailed balances of the Society's various accounts.)

The NKDFS Directors and Manager report to the Minister of Competition, Science and Enterprise, the Hon. Rick Thorpe.¹ The Minister is responsible for approving the society's annual business plan and for appointing all society directors. This reporting relationship is intended to ensure that the Society's actions continue to adapt to changes in provincial government priorities and direction.

In April 2002 the manager sent the 2002-2003 Business Plan to Minister Thorpe for his approval, but for the first time, it was not approved. In May 2002 the manager sent our 2001-2002 Annual Report to Minister Thorpe for his information. In June 2002 we issued a Request For Proposal (RFP) for an external program evaluation contractor. (The plan to perform an external evaluation after three years of operation flowed from the recommendations made by the Advisory Committee in 1999.) As soon as the RFP appeared on the BC Bid website, members of the media called the Minister's office to inquire about the public request for bids for external evaluation consultants.

¹ Norman Lee and Brenda Janke are the current Government employees responsible for the NKDF file, but the Society is ultimately responsible to the Minister of Competition, Science and Enterprise.

On June 18th 2002, Ministry staff informed the Society manager that they would be conducting a performance review of the Society's programs and operations with a view to improving the efficiency and effectiveness of the Society. During the review, the grants and loans programs were frozen. This also led to the cancellation of the Society's request for bids from external evaluation consultants. The manager and the Chair then began answering all the questions that Ministry staff had regarding the Society's activities since inception. The review was completed by February 18th 2003, and the following results were sent to each Director (excerpts from the February 18th letter from the provincial government).

1. The following community board members were reappointed for a one-year term: Mr. Percy Campbell, Ms. Karen Nyce, Mr. Dave Merz, Mr. Frank Read and Mr. William Stewart.
2. The following new Board members will be appointed for a one-year term: Ms. Colleen Nyce (representing Alcan) and Ms. Brenda Janke (representing the Ministry of Competition, Science and Enterprise).
3. A public process will be initiated for the selection of new community members for vacant positions and following the expiration of terms. (This process began in March 2003 with advertising for the positions vacated by Alan Blackwell, June Clark and Glenda Olson).
4. The Society will develop a new Business Plan for 2003-2004 that reflects activities to increase program uptake and is consistent with government policy. This will include:
 - Revised project criteria, including no subsidies to business or business loans;
 - Expanded investment area to include Burns Lake and Fraser Lake;
 - Greater Society involvement in project development;
 - Clear performance goals and measurements; and
 - A reduction in the ratio of administration expenses to total projects funded.
5. There will be no further disbursements from the Province to the Society until the entire funds within the Society's control are expended on economic development projects within the region. As well, in the future, the Legacy Fund will be solely managed by the BC Investment Management Corporation.

One vital issue still of concern to the Directors is this: The Northern Development Fund Advisory Board members originally intended the NKDF to be operated as a perpetual fund, with annual spending not to exceed the income on investments. Some questions have arisen about whether the expectation of "perpetuity" is still realistic for the following reasons: 1) earnings on investments have dropped to levels much lower than could have been imagined in 1998; 2) there are some indications that local and provincial politicians want the funds to be spent much more aggressively and; 3) members of the public have shared their fears that this fund could be eliminated by a change of government policy or legislation.

In addition to the Society's relationship with the province, the Society also has relationships with federal government ministries and agencies such as Human Resources Development Canada, Western Economic Diversification and Indian and Northern Affairs in order to coordinate work on projects of mutual interest.

3. Goals and Achievements

3.1 Operations Overview

There is normally an annual evaluation process by which directors assess the effectiveness of programs and operations and provide background for the Annual Report, but the performance review and the nine-month break in this year's operations rendered this process meaningless. There had also been plans for an extensive external, independent evaluation process to happen this year, but the directors decided the government review provided enough analysis for one year. Once another full year of operations has passed, the directors will reconsider the need for an external review.

Normally, the previous year's evaluation and the operational goals in the Society's business plan would guide the actions of the directors and manager, but this year there was no approved business plan to follow. The directors and manager did their best to maintain basic operations in such an uncertain environment, but the essential strategy was just to respond to the government's requests for information and wait to see what would happen.

Board Operations:

The first formal board meeting of the year took place on May 15, 2002 in Fort Fraser, soon followed by the expiry of five director's positions on May 31, 2002. Application had been made to the Minister for reappointment of these directors in February of 2002 but the performance review prevented any appointments being made until February 2003. As a result, three directors, Alan Blackwell, Bob Murray (Acting Chair) and Glenda Olson, took the responsibility of maintaining the society's affairs for nine months. They decided not to make any major decisions in the absence of a full board, and so the society had a very low profile for most of the year.

During the year there were four short conference calls and the finance committee also held one meeting to discuss changes in the investment policy triggered by the performance review.

The Board held a second regular meeting in March 2003 (following the performance review), which took place over two days in Smithers. This meeting focussed on digesting the results of the performance review, making all the associated changes to guidelines, policies, procedures, and business plan.

Management Services:

The manager's role this year departed from the usual one of reviewing proposals and managing funding contracts. The job was focussed much more heavily on provincial

government liaison, shepherding the board appointment process, responding to regular requests for information from the performance review staff, and keeping the investment area communities informed about the status of the Society as news became available.

3.2 Programs Overview

The NKDF Society managed three programs in the 2002-03 year:

1. Community Legacy,
2. Business Loans, and
3. Community grants.

Program guidelines for the grants and loans programs can be found in Appendix B, and detailed project descriptions are in section 4.

3.3 Community Legacy Fund Program

In order to perpetuate NKDF programs into the future, only \$5 million of the \$15 million fund is to be used for a “working fund” to fund grant and loan programs. The “Legacy Fund” is for the balance of Society funds, which are not to be spent, but are invested to grow to the equivalent of \$15 million in 1999 dollars. When the principal has reached that value, the amount of the fund exceeding inflation may be spent annually on operations, grants and loans. Government staff projections in 1999 indicated to the Advisory Committee that this would take between six to eight years, based on conservative estimates.

The Community Legacy Fund is currently held at the BC Investment Management Corporation and the value as of March 31, 2003 is \$13,275,294.

3.4 Business Loan Program

This was a short-lived program for the NKDF, cancelled as a result of the government-led performance review. The program was considered to be creating a business subsidy, and therefore contrary to current government policy.

The business loan program had a pool of \$1 million to draw from, held with Royal Private Counsel, but funds have since been moved to a local credit union and will be used to support the grant program and administration costs, as needed.

3.5 Community Grant Program

After the performance review, the grant program guidelines were revised to reflect the recommendations and distributed to everyone in the Society database, including all local governments and all non-profit economic development agencies in the investment area.

The directors welcome feedback about how to make the guidelines more suitable for community needs. At the same time, the directors are also focussing on ensuring the fund is safeguarded by making cautious decisions that are acceptable to government, business people and communities outside the investment area, all of whom may raise legitimate issues about unfair subsidies or competition.

4. Grants Program Details

There were only three new projects active in the fiscal year and four others were approved at the last meeting of the year, but cannot be reported because they are not yet under legal contract. The following table shows grant proposal statistics in this year and all prior years since the inception of the fund.

Year	Proposals received	Proposals approved	Proposals not approved	Total \$ contracted	Total \$ paid
2002-2003	8	7	1	Up to \$44,195	\$234,684
2001-2002	20	11	9	Up to \$591,741	\$245,636
2000-2001	13	6	7	Up to \$534,553	\$149,053
1999-2000	8	5	3	Up to \$154,500	\$25,000

- In 2002-2003, after the March 2002 board meeting, new grant contribution agreements were made for two new projects for \$25,800. In October 2002 an increase of \$18,495 was approved to an existing project. A total of \$243,684 was paid out to those projects and to projects approved in prior years.
 - Directors rejected only one proposal this year, valued at \$68,000, but invited the proponent to re-submit the proposal with some changes to better fit NKDF guidelines. That proposal is ready to be reviewed at the May 2003 board meeting.
-

This table summarizes the grant projects active in the 2002-2003 fiscal year.

(Details on each active project are on the following pages.)

Applicant	Project	Amount paid	Status
Kitamaat Village and Fraser Basin Council	Repayments of surplus project funds.	-\$1,791	
District of Vanderhoof	Revitalization Project		Ongoing. To be complete in the Summer of 2003
Ootsa Lake Community Water Society	Water System	\$107,859	Awaiting tank installation and operating permit
District of Vanderhoof	Riverside Park Lighting	\$77,250	Complete except for donor recognition
Burns Lake Native Development Corp.	Entrepreneurial Training	\$30,300	Training complete. Awaiting final report
Heart of BC Tourism	Tourism Marketing	\$12,600	To be complete by June, 2003.
Southside Economic Development Association	First Responder Training and Equipment	\$8,466	Complete
	Total payments made this fiscal:	\$234,684	

This table summarizes proposals not approved in 2002-2003

Applicant	Project	Reason Not Approved	Amount Requested
Burns Lake and District Economic Development Association	Marketing Program	High overhead, lack of matching funds and lack of partnerships with other regional interests.	\$68,000
		Total grants not approved this fiscal:	\$68,000

Project Title: Vanderhoof Revitalization Project**Proponent: District of Vanderhoof (for Vanderhoof Revitalization Committee)****Grant: Up to \$375,000, over 3 years****Date Approved: March 21, 2001****Location: Vanderhoof****Project Summary:**

This project was the first multi-year commitment made by the NKDFS, but did not receive any funds this fiscal year. Pending the completion of a project report and some of the other commitments made in the original proposal, this project should receive the final instalment of \$125,000 in 2003-2004.

This project was identified as one of the priorities for development during a community priority-setting event in 1999. Spearheaded by a volunteer group (Vanderhoof Revitalization Committee) under the auspices of the District of Vanderhoof, the downtown revitalization project has improved the business environment of the downtown core.

Funding partners to date include the Ministry of Municipal Affairs and the District of Vanderhoof. One of the immediate outcomes of this project has been that several of the neighbouring businesses have upgraded their own properties to tie in with the improvements.

Project Title: Ootsa Lake Community Water System**Proponent: Ootsa Lake Community Water Society****Grant: Originally \$126,100, increased to \$144,495****Date Approved: Sept. 19, 2001, with increase approved Oct. 31, 2002****Location: Ootsa Lake****Project Summary:**

The existing water supply for Ootsa Lake residents, the Ootsa Lake Bible Camp and the new Cheslatta sawmill consists of hauling or pumping water from the lake or from the village of Burns Lake. Health, fire protection, quality of life and economic development issues all combine to make solving this problem a high priority for Ootsa Lake residents and the NKDF directors.

The Ootsa Lake Community originally applied to the NKDF for support for a new water system in early 2000, but the proposal was rejected until the community members had fully explored all their options, firmed up the costs and found more funding partners. Eighteen months later, the NKDF approved a much stronger proposal.

The project provides a great example of the stamina and do-it-yourself spirit of the Southside people, with some residents digging ditches and laying pipe by hand and others bringing them lunch. The Ootsa Lake Community Water Society Executive had some frustrations getting the design engineered properly and approved by the health department, but they did not give up. The water distribution pipe is all laid and buried and the lake-side pump house is built. The Society members are now working with Alcan to get the storage tank installed and the water system should be operating this summer.

Project Title: Riverside Park Lighting**Proponent: District of Vanderhoof****Grant: \$77,250****Date Approved: March 27, 2002****Location: Vanderhoof****Project Summary:**

NKDF Directors were impressed with the level of community support for this project which already had matching funds in place from the District of Vanderhoof, the Rotary Club and the Nechako Valley Credit Union. Another factor in the approval of this project was that the District had committed to an annual maintenance budget of \$8000.

This project was finished last Fall and has added to the quality of life in Vanderhoof, for residents and visitors, allowing evening use of walking trails in winter, reducing vandalism, improving safety and increasing the range of activities that the park can be used for. Long term plans include building a bandstand suitable for musical events.

Project Title: Dream Catcher Entrepreneurial Training**Proponent: Burns Lake Native Development Corporation****Grant: Up to \$38,000 or 50%****Date Approved: March 27, 2002****Location: Southside****Project Summary:**

The project was funded in partnership with the Prince George Nechako Aboriginal Training Association with significant contributions of staff time from the proponent. It delivered entrepreneurial training for people aged 21 to 50 near their remotely located communities. Twenty people from the Cheslatta-Carrier, Skin Tyee and Nee Tahi Buhn communities began the program and ten graduated.

The main focus was to introduce the students to computers, as they had never used them before. The core instruction was on business planning, using the Dreamcatcher curriculum from Macrolink in Prince George. The program also featured guest instructors teaching how to use a map, compass and GPS, how to probe for pine beetle, how to estimate forestry project costs, and what is involved starting in a tourism business.

Project Title: First Responder Training and Equipment**Proponent: Southside Economic Development Association****Grant: Up to \$9,000****Date Approved: May 15, 2002****Location: Southside****Project Summary:**

This project is to address needs for improved public safety, partly in response to the increased traffic and industrial activity associated with the “beetle wood” harvest. When this project was approved there was no local doctor nor ambulance and the recent reduction in Francois Lake Ferry service has increased the need for locally-based emergency services.

In partnership with the Southside Volunteer Fire Department, this project was successful in equipping and training six Southside residents to achieve Level 3 First Responders with spinal endorsement.

Project Title: Tourism Marketing Projects**Proponent: Heart of BC Tourism Association****Grant: \$16,800****Date Approved: May 15, 2002****Location: Nechako Region****Project Summary:**

This project was originally turned down in 2001-2002 for lack of matching funds and partnerships with the tourism industry, and was finally approved after those concerns were addressed. The project is being delivered in partnership with Community Futures Development Corporation of Stuart Nechako and with the membership of the tourism association.

Grant money from the NKDF is being used to pay a coordinator’s part-time wages for one year only while the tourism association builds its membership, its marketing program and its revenue base.

5. Financial Highlights

Financial Highlights as of March 31, 2003:

2002-2003	Budgeted	Actual
Total administration expenses	\$134,600	\$43,520
Total grant payments	\$1,000,000	\$234,684
Total loan payments	\$1,000,000	-\$24,336

Note to administration expenses: The performance review and resulting lack of board meetings reduced administration costs significantly. The cost of the manager's fees and travel was \$29,634 in this fiscal year, with the balance covering director's fees, telephone and supplies.

Note to grants: Since the grants program was frozen for 9 months, most of the amount paid out was to projects approved in prior years.

Note to loans: Since the loans program was frozen early in the fiscal year, more principal has been repaid than new advances have been paid.

2002-2003	
Net administration assets	\$37,270
Net loans fund assets (includes principal receivable)	\$1,073,440
Net grant fund assets	\$2,487,415
Net total assets in NKDF accounts	\$3,598,125

The balance of the original \$15 million dollar account is in the Northern Development Fund, managed by the British Columbia Investment Management Corporation. The market value of this investment account as of March 31, 2003 was \$13,275,294, so the combined assets of the NKDF and the Northern Development Fund total **\$16,873,419**

Annual Audit

The annual audit of the NKDFS was completed in April 2003 by Edmison-Mehr Chartered Accountants (Smithers). The statements are attached as Appendix A.