

FSPCF



Forestry Service Providers Compensation Fund

2012 Annual Report

**Administrative Authority
Eric van Soeren**

Forestry Service Providers Compensation Fund

Report of the Administrative Authority

Creation of the Forestry Service Providers Compensation Fund (FSPCF)

The FSPCF was created in 2011 further to Part 2 of the British Columbia *Forestry Service Providers Protection Act*. Eric van Soeren was appointed by the Province as the Administrative Authority on March 30, 2012. Shortly thereafter the Province provided initial funding of \$5,000,000 for the FSPCF.

The initial Administrative Agreement restricted the Administrative Authority to investing and managing the capital of the FSPCF, and working with the Province and Stakeholders towards developing the principles under which the FSPCF would operate.

Purpose of the FSPCF

The purpose of FSPCF is to provide compensation to contractors that provide ‘Forestry Services’ to ‘Licensees’, both defined in the *Forestry Service Providers Protection Act* and Regulations. In the event of the insolvency of a licensee, the intent will be to have the FSPCF pay its contractors for up to 60 days of unpaid accounts receivable, and take an assignment of those receivables. In this way it is hoped to avoid the cascading insolvency of the contractor and possibly its subcontractors and other creditors. The FSPCF would then attempt to collect some or all of the receivable from the insolvent licensee. If the insolvent licensee is able to turn itself around, then the FSPCF may get all its money back. If the insolvent licensee is not able to survive the FSPCF may lose some or all of the funds paid to the licensee’s contractors, but at least the contractors will be more likely to survive. Either way, the result should be increased stability for the forest industry.

Fund Account

As of December 31, 2012 no compensation payments have been made, because the final criteria for payments to beneficiaries of the FSPCF had not been negotiated with the stakeholders, and the Administrative Agreement did not allow for any disbursements to the intended beneficiaries. During the year the balance of the FSPCF grew through investment income from \$5,000,000 to \$5,064,624.

Subsequent Events

Early in 2013 Eric van Soeren was reappointed as the Administrative Authority of the FSPCF for a two year term. Under the new Administrative Agreement it will be possible to start to provide compensation to contractors once policies and procedures have been established by the Authority with the assistance of a yet to be appointed Advisory Board. Work is proceeding on these issues, and the fund is expected to become fully operational during 2013.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2012

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

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Exhibit A

To the Authority
Forestry Service Providers Compensation Fund

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of the Forestry Service Providers Compensation Fund, which comprise the statement of financial position as at December 31, 2012, and the statements of changes in net assets, operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Authority's Responsibility for the Financial Statements

The Authority is responsible for the preparation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 the Authority, as well as evaluating the presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Exhibit A

INDEPENDENT AUDITOR'S REPORT

Opinion

In my opinion, the financial statements of the Forestry Service Providers Compensation Fund for the year ended December 31, 2012, present fairly, in all material respects, the financial position of the Forestry Service Providers Compensation Fund as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



CHARTERED ACCOUNTANT

Vancouver, B.C.
February 25, 2013

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

ASSETS

CURRENT ASSETS

Cash - note 5	\$ 2,024
Marketable securities - at cost - Schedule 1	729,975
Interest receivable	<u>92,991</u>
	824,990
INVESTMENTS, at cost - Schedule 2	<u>4,249,007</u>
TOTAL ASSETS	<u>\$ 5,073,997</u>

LIABILITIES

CURRENT LIABILITY

Accounts payable and accrued liabilities	<u>\$ 9,373</u>
TOTAL LIABILITIES	<u>9,373</u>

FUND BALANCES

TOTAL NET ASSETS	<u>5,064,624</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,073,997</u>

APPROVED BY THE AUTHORITY

 Authority

The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 5,064,624
NET ASSETS AT BEGINNING OF YEAR	-
NET ASSETS AT END OF YEAR	<u>\$ 5,064,624</u>

The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

RECEIPTS

Transfer from government	\$ 5,000,000
Interest receipts	<u>99,268</u>
	<u>5,099,268</u>

DISBURSEMENTS

Audit fees	7,400
Authority fees	22,780
Bank charges and interest	200
Disbursements to beneficiaries	-
GST/HST expense	3,648
Office	2
Travel and entertainment	<u>614</u>
	<u>34,644</u>

EXCESS OF RECEIPTS OVER DISBURSEMENTS

\$ 5,064,624

The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING ACTIVITIES

Excess of receipts over disbursements	\$ 5,064,624
Changes in non-cash working capital balances	
Interest receivable	(92,991)
Accounts payable and accrued liabilities	<u>9,372</u>
Cash from operations	4,981,005

INVESTING ACTIVITIES

Investments	<u>(4,978,981)</u>
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CHANGE IN CASH DURING THE YEAR

2,024

CASH, beginning of year

-

CASH, end of year

\$ 2,024**REPRESENTED BY:**

Cash	<u>\$ 2,024</u>
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The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. PURPOSE OF THE FUND

On May 25, 2010, the Parliament of the Province of British Columbia passed Bill 21-2010, the *Forestry Service Providers Protection Act* (the "Act"). In accordance with the provisions of the Act, the Government had the ability to establish, by regulation, the Fund, for the purpose of providing compensation to forestry services providers for financial losses resulting from the insolvency of companies or other legal entities to which forestry services providers have provided services, and to provide for the reasonable costs of managing the Fund.

The Forestry Service Providers Compensation Fund (the "Fund") was established by Order in Council No. 205, approved and ordered on March 29, 2012 with an initial contribution of \$5,000,000. The same Order in Council gave approval to the Minister of Forests, Lands and Natural Resource Operations (the "Minister") to enter into an agreement to appoint an Administrative Authority (the "Authority") to manage the Fund in accordance with the provisions of the Act. On March 30, 2012, the Minister entered into the Administrative Agreement (the "Agreement"), appointing Eric van Soeren as the Authority for a period ending no later than March 31, 2013. On February 1, 2013, the Minister entered into a new Agreement to extend the appointment to January 31, 2015.

Pursuant to the provisions of the Act, the Authority must hold in trust the monies in the Fund and may invest the monies only as permitted under the provisions of the Trustee Act.

2. BENEFICIARIES OF THE FUND

The beneficiaries of the fund are forestry services providers. In accordance with the Act, the Government of the Province of British Columbia may make regulations designating classes of persons as forestry services providers for the purposes of the Fund. In January, 2013, the Government of the Province of British Columbia, by Order in Council provided that the definition of forestry services providers refers to a class of persons who provide forestry services to a holder of an agreement referred to in section 12 of the Forest Act. Accordingly, the beneficiaries of the Fund are forestry services providers who provide forestry services to companies or other legal entities who hold licenses to harvest forest products on lands owned by the Government of British Columbia (referred to as "Crown Lands").

3. DURATION OF THE FUND

The Act and related regulations do not indicate a termination date for the Fund.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Restricted Fund Method

The Fund employs fund accounting, using the accrual method of accounting for transactions. The Fund's assets are subject to the restrictions contained in the Act and relevant regulations and are to be used only for the specified purposes.

All investment revenues and permitted administrative expenditures are recorded in the sole restricted fund. The initial contribution is recorded as a revenue in the restricted fund. Distributions to beneficiaries are recorded as expenditures in the restricted fund.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

4. **SIGNIFICANT ACCOUNTING POLICIES, *cont'd***

(b) Revenue Recognition

Investment income is recorded as received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

(c) Canadian Accounting Standards for Not-for-Profit Organizations

The Authority has elected to prepare the financial statements of the Fund in accordance with Canadian generally accepted accounting principles using Canadian Accounting Standards for Not-for-Profit Organizations.

5. **CASH**

Cash

\$ 2,024

6. **INCOME TAXES**

The Authority is of the opinion that the Fund is either a non-profit organization for income tax purposes or a public body performing a function of government. Under either definition, the Fund's income would not be subject to income taxes.

7. **GOODS AND SERVICES TAXES / HARMONIZED SALES TAXES**

The Authority is of the opinion that the Fund will not be able to recover any Input Tax Credits.

8. **FAIR VALUE**

The carrying value of investments and liabilities reflected in the balance sheet approximate their respective fair values.

9. **COMMITMENTS**

In accordance with the Act, all funds must be disbursed to beneficiaries pursuant to the purpose of the Fund and the guidelines prepared by the Authority and approved by the Advisory Board. No amounts may be transferred to the Government of the Province of British Columbia.

10. **RELATED PARTY TRANSACTIONS**

During the year, the company paid fees to the company owned by the Authority of \$22,780.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

Firstbank BA Face Value \$30,000 Due January 2, 2013	\$ 29,975
Vancity Savings Credit Union GIC Face Value \$250,000 Due May 6, 2013	250,000
Res TD Bank Face Value \$254,300 Due June 3, 2013	250,000
CPN Province of BC Face Value \$204,273 Due December 18, 2013	<u>200,000</u>
MARKETABLE SECURITIES	<u>\$ 729,975</u>

Marketable securities are recorded at cost.

The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Laurentian Bank of Canada GIC Face Value \$250,000 Due May 5, 2014	\$ 250,000
CPN CIBC Face Value \$264,024 Due November 2, 2014	250,000
Res Bank of Montreal Face Value \$268,097 Due April 22, 2015	250,000
Res CIBC Face Value \$273,000 Due November 2, 2015	249,740
HSBC Bank Canada GIC Face Value \$250,000 Due May 30, 2016	250,000
Res Bank of Montreal Face Value \$277,000 Due July 8, 2016	249,945
Res Bank of Montreal Face Value \$291,317 Due September 26, 2017	250,000
Res Genworth MI Canada Face Value \$371,213 Due June 15, 2020	250,000
CPN Province of Nova Scotia Face value \$321,415 Due December 1, 2020	250,000
Res Bell Canada Face Value \$357,637 Due April 15, 2021	249,999

The accompanying notes and schedules are an integral part of these financial statements.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

carried forward

2,499,684

Barclays Bank PLC
 Face Value \$250,000
 Due July 20, 2021

249,325

Res Capital Desjardins Inc
 Face Value \$358,809
 Due December 15, 2021

250,000

CPN Province of Ontario
 Face Value \$686,572
 Due July 13, 2022

499,999

Ontario Hydro
 Face Value \$356,979
 Due April 11, 2023

250,000

CPN Province of Quebec
 Face Value \$357,932
 Due June 1, 2023

249,999

CPN Province of Ontario
 Face Value \$359,882
 Due June 2, 2023

250,000

INVESTMENTS

\$ 4,249,007

Investments are recorded at cost.

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