

FSPCF



Forestry Service Providers Compensation Fund

2013 Annual Report

**Administrative Authority
Eric van Soeren**



FSPCF

Forestry Service Providers Compensation Fund

2013 Annual Report of the Authority

General

The Forestry Service Providers Compensation Fund (FSPCF) was created on March 30, 2012 by the *Forestry Service Providers Compensation Fund Regulation* (BC Reg. 64/2012) and was seeded with a contribution of \$5,000,000 provided by the provincial government. Its purpose is to provide relief to Contractors that provided Forestry Services and were not paid for those services because the recipient of the Forestry Services became Insolvent. Forestry Services are limited to those defined in BC Regulation 3/2013, Section 3, and must have been provided to a tenure holder under the *Forest Act*. Insolvency for the purposes of the FSPCF is defined in the FSPCF Administrative Agreement.

The FSPCF is administered by Eric van Soeren, the Authority appointed by the Minister of Forests, Lands and Natural Resource Operations under the *Forestry Service Providers Protection Act (FSPPA)*. Mr. van Soeren operates pursuant to an Administrative Agreement between the Authority and provincial government. The Authority is not an agent of the government for the purposes of the *FSPPA* or the regulations under it. More detail on the FSPCF is available on the FSPCF website at www.fspcf.com.

Sources of Funds for the FSPCF

In addition to the \$5,000,000 seed money provided by the government, the *FSPPA* contemplates other sources of funding. Part 2 of the *FSPPA* refers to “contributors” who will be identified by regulation and who will make contributions to the fund in accordance with the regulations. Additionally, the provincial cabinet may, by regulation, impose a levy on stumpage bearing timber that must be paid into the FSPCF. Finally, any amounts recoverable from an Insolvent Licensee relating to a financial loss for which a Forestry Service Provider has applied and received monies from the FSPCF, must be repaid to the FSPCF. To date no additional contributors have been identified or stumpage levy created.

Activities of the FSPCF to Date

As of December 31, 2013, only one licensee has become insolvent since the February 1, 2013 activation date of the FSPCF. It had secured creditors that were owed more than the value of all its assets, so according to the Trustee in Bankruptcy, none of the unsecured creditors will receive a distribution from the bankrupt company.

On December 5, 2013 the Authority sent letters to the unsecured creditors that appeared to be Forestry Service Providers. Several have responded, but so far none have been eligible for compensation from the FSPCF. In each case so far the unpaid receivables they had predated the activation date for the FSPCF, or were for goods as opposed to services provided. It is still possible that an eligible claim may be received related to this insolvency, but if it does, it is likely to be for a fairly small balance related to transporting as opposed to harvesting logs.

FSPCF Account Balances as of December 31, 2013

As of December 31, 2013 the book value of FSPCF accounts are as follows:

Net assets	
Forestry Service Providers Compensation Fund	<u>\$5,186,070</u>
Total available funds	<u>\$5,186,070</u>
Distributions to beneficiaries to date	
Related to the Howe Sound Forest Products Ltd. insolvency	<u>\$Nil</u>
Total distributions to beneficiaries	<u>\$Nil</u>
Total available funds plus distributions	<u>\$5,186,070</u>

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2013

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
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To the Authority
Forestry Service Providers Compensation Fund

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Forestry Service Providers Compensation Fund, which comprise the statement of financial position as at December 31, 2013, 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 accounting standards for not-for-profit organizations, 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.

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 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 auditors' 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT**Opinion**

In our opinion, the financial statements of the Forestry Service Providers Compensation Fund for the year ended December 31, 2013, present fairly, in all material respects, the financial position of the Forestry Service Providers Compensation Fund as at December 31, 2013 and the results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matters

The financial statements of the Forestry Service Providers Compensation Fund for the year ended December 31, 2012, were audited by Schroeder and Associates, Chartered Accountants, who expressed an unmodified opinion on those statements on February 25, 2013. That firm merged with the current auditor.



MNP LLP**Chartered Accountants**

Vancouver, B.C.
February 25, 2014

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash	\$ 19,791	\$ 2,024
Marketable securities - Schedule 1	<u>868,098</u>	<u>822,966</u>
	887,889	824,990
INVESTMENTS - Schedule 2	<u>4,298,181</u>	<u>4,249,007</u>
TOTAL ASSETS	<u>\$ 5,186,070</u>	<u>\$ 5,073,997</u>
<u>LIABILITIES</u>		
CURRENT LIABILITY		
Accounts payable and accrued liabilities	<u>\$ 12,389</u>	<u>\$ 9,373</u>
TOTAL LIABILITIES	<u>12,389</u>	<u>9,373</u>
<u>FUND BALANCES</u>		
TOTAL RESTRICTED NET ASSETS	<u>5,173,681</u>	<u>5,064,624</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,186,070</u>	<u>\$ 5,073,997</u>

APPROVED BY THE AUTHORITY

 Authority

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
NET RESTRICTED ASSETS, beginning of year	\$ 5,064,624	\$ -
Excess of revenue over expenses	<u>109,057</u>	<u>5,064,624</u>
NET RESTRICTED ASSETS, end of year	<u>\$ 5,173,681</u>	<u>\$ 5,064,624</u>

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
REVENUE		
Transfer from government	\$ -	\$ 5,000,000
Interest revenue	<u>154,327</u>	<u>99,268</u>
	<u>154,327</u>	<u>5,099,268</u>
EXPENSES		
Audit fees	7,600	7,400
Authority fees	26,660	22,780
Bank charges and interest	200	200
GST/HST expense	2,384	3,648
Legal fees	6,749	-
Office	1,323	2
Travel and entertainment	<u>354</u>	<u>614</u>
	<u>45,270</u>	<u>34,644</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 109,057</u>	<u>\$ 5,064,624</u>

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 109,057	\$ 5,064,624
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	<u>3,018</u>	<u>9,372</u>
Cash from operations	112,075	5,073,996
INVESTING ACTIVITIES		
Investment in financial instruments	<u>(94,308)</u>	<u>(5,071,972)</u>
CHANGE IN CASH DURING THE YEAR	17,767	2,024
CASH, beginning of year	<u>2,024</u>	<u>-</u>
CASH, end of year	<u>\$ 19,791</u>	<u>\$ 2,024</u>
 REPRESENTED BY:		
Cash	<u>\$ 19,791</u>	<u>\$ 2,024</u>

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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, passed B.C. Regulation 3/2013. That regulation defined forestry services as felling, bucking, yarding, skidding, processing, chipping, grinding, decking, loading, hauling, unloading, dryland sorting and logging road construction and maintenance. B.C. Regulation 3/2013 further defines beneficiaries of the fund as persons that provide forestry services to a holder of an agreement referred to in section 12 of the Forest Act. Accordingly, the potential 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 external 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, 2013

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.

The Trust uses the restricted fund method of accounting for contributions, which are recognized as revenue when received.

(c) Use of Assumptions and Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on the Trustee's knowledge of current events and actions the Trust may undertake in the future, actual results may differ from the estimates.

(d) Financial Instruments

The Trust invests in certain financial instruments. It recognizes its financial instruments when the Trust becomes party to the relevant contractual provisions. All financial instruments are initially recorded at their fair value plus transaction costs and financing fees. The financial instruments are subsequently measured at amortized cost.

It is the Trustee's opinion that the Trust is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

(e) 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. **RELATED PARTY TRANSACTIONS**

	<u>2013</u>	<u>2012</u>
Payments to trustee	<u>\$ 26,660</u>	<u>\$ 22,780</u>

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.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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. CONTINGENCIES

During the year, the Authority received a Notice of Assessment whereby the Fund was assessed income taxes of \$28,240 on its net income for the year ended December 31, 2012. A Notice of Objection was duly filed in a timely manner. The Canada Revenue Agency (the "CRA") acknowledged receipt of the Notice of Objection on July 30, 2013 and advised that an appeals officer will be appointed to review the facts and make a determination.

No further communication has been received from the CRA to date.

Based on the Authority's opinion, no provision for income taxes was recorded as at December 31, 2013 for the current year or the prior year.

9. FAIR VALUE

The carrying value of investments and liabilities reflected in the balance sheet approximate their respective fair values. The market value of investments as at December 31, 2013 is \$5,078,961.

10. 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.

11. COMPARATIVE FIGURES

Certain comparative figures have been changed to conform to the current year's presentation.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF MARKETABLE SECURITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
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	-	200,000
Laurentian Bank of Canada Face Value \$250,000 Due May 5, 2014	250,000	-
CPN CIBC Face Value \$264,024 Due November 2, 2014	250,000	-
Laurentian Bank of Canada Face Value \$200,000 Due December 19, 2014	<u>200,000</u>	<u>-</u>
Subtotal	700,000	729,975
Accrued interest	<u>168,098</u>	<u>92,991</u>
MARKETABLE SECURITIES	<u>\$ 868,098</u>	<u>\$ 822,966</u>

Marketable securities are recorded at cost.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
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	250,000
Res CIBC Face Value \$273,000 Due November 2, 2015	249,740	249,740
Res Royal Bank of Canada Face Value \$277,596 Due November 2, 2015	266,167	-
HSBC Bank Canada GIC Face Value \$250,000 Due May 30, 2016	250,000	250,000
Res Bank of Montreal Face Value \$277,000 Due July 8, 2016	249,945	249,945
Res Bank of Montreal Face Value \$291,317 Due September 26, 2017	250,000	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	250,000
Res Bell Canada Face Value \$357,637 Due April 15, 2021	-	249,999

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
<i>carried forward</i>	1,765,852	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	499,999
Ontario Hydro Face Value \$356,979 Due April 11, 2023	250,000	250,000
CPN Province of Quebec Face Value \$357,932 Due June 1, 2023	249,999	249,999
CPN Province of Ontario Face Value \$359,882 Due June 2, 2023	250,000	250,000
CPN Province of Ontario Face Value \$286,504 Due May 3, 2017	266,167	-
CPN Bell Canada Face Value \$290,775 Due August 23, 2018	249,999	-
CPN Province of Ontario Face Value \$302,825 Due December 2, 2018	266,167	-
CPN Province of Manitoba Face Value \$283,062 Due March 5, 2019	249,999	-

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
SCHEDULE OF INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>	<u>2012</u>
<i>carried forward</i>	4,048,182	4,249,007
CPN Province of Ontario Face Value \$287,907 Due May 3, 2019	<u>249,999</u>	<u>-</u>
INVESTMENTS	<u>\$ 4,298,181</u>	<u>\$ 4,249,007</u>

Investments are recorded at cost.