

FSPCF



Forestry Service Providers Compensation Fund

2015 Annual Report

**Administrative Authority
Eric van Soeren**



FSPCF

Forestry Service Providers Compensation Fund

2015 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 the 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 provincial 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 a partial recovery has been received related to compensation paid as a result of the insolvency of one licensee. In addition, during 2015 the provincial government provided a further \$1,000,000 to the FSPCF. No additional contributors have been identified or stumpage levy created.

Activities of the FSPCF to date

To date there have been three licensee insolvencies since the February 1, 2013 activation date of the FSPCF that resulted in compensation payments from the FSPCF. As of December 31, 2015 the Authority is not aware of any other licensees whose contractors may be eligible for compensation from the FSPCF.

FSPCF Account Balances as of December 31, 2015

As of December 31, 2015 the book value of FSPCF accounts are as follows:

Account Balances

Forestry Service Providers Compensation Fund	<u>\$5,993,013</u>
Total available funds	<u>\$5,993,013</u>

Distributions to beneficiaries to date

Related to the insolvency of:

Greey Forest Products Ltd.	\$343,929
Less recovery	-\$6,532
International Aircraft Management Inc.	\$37,902
Murch Timber Ltd.	<u>\$111,463</u>
Total Distributions to beneficiaries	<u>\$486,762</u>

Total available funds plus distributions	<u>\$6,479,775</u>
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FORESTRY SERVICE PROVIDERS COMPENSATION FUND
Financial Statements
December 31, 2015

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

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Independent Auditors' Report

To the Authority of Forestry Service Providers Compensation Fund:

We have audited the accompanying financial statements of Forestry Service Providers Compensation Fund, which comprise the statement of financial position as at December 31, 2015, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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 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 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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Forestry Service Providers Compensation Fund: as at December 31, 2015 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian Accounting Standards for Not-for-Profit Organizations.

Richmond, British Columbia

February 26, 2016

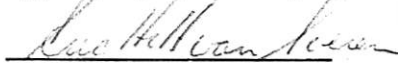
MNP LLP

Chartered Professional Accountants

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
Statement of Financial Position
As at December 31, 2015

	2015	2014
Assets		
Current		
Cash	27,571	14,495
Investments - current portion (Note 8)	1,311,126	1,245,737
	1,338,697	1,260,232
Investments (Note 8)	4,552,328	3,982,274
	5,891,025	5,242,506
Liabilities		
Current		
Accounts payable and accruals	10,701	8,610
Due to related party (Note 5)	1,467	5,418
	12,168	14,028
Net Assets		
Restricted	5,878,857	5,228,478
	5,891,025	5,242,506

Approved by the Authority



FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Statement of Operations

For the year ended December 31, 2015

	<i>Restricted Funds</i>	<i>2015</i>	<i>2014</i>
Revenue			
Grant revenue	1,000,000	1,000,000	-
Interest income	144,819	144,819	139,824
Total revenue	1,144,819	1,144,819	139,824
Expenses			
Bank charges and interest	275	275	215
Goods and Services Tax	2,269	2,269	2,583
Office	300	300	450
Postage	90	90	90
Professional fees	9,743	9,743	8,386
Compensation to beneficiaries	446,841	446,841	37,902
Authority fees <i>(Note 5)</i>	34,400	34,400	34,828
Travel	522	522	573
Total expenses	494,440	494,440	85,027
Excess of revenue over expenses	650,379	650,379	54,797

The accompanying notes 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, 2015

	<i>Restricted Funds</i>	2015	<i>2014</i>
Net assets, beginning of year	5,228,478	5,228,478	5,173,681
Excess of revenue over expenses	650,379	650,379	54,797
Net assets, end of year	5,878,857	5,878,857	5,228,478

The accompanying notes are an integral part of these financial statements

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Statement of Cash Flows

For the year ended December 31, 2015

	2015	2014
Cash provided by the following activities		
Operating		
Excess of revenue over expenses	650,380	54,798
Changes in working capital accounts		
Accounts payable and accruals	2,090	(3,781)
Due to related party	(3,951)	5,418
	648,519	56,435
Investing		
Purchase of investments	(635,443)	(61,731)
Increase (decrease) in cash resources	13,076	(5,296)
Cash resources, beginning of year	14,495	19,791
Cash resources, end of year	27,571	14,495

The accompanying notes are an integral part of these financial statements

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to the Financial Statements

For the year ended December 31, 2015

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. On November 13, 2014, the Minister entered into a new Agreement to extend the appointment to January 31, 2017.

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.

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

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to the Financial Statements

For the year ended December 31, 2015

4. SIGNIFICANT ACCOUNTING POLICIES, cont'd

(c) Use of Assumptions and Estimates

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

(d) Financial Instruments

The Fund invests in certain financial instruments. It recognizes its financial instruments when the Fund becomes party to the relevant contractual provisions. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management. Financial assets and liabilities originated and issued in all other related party transactions are initially measured at their carrying or exchange amount in accordance with CICA 3840 Related Party Transactions.

The Fund subsequently measures cash at fair value. All other financial assets and liabilities are subsequently measured at amortized cost.

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

(e) Cash and Cash Equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less. The balance of cash equivalents as at December 31, 2015 was nil (2014 - nil).

(f) Investments

Investments consist of Canadian provincial government bonds, GIC's and public company bonds. Investments are carried at cost, less any impairment.

(g) 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

During the year, the Fund made payments to the Authority, Mr. Eric van Soeren, for services rendered.

	2015	2014
Payments to the authority	34,400	34,828
Balance due to the authority		
Amount due to the authority is unsecured, non-interest bearing and due on demand.	1,467	5,418

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to the Financial Statements

For the year ended December 31, 2015

6. INCOME TAXES

The Authority has always been 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.

During a prior 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. During the prior year, an appeals officer was appointed to review the facts and make a determination.

Pursuant to the submission of additional information and discussions with the appeals officer, the CRA allowed the Notice of Objection on the basis that the Fund is a quasi-governmental body earning exempt income and therefore not 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. The market value of investments as at December 31, 2015 is \$5,966,909.

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.