

FSPCF



Forestry Service Providers Compensation Fund

2016 Annual Report

**Administrative Authority
Eric van Soeren**



FSPCF

Forestry Service Providers Compensation Fund

2016 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. Insolvency for the purposes of the FSPCF is defined in the FSPCF Administrative Agreement.

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*. On December 7, 2016 BC Reg. 64/2012 was amended by BC Reg. 286/2016 to allow the inclusion of Silviculture Contractors work as a prescribed activity included in the definition of eligible providers of Forestry Services under the FSPCF.

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.

During 2015 the provincial government provided a further \$1,000,000 to the FSPCF. In 2016 the provincial government provided a further \$1,000,000, to be divided equally between the original General Compensation Fund and a newly created Silviculture Compensation Fund. 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, 2016 the Authority is not aware of any other insolvent licensees whose contractors may be eligible for compensation from the FSPCF.

FSPCF Account Balances as of December 31, 2016

As of December 31, 2016 the book value of FSPCF accounts are as follows:

Account Balances

FSPCF General Compensation Fund	\$6,517,166
FSPCF Silviculture Compensation Fund	495,666
Total available funds	<u>\$7,012,832</u>

Distributions to beneficiaries to date

Related to the insolvency of:

Greey Forest Products Ltd.	\$343,929
Less recovery	-\$6,531
International Aircraft Management Inc.	\$37,902
Murch Timber Ltd.	\$109,443
Total Distributions to beneficiaries	<u>\$484,742</u>

Total available funds plus distributions	<u>\$7,497,574</u>
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Forestry Service Providers Compensation Fund
Financial Statements
December 31, 2016

Forestry Service Providers Compensation Fund

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Independent Auditors' Report

To the Authority of the Forestry Service Providers Compensation Fund

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, 2016, 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 the Forestry Service Providers Compensation Fund as at December 31, 2016 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 28, 2017

MNP LLP

Chartered Professional Accountants

Forestry Service Providers Compensation Fund

Statement of Financial Position

As at December 31, 2016

	2016	2015
Assets		
Current		
Cash	21,617	27,571
Investments - current portion (Note 5)	1,513,238	1,311,126
	1,534,855	1,338,697
Investments (Note 5)	5,486,515	4,552,328
	7,021,370	5,891,025
Liabilities		
Current		
Accounts payable and accruals	8,086	10,701
Due to related party (Note 6)	452	1,467
	8,538	12,168
Net Assets		
Restricted	7,012,832	5,878,857
	7,021,370	5,891,025

Approved by the Authority



Forestry Service Providers Compensation Fund Statement of Operations

For the year ended December 31, 2016

	<i>Silviculture Fund</i>	<i>General Fund</i>	2016	<i>2015</i>
Revenue				
Grant revenue	500,000	500,000	1,000,000	1,000,000
Interest income	7,529	151,490	159,019	144,819
Total revenue	507,529	651,490	1,159,019	1,144,819
Expenses				
Bank charges and interest	200	200	400	275
Goods and Services Tax	556	612	1,168	2,269
Office	-	21	21	300
Postage	-	-	-	90
Professional fees	3,690	4,194	7,884	9,743
Compensation to beneficiaries	-	-	-	446,841
Authority fees <i>(Note 6)</i>	7,417	8,063	15,480	34,400
Travel	-	91	91	522
Total expenses	11,863	13,181	25,044	494,440
Excess of revenue over expenses	495,666	638,309	1,133,975	650,379

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, 2016

	<i>Silviculture Fund</i>	<i>General Fund</i>	2016	<i>2015</i>
Net assets, beginning of year	-	5,878,857	5,878,857	5,228,478
Excess of revenue over expenses	495,666	638,309	1,133,975	650,379
Net assets, end of year	495,666	6,517,166	7,012,832	5,878,857

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, 2016

	2016	2015
Cash provided by the following activities		
Operating		
Excess of revenue over expenses	1,133,975	650,379
Changes in working capital accounts		
Accounts payable and accruals	(2,615)	2,090
	1,131,360	652,469
Financing		
Advances from related party	452	-
Repayment of advances from related party	(1,467)	(3,951)
	(1,015)	(3,951)
Investing		
Purchase of investments	(1,136,299)	(635,442)
Increase (decrease) in cash resources	(5,954)	13,076
Cash resources, beginning of year	27,571	14,495
Cash resources, end of year	21,617	27,571

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, 2016

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.

The Government of the Province of British Columbia made a second contribution to the Fund of \$1,000,000 in April, 2015 and a third contribution of \$1,000,000 in April, 2016. The third contribution was allocated as to \$500,000 to the General Forestry Service Providers Compensation Fund (the "General Fund") and \$500,000 to a new Silviculture Contractors Compensation Fund (the "Silviculture Fund").

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").

On December 7, 2016, the Government of the Province of British Columbia passed B.C. Regulation 286/2016. That regulation includes silviculture work in the definition of forestry services for the purposes of determining potential beneficiaries of the Fund.

3. DURATION OF THE FUND

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

Forestry Service Providers Compensation Fund

Notes to the Financial Statements

For the year ended December 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations as issued by the Accounting Standards Board in Canada and include the following 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. The Fund maintains two funds: General Fund and Silviculture Fund.

The General Fund reports the Fund's revenue and expenses related to general and ancillary operations of the Fund.

The Silviculture Fund is used to account for monies restricted for silviculture work purposes.

(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 in the appropriate restricted fund when received.

(c) Allocation of Expenses

The Fund allocates certain of its general support expenses by identifying the appropriate basis of allocating each component expense, and applies that basis consistently each year.

(d) Cash

Cash includes balances with banks and short-term investments with maturities of three months or less.

(e) Investments

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

(f) 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. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

(g) Financial Instruments

The Fund 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. The carrying value of financial assets and liabilities reflected in the statement of financial position approximate their respective fair values.

Forestry Service Providers Compensation Fund

Notes to the Financial Statements

For the year ended December 31, 2016

5. INVESTMENTS

	2016	2015
	<i>Carrying amount</i>	<i>Carrying amount</i>
Fixed income investments		
Canadian provincial government bonds	3,623,835	3,285,301
GIC's	1,241,175	1,215,531
Public company bonds - chartered banks	2,134,743	1,362,622
	6,999,753	5,863,454
Less: current portion	(1,513,238)	(1,311,126)
Non-current portion	5,486,515	4,552,328

The market value of investments as at December 31, 2016 is \$7,063,617 (2015 - \$5,966,909).

6. RELATED PARTY TRANSACTIONS

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

	2016	2015
Payments to the Authority	15,480	34,400
Balance due to the Authority		
Amount due to the authority is unsecured, non-interest bearing and due on demand.	452	1,467

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related party.

7. 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.

8. 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.

Forestry Service Providers Compensation Fund

Notes to the Financial Statements

For the year ended December 31, 2016

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. ECONOMIC DEPENDENCE

The Fund's primary source of revenue is provided by the Government of the Province of British Columbia. The grant funding can be cancelled if the Fund does not observe certain established guidelines. The Fund's ability to continue viable operations is dependent upon maintaining its right to follow the criteria within the guidelines. As at the date of these financial statements the Fund believes that it is in compliance with the guidelines.

11. FINANCIAL INSTRUMENTS

The Fund, as part of its operations, carries a number of financial instruments. It is management'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.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. The Fund is exposed to interest rate risk primarily related to their fixed income investments, as disclosed in Note 5. However, the Fund intends to hold all of its fixed income investments to maturity, therefore the exposure to interest rate risk is mitigated.