

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**  
**Financial Statements**  
**Year Ended December 31, 2019**

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**

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**Year Ended December 31, 2019**

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**\*Andrew F. Schroeder, CPA, CA**

**\*Alnashir Rashid, CPA, CGA**



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## INDEPENDENT AUDITOR'S REPORT

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To the Authority of Forestry Service Providers Compensation Fund

### Report on the Financial Statements

#### Opinion

We have audited the financial statements of Forestry Service Providers Compensation Fund (the Company), which comprise the statement of financial position as at December 31, 2019, and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO).

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASNPO, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Richmond , British Columbia  
February 11, 2020

*Schroeder Rashid LLP*

**CHARTERED PROFESSIONAL ACCOUNTANTS**

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**  
**Statement of Financial Position**  
**December 31, 2019**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 7,969	\$ 12,307
Investments - current portion <i>(Note 5)</i>	<u>2,101,315</u>	<u>1,459,998</u>
	2,109,284	1,472,305
<b>INVESTMENTS <i>(Note 5)</i></b>	<u>6,344,553</u>	<u>6,714,919</u>
	<u>\$ 8,453,837</u>	<u>\$ 8,187,224</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accruals	\$ 7,246	\$ 7,245
Due to related party <i>(Note 6)</i>	<u>2,714</u>	<u>1,208</u>
	9,960	8,453
<b>NET ASSETS</b>		
Restricted	<u>8,443,877</u>	<u>8,178,771</u>
	<u>\$ 8,453,837</u>	<u>\$ 8,187,224</u>

APPROVED BY THE AUTHORITY

 Authority

*The accompanying notes are an integral part of the financial statements.*

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**

**Statement of Revenues and Expenditures**

**Year Ended December 31, 2019**

	Silviculture Fund	General Fund	2019	2018
<b>REVENUE</b>				
Grant revenue	\$ -	\$ 250,000	\$ 250,000	\$ 500,000
Interest income	16,279	176,718	192,997	183,279
	<u>16,279</u>	<u>426,718</u>	<u>442,997</u>	<u>683,279</u>
<b>EXPENSES</b>				
Authority fees (Note 6)	1,320	11,878	13,198	13,895
Bank charges and interest	200	215	415	400
Delivery, freight and express	-	214	214	-
Goods and Services Tax (Note 8)	114	915	1,029	1,064
Office	-	-	-	19
Compensation payments (recoveries)	-	155,867	155,867	(4,365)
Professional fees	690	6,478	7,168	7,087
Travel	-	-	-	126
	<u>2,324</u>	<u>175,567</u>	<u>177,891</u>	<u>18,226</u>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<u>\$ 13,955</u>	<u>\$ 251,151</u>	<u>\$ 265,106</u>	<u>\$ 665,053</u>

*The accompanying notes are an integral part of the financial statements.*

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**

**Statement of Changes in Net Assets**

**Year Ended December 31, 2019**

	Silviculture Fund	General Fund	2019	2018
<b>NET RESTRICTED ASSETS - BEGINNING OF YEAR</b>	\$ 763,677	\$ 7,415,094	\$ 8,178,771	\$ 7,513,717
Excess of revenue over expenses	13,955	251,151	265,106	665,054
<b>NET RESTRICTED ASSETS - END OF YEAR</b>	<b>\$ 777,632</b>	<b>\$ 7,666,245</b>	<b>\$ 8,443,877</b>	<b>\$ 8,178,771</b>

*The accompanying notes are an integral part of the financial statements.*

**FORESTRY SERVICE PROVIDERS COMPENSATION FUND**

**Statement of Cash Flows**

**Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Excess of revenue over expenses	\$ 265,106	\$ 665,054
Changes in non-cash working capital:		
Due to related party	1,506	854
	<u>1,506</u>	<u>854</u>
Cash flow from operating activities	<u>266,612</u>	<u>665,908</u>
<b>INVESTING ACTIVITY</b>		
Purchase of investments	<u>(270,950)</u>	<u>(663,753)</u>
<b>INCREASE (DECREASE) IN CASH FLOW</b>	<b>(4,338)</b>	<b>2,155</b>
Cash - beginning of year	<u>12,307</u>	<u>10,152</u>
<b>CASH - END OF YEAR</b>	<u>\$ 7,969</u>	<u>\$ 12,307</u>

*The accompanying notes are an integral part of the financial statements.*



# FORESTRY SERVICE PROVIDERS COMPENSATION FUND

## Notes to Financial Statements

Year Ended December 31, 2019

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### 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. The Minister has entered into successive agreements to extend the appointment. On March 1, 2019, the Minister entered into a new agreement to extend the appointment to February 28, 2021.

The Government of the Province of British Columbia has made additional contributions of \$2,850,000 in aggregate to the Fund in prior years, allocated as to \$2,100,000 to the General Forestry Service Providers Compensation Fund (the "General fund") and \$750,000 to the newly established Silviculture Contractors Compensation fund (the "Silviculture fund"). A contribution of \$250,000 was received on May 10, 2019 and allocated to the General 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 Financial Statements

Year Ended December 31, 2019

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### 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 compensation related to the General Fund, and the proportional ancillary expenses related to the operations of the Fund attributed to the General Fund.

The Silviculture Fund reports the Fund's revenue and compensation related to the Silviculture Fund, and the proportional ancillary expenses related to the operations of the Fund attributed to the Silviculture 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 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, unless management expects to renew the investments upon maturity.

(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.

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# FORESTRY SERVICE PROVIDERS COMPENSATION FUND

## Notes to Financial Statements Year Ended December 31, 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (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 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.

### 5. INVESTMENTS

	<u>2019</u> <i>Carrying amount</i>	<u>2018</u> <i>Carrying amount</i>
Fixed income investments		
Canadian provincial government bonds <i>(market value \$4,810,057)</i>	\$ 4,783,854	\$ 4,471,417
GIC's <i>(market value \$2,455,000)</i>	2,490,904	1,764,157
Public company bonds - chartered banks <i>(market value \$1,176,871)</i>	<u>1,171,110</u>	<u>1,939,343</u>
	8,445,868	8,174,917
Less: current portion	<u>(2,101,315)</u>	<u>(1,459,998)</u>
Non-current portion	<u>\$ 6,344,553</u>	<u>\$ 6,714,919</u>

### 6. RELATED PARTY TRANSACTIONS

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

	<u>2019</u>	<u>2018</u>
Amount expensed	<u>\$ 13,198</u>	<u>\$ 13,896</u>
Amount outstanding payable	<u>\$ 2,714</u>	<u>\$ 1,208</u>

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.

# FORESTRY SERVICE PROVIDERS COMPENSATION FUND

## Notes to Financial Statements

Year Ended December 31, 2019

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### 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. Subsequently, 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 SERVICE TAXES/HARMONIZED SALES TAX

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

### 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 the fund continuing to follow the criteria within the guidelines. As at the date of these financial statements the Authority believes that the Fund 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.

#### *(a) 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.