

FSPCF



Forestry Service Providers Compensation Fund

2021 Annual Report

**Administrative Authority
Eric van Soeren**



Forestry Service Providers Compensation Fund

Report of the Authority as of December 31, 2021

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 the *Forestry Service Providers Protection Act (FSPPA)* 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, Natural Resource Operations and Rural Development under the *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. This is to prevent double dipping.

To date no stumpage levy has been created. However, in April 2015 the provincial government contributed an additional \$1,000,000 to the FSPCF to help fund operations and reimburse the fund for compensation paid to date. In April 2016 the provincial government contributed a further \$1,000,000. This contribution was split so that \$500,000 went to the

original General Fund, and \$500,000 was allocated to a new Silviculture Contractors Compensation Fund. Regulations governing access to the Silviculture Fund were completed in the fall of 2016. In April of 2017 the Authority received a further \$350,000 that was directed to the General Fund of the FSPCF. In April 2018, the FSPCF received a further \$500,000 from the provincial government. That amount was split equally between the General and the Silviculture Funds. In May 2019, the provincial government contributed a further \$250,000, to be directed to the General Fund, and finally in May 2020 the province contributed a further \$500,000 to the General Fund.

In addition, in the fourth quarter of 2020 the Trustee of the BC Forestry Revitalization Trust, on the advice of its Advisory Board, wound up the BCFRT because it had fulfilled its mandate. A Surplus of \$24,237 remained, and it was transferred to the General Fund of the FSPCF.

Activities of the FSPCF to date

An Advisory Board has been established, a website has been created (www.fspcf.com), a claim form template has been developed, and templates for the assorted documents that will need to be generated to allow claims to be made and processed are ready to go.

No meetings of the Advisory Board have been held because no situations that required decisions or recommendations with respect to policy have arisen.

During 2021, no applications were received for FSPCF assistance as a result of slow or no payments by insolvent licensees. Notwithstanding the general economic slowdown caused by the Covid-19 pandemic, lumber prices have increased, forest activity is coming back, and I have not become aware of any licensees that are not able to start to pay their contractors within normal contract terms. There are still some cash flow issues as the industry ramps back up, but licensee insolvency does not appear to be an issue at this time. The recent drop in the spike of lumber prices back to pre-pandemic levels does not seem to have caught any licensees off guard enough to cause insolvency issues to arise. Even the recent protests against old growth logging and the recently announced old growth logging reductions seem to have been expected and do not seem to be causing any insolvencies of licensees.

The bankruptcy of Errington Cedar Products Ltd. in late 2019 did cause some compensation payments to have to be made in the first and second quarters of 2020. As of December 31, 2021, it appears there are no more potential claimants, and a total of \$67,289 has been paid out in compensation on this file. I have received confirmation from the Trustee in Bankruptcy that there will be no recovery to the FSPCF on the compensation payments made in relation to the Errington Cedar bankruptcy.

There are no other active claims at this time, and no expected recoveries of other compensation payments made previously.

FSPCF Account Balances as of December 31, 2021

As of December 31, 2021, the FSPCF account balances per the bank statements, reconciled for outstanding cheques, were as follows:

Forestry Service Providers (FSP)	
Account Balances	
FSP General Compensation Fund	\$8,408,556
FSP Silviculture Compensation Fund	\$806,977
Total available funds	\$9,215,533
Distributions to beneficiaries to date	
Related to the insolvency of	
Errington Cedar Products Ltd	\$67,289
Greey Forest Products Ltd.	\$343,929
International Aircraft Management Inc.	\$37,902
Murch Timber Ltd.	\$109,443
Yaorun Wood Products Ltd.	\$155,867
Total Distributions to beneficiaries	\$714,430
Less recoveries from insolvent companies	\$10,896
Net Distributions to beneficiaries	\$703,534
Total available funds plus net distributions	\$9,919,067

Looking ahead

During the first quarter of 2022, the following activity is expected in the FSPCF:

- The Authority will continue to monitor potential licensee insolvencies in the province and work proactively with Forestry Service Providers to determine whether they may be eligible for FSPCF assistance.
- The Authority will continue to work with the province and the forest industry to develop a mechanism to build the FSPCF to a level where it will be able to react to a significant insolvency should one occur.

Eric van Soeren
Authority

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Financial Statements

Year Ended December 31, 2021

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Index to Financial Statements

Year Ended December 31, 2021

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Revenues and Expenditures	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 10

INDEPENDENT AUDITOR'S REPORT

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 Fund), which comprise the statement of financial position as at December 31, 2021, 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 Fund as at December 31, 2021, 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 Fund 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

(continues)

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 Fund'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 Fund'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 Fund 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 21, 2022

Schroeder Rashid LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

FORESTRY SERVICE PROVIDERS COMPENSATION FUND
Statement of Financial Position
December 31, 2021

	2021	2020
ASSETS		
CURRENT		
Cash	\$ 13,249	\$ 38,667
Investments - current portion <i>(Note 5)</i>	<u>3,607,821</u>	<u>2,714,087</u>
	3,621,070	2,752,754
INVESTMENTS <i>(Note 5)</i>	<u>5,600,654</u>	<u>6,325,859</u>
	<u>\$ 9,221,724</u>	<u>\$ 9,078,613</u>
LIABILITIES		
CURRENT		
Accounts payable and accruals	\$ 5,671	\$ 6,720
Due to related party <i>(Note 6)</i>	<u>520</u>	<u>514</u>
	6,191	7,234
NET ASSETS		
Restricted	<u>9,215,533</u>	<u>9,071,379</u>
	<u>\$ 9,221,724</u>	<u>\$ 9,078,613</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, 2021

	Silviculture Fund	General Fund	2021	2020
REVENUE				
Grant revenue	\$ -	\$ -	\$ -	\$ 524,237
Interest income	15,976	145,141	161,117	194,659
	<u>15,976</u>	<u>145,141</u>	<u>161,117</u>	<u>718,896</u>
EXPENSES				
Authority fees (Note 6)	998	8,978	9,976	15,689
Bank charges and interest	200	200	400	430
Delivery, freight and express	-	-	-	189
Office	-	137	137	58
Compensation payments	-	-	-	67,233
Professional fees	540	5,128	5,668	6,669
Goods and Services Tax (Note 7)	40	742	782	1,127
	<u>1,778</u>	<u>15,185</u>	<u>16,963</u>	<u>91,395</u>
EXCESS OF REVENUE OVER EXPENSES	\$ 14,198	\$ 129,956	\$ 144,154	\$ 627,501

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, 2021

	Silviculture Fund	General Fund	2021	2020
NET RESTRICTED ASSETS - BEGINNING OF YEAR	\$ 792,779	\$ 8,278,600	\$ 9,071,379	\$ 8,443,878
Excess of revenue over expenses	14,198	129,956	144,154	627,501
NET RESTRICTED ASSETS - END OF YEAR	\$ 806,977	\$ 8,408,556	\$ 9,215,533	\$ 9,071,379

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

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Statement of Cash Flows

Year Ended December 31, 2021

	2021	2020
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 144,154	\$ 627,501
Changes in non-cash working capital:		
Accounts payable and accruals	(1,049)	(525)
Due to related party	6	(2,200)
	<u>(1,043)</u>	<u>(2,725)</u>
Cash flow from operating activities	<u>143,111</u>	<u>624,776</u>
INVESTING ACTIVITY		
Purchase of investments	<u>(168,529)</u>	<u>(594,078)</u>
INCREASE (DECREASE) IN CASH FLOW	(25,418)	30,698
Cash - beginning of year	<u>38,667</u>	<u>7,969</u>
CASH - END OF YEAR	\$ 13,249	\$ 38,667

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

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to Financial Statements

Year Ended December 31, 2021

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 31, 2021, the Minister entered into a new agreement to extend the appointment to February 28, 2023.

The Government of the Province of British Columbia has made additional contributions of \$3,100,000 in aggregate to the Fund in prior years, allocated as to \$2,350,000 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 \$500,000 was received on May 5, 2020 and allocated to the General Fund.

In addition, in the fourth quarter of 2020 the Trustee of the BC Forestry Revitalization Trust ("BCFRT"), on the advice of its Advisory Board, wound up the BCFRT because it had fulfilled its mandate. A surplus of \$24,237 remained, and it was transferred to the General Fund of the FSPCF.

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, 2021

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, guaranteed investment certificates 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.

(continues)

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to Financial Statements

Year Ended December 31, 2021

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.

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

	2021	2020
Fixed income investments		
Canadian provincial government bonds <i>(market value \$4,663,569; 2020: \$4,994,349)</i>	\$ 4,659,544	\$ 4,891,775
Guaranteed investment certificates <i>(market value \$3,930,000; 2020: \$2,433,895)</i>	3,960,201	2,466,018
Public company bonds - chartered banks <i>(market value \$592,515; 2020: \$1,711,032)</i>	588,730	1,682,153
	9,208,475	9,039,946
Less: current portion	(3,607,821)	(2,714,087)
Non-current portion	\$ 5,600,654	\$ 6,325,859

6. DUE TO RELATED PARTY AND RELATED PARTY TRANSACTIONS

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

	2021	2020
Authority fees	\$ 9,976	\$ 15,689
Balance due to the Authority - amount is unsecured, non-interest bearing and due on demand	\$ 520	\$ 514

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.

During the year, the Trust renewed its Administration Agreement with the Authority on similar terms as the previous agreement. The new agreement terminates on February 28, 2023.

FORESTRY SERVICE PROVIDERS COMPENSATION FUND

Notes to Financial Statements

Year Ended December 31, 2021

7. 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.

8. 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 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.

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.