

Financial Statements of

FOREST ENHANCEMENT SOCIETY OF BC

15 month period from January 1, 2017 to March 31, 2018 and
the period from incorporation on February 16, 2016 to
December 31, 2016

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Forest Enhancement Society of BC ("FESBC") are the responsibility of FESBC's management and have been prepared in compliance with legislation, and in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. A summary of the significant accounting policies are described in Note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

FESBC's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Board meets with management and the external auditors to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by KPMG LLP, independent external auditors appointed by FESBC. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on FESBC's consolidated financial statements.

A handwritten signature in blue ink, reading "Steve Kozuki", is positioned above a solid horizontal line.

Steve Kozuki
Executive Director



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Forest Enhancement Society of BC, and
To the Minister of Forests, Lands, Natural Resource Operations and Rural Development,
Province of British Columbia

We have audited the accompanying financial statements of Forest Enhancement Society of BC, which comprise the statements of financial position as at March 31, 2018 and December 31, 2016, the statements of operations, changes in net debt and cash flows for the 15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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 our 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, we consider 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 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 of Forest Enhancement Society of BC as at March 31, 2018 and December 31, 2016 and for the 15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016 are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Emphasis of Matter

Without modifying our opinion, we draw attention to note 2(a) to the financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by Section 117(1)(b) of the Societies Act (British Columbia), we are required to state:

- whether, in our opinion, these financial statements fairly reflect, in all material respects, for the period under review, the financial position of FESBC and the results of its operations. In accordance with Canadian generally accepted auditing standards, because the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia are not considered a fair presentation financial reporting framework, our opinion stated above cannot contain this statement.
- whether, in our opinion, these financial statements are prepared in accordance with generally accepted accounting principles. These financial statements were prepared in accordance the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. Note 2(a) to the financial statements describes the significant differences between such basis of accounting and Canadian public sector accounting standards. As a result, our opinion stated above refers to the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia and not to generally accepted accounting principles.
- whether these financial statements are prepared on a basis consistent with the basis on which the financial statements that related to the preceding period were prepared. We report that, in our opinion, the significant accounting policies applied in preparing these financial statements have been applied on a basis consistent with that of the preceding period.

KPMG LLP

Chartered Professional Accountants

Victoria, Canada
May 18, 2018

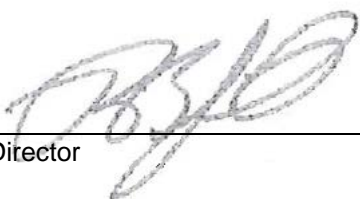
FOREST ENHANCEMENT SOCIETY OF BC

Statement of Financial Position


	March 31, 2018	December 31, 2016
Financial assets:		
Cash and cash equivalents (note 3)	\$ 133,204,577	\$ 85,697,141
Investments (note 4)	93,959,113	-
GST receivable	16,164	4,455
	<u>227,179,854</u>	<u>85,701,596</u>
Liabilities:		
Accounts payable and accrued liabilities	59,371	108,975
Deferred contributions (note 5)	227,165,657	85,619,692
	<u>227,225,028</u>	<u>85,728,667</u>
Net debt	(45,174)	(27,071)
Non-financial assets:		
Tangible capital assets (note 6)	27,410	21,007
Prepaid expenses	17,764	6,064
	<u>45,174</u>	<u>27,071</u>
Commitments (note 9)		
Accumulated surplus	\$ -	\$ -

See accompanying notes to financial statements.

Approved by the Board:



Director



Director

FOREST ENHANCEMENT SOCIETY OF BC

Statement of Operations

	Budget (note 7)	15 month period from January 1, 2017 to March 31, 2018	Period from incorporation on February 16, 2016 to December 31, 2016
Revenues:			
Deferred contributions recognized	\$ 33,725,025	\$ 12,819,504	\$ 570,131
Other	-	325	15,000
	<u>33,725,025</u>	<u>12,819,829</u>	<u>585,131</u>
Expenses:			
Amortization	-	13,773	4,312
Grants issued	31,175,000	10,589,334	129,000
Grant administration	1,558,750	1,064,343	26,342
Occupancy	39,800	60,005	24,950
Office and general	28,419	53,649	19,478
Professional fees	89,850	206,647	178,667
Salaries and benefits	666,879	652,955	138,540
Travel and transportation	166,327	179,123	63,842
	<u>33,725,025</u>	<u>12,819,829</u>	<u>585,131</u>
Annual surplus	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

FOREST ENHANCEMENT SOCIETY OF BC

Statement of Changes in Net Debt

	Budget (note 7)	15 month period from January 1, 2017 to March 31, 2018	Period from incorporation on February 16, 2016 to December 31, 2016
Annual surplus	\$ -	\$ -	\$ -
Acquisition of tangible capital assets	(29,000)	(20,176)	(25,319)
Amortization of tangible capital assets	-	13,773	4,312
	(29,000)	(6,403)	(21,007)
Acquisition of prepaid expenses	-	(11,700)	(6,064)
Change in net debt	(29,000)	(18,103)	(27,071)
Net debt, beginning of period	(27,071)	(27,071)	-
Net debt, end of period	\$ (56,071)	\$ (45,174)	\$ (27,071)

See accompanying notes to financial statements.

FOREST ENHANCEMENT SOCIETY OF BC

Statement of Cash Flows

	15 month period from January 1, 2017 to March 31, 2018	Period from incorporation on February 16, 2016 to December 31, 2016
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	\$ -	\$ -
Items not involving cash:		
Amortization	13,773	4,312
Deferred contributions recognized	(12,819,504)	(570,131)
Changes in non-cash operating working capital		
GST receivable	(11,709)	(4,455)
Prepaid expenses	(11,700)	(6,064)
Accounts payable and accrued liabilities	(49,604)	108,975
Interest earned on deferred contributions	4,365,469	1,189,823
	(8,513,275)	722,460
Capital activities:		
Purchase of tangible capital assets	(20,176)	(25,319)
Investing activities:		
Purchase of investments	(93,959,113)	-
Financing activities:		
Grant received	150,000,000	85,000,000
Increase in cash and cash equivalents	47,507,436	85,697,141
Cash and cash equivalents, beginning of period	85,697,141	-
Cash and cash equivalents, end of period	\$ 133,204,577	\$ 85,697,141

See accompanying notes to financial statements.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

Forest Enhancement Society of BC (the "FESBC") was incorporated on February 16, 2016 under the *Society Act* (British Columbia) and transitioned to the new *Societies Act* (British Columbia) on June 9, 2017. Its principal activity is to advance and advocate for the environmental and resource stewardship of BC's forests.

In June 2017, FESBC became part of the Government Reporting Entity and began operating as a Crown Agency. The fiscal year end of FESBC was changed from December 31, to March 31 for consistency with the Province of British Columbia (the "Province"). During this transition period, a 15 month fiscal period from January 1, 2017 to March 31, 2018 is reported. These financial statements reflect the revenues and expenses from January 1, 2017 to March 31, 2018.

1. Adoption of new accounting framework:

Commencing with the 2018 fiscal period, FESBC has adopted accounting standards in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulation 198/2011 issued by the Province of British Columbia Treasury Board as described in Note 2 (a). Previously, FESBC's financial statements were prepared in accordance with Canadian Accounting Standards for Not-for-Profit Organizations in Part III of CPA Handbook - Accounting.

These financial statements are the first financial statements for which FESBC has applied these standards. The transition date is February 16, 2016 and all comparative information provided has been presented by applying Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulation 198/2011 issued by the Province of British Columbia Treasury Board. FESBC has consistently applied the same accounting policies in its statement of financial position as at February 16, 2016, the date of transition to the framework, and throughout as if these policies had always been in effect.

As a result of the adoption of the new accounting framework, website assets previously recognized as an intangible asset were recorded as an expense. Revenue and expenses increased by \$8,648, and tangible capital assets decreased by \$8,648 for the period from incorporation on February 16, 2016 to December 31, 2016, with no net impact on annual surplus or accumulated surplus at the transition date or December 31, 2016.

A statement of financial position has not been presented as at February 16, 2016 as there were no assets or liabilities in existence at the date of incorporation.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

2. Significant accounting policies:

(a) Basis of accounting:

The financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 198/2011 issued by the Province of British Columbia Treasury Board. The Budget Transparency and Accountability Act requires that the financial statements be prepared in accordance with the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, or if the Treasury Board makes a regulation, the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada as modified by the alternate standard or guideline or part thereof adopted in the regulation.

Regulation 198/2011 requires that restricted contributions received or receivable other than for acquiring or developing a depreciable tangible capital asset or contributions in the form of a depreciable tangible capital asset be treated as a deferred contribution and the associated liability reduced, and revenue recognized, in the fiscal period during which the stipulation or restriction the contribution is subject to is met.

For British Columbia tax-payer supported organizations, these contributions include government transfers and externally restricted contributions.

The accounting policy requirements under Regulation 198/2011 are significantly different from the requirements of Canadian public sector accounting standards which requires that

- government transfers, which do not contain a stipulation that creates a liability, be recognized as revenue by the recipient when approved by the transferor and the eligibility criteria have been met in accordance with public sector accounting standard PS3410;
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result, revenue recognized in the statement of operations and deferred contributions would be recorded differently under Canadian Public Sector Accounting Standards.

(b) Revenue recognition:

Externally restricted contributions are recognized as revenue depending on the nature of the restrictions on the use of the funds by the contributors as described in note 2(a).

Investment income is reported in the period earned. When required by the funding party or related Act, investment income earned on deferred revenue is added to the deferred revenue balance.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

2. Significant accounting policies (continued):

(c) Deferred contributions:

Deferred contributions includes contributions received with stipulations that meet the description of restricted contributions in the Restricted Contributions Regulation 198/2011 issued by Treasury Board. When restrictions are met, deferred revenue is recognized as revenue in the fiscal period in a manner consistent with the circumstances and evidence used to support the initial recognition of the contributions received as a liability as detailed in Note 2(a).

(d) Cash and cash equivalents:

Cash and cash equivalents include highly liquid investments with terms to maturity of three months or less at the date of purchase.

(e) Investments:

FESBC has fixed rate investments with maturity dates greater than three months at the time of acquisition. Investments are reported at cost plus accrued interest.

(f) Tangible capital assets:

Tangible capital assets acquired are recorded at cost which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets.

Amortization is provided on a declining balance basis over the estimated useful life of the assets using the following annual rates:

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	55%
Telephones	Declining balance	20%
Leasehold improvements	Straight line	3 years

Tangible capital assets are written down to residual value when conditions indicate they no longer contribute to the ability of FESBC to provide services or when the value of future economic benefits associated tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the Statement of Operations. Intangible assets are not recorded as assets in these financial statements.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

2. Significant accounting policies (continued):

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market and derivative contracts that are not designated in a qualifying hedging relationship are subsequently measured at fair value and all changes in the fair value are recognized in the statement of operations in the period incurred. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. FESBC has elected to carry all investments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal period if there are indicators of impairment. If there is an indicator of impairment, FESBC determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount FESBC expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

3. Cash and cash equivalents:

	March 31, 2018	December 31, 2016
Cash in bank	\$ 49,303,840	\$ 4,167,541
Redeemable Guaranteed Investment Certificate due April 2021	81,516,712	81,122,192
Cash on deposit	2,384,025	407,408
	<u>\$ 133,204,577</u>	<u>\$ 85,697,141</u>

4. Investments:

Investments consist of Guaranteed Investment Certificates bearing interest at rates varying between 1.84% and 2.18% and maturity dates between November 5, 2018 and May 4, 2020.

5. Deferred contributions:

On March 31, 2016, the Province provided FESBC with a grant of \$85,000,000 to be used to further the FESBC's purposes, aims, and objectives in collaboration with stakeholders, including provincial government. On February 24, 2017, the Province provided FESBC with a further grant of \$150,000,000 for the same purpose. If any of the funds cannot be actively committed to achieving FESBC's stated purposes and objectives, they must be returned to the Province. The grants were recognized as deferred contributions, and are used to fund the operating expenses and grants issued by FESBC. Interest earned on the grants are deferred and used to fund eligible expenses incurred by FESBC.

	March 31, 2018	December 31, 2016
Balance, beginning of period	\$ 85,619,692	\$ -
Restricted contributions received	150,000,000	85,000,000
Restricted interest income	4,365,469	1,189,823
Amount recognized as revenue in the period	(12,819,504)	(570,131)
Balance, end of period	<u>\$ 227,165,657</u>	<u>\$ 85,619,692</u>

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

6. Tangible capital assets:

March 31, 2018	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 18,200	\$ 5,375	\$ 12,825
Computer equipment	12,263	8,406	3,857
Telephones	947	267	680
Leasehold improvements	15,072	5,024	10,048
	<u>\$ 46,482</u>	<u>\$ 19,072</u>	<u>\$ 27,410</u>

December 31, 2016	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 14,749	\$ 1,507	\$ 13,241
Computer equipment	9,623	2,707	6,916
Telephones	947	97	850
	<u>\$ 25,319</u>	<u>\$ 4,311</u>	<u>\$ 21,007</u>

7. Budget:

The budget figures presented were approved by the Board on December 9, 2017 for the January 1, 2017 to December 31, 2017 period, and on December 13, 2017 for the 3 month period from January 1, 2018 to March 31, 2018. Grants issued and tangible capital asset acquisitions were approved as included in FESBC's Service Plan dated September 1, 2017.

8. Financial risks and concentration of risk:

(a) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes in FESBC's cash flows, financial position and annual surplus. Cash and cash equivalents earn interest on variable rates based on Prime and Bank of Canada rates. FESBC manages interest rate risk by forecasting cash flow needs and investing in fixed rate guaranteed investment certificates set to mature when cash expenditures are forecasted to occur.

(b) Liquidity risk:

Liquidity risk is the risk that FESBC will be unable to fulfill its obligations on a timely basis or at a reasonable cost. FESBC manages its liquidity risk by monitoring its operating requirements. FESBC prepares budget and cash flow forecasts to ensure it has sufficient funds to fulfill its obligations.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

8. Financial risks and concentration of risk (continued):

(c) Currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. FESBC is not exposed to currency risk, as all transactions are denominated in Canadian dollars.

9. Commitments:

FESBC has entered into a contract to administer services related to the delivery and implementation of FESBC's Forest Enhancement Program. The fees payable for administration are based on the value of grants under administration, ranging from 3.5-5% per annum.

FESBC has entered into a Letter of Agreement with The Habitat Conservation Trust Foundation ("HCTF") for to jointly assess projects for co-funding projects that meet each agency's desired goals. The agreement does not commit a financial obligation on either party, rather results in an opportunity by FESBC to contribute towards projects that have undergone the HCTF technical review process. The maximum amount to be contributed towards co-funded projects during the one year Letter of Agreement period is \$2,000,000. The fees payable to HCTF for administration are 7.5% based on the value of grants under administration.

FESBC has entered into an operating lease commitment for premises with monthly payments of \$1,497 until July 2018.

Approved and unadvanced grants at March 31, 2018 were \$14,387,983.

10. Remuneration paid to directors, employees and contractors:

Under the new British Columbia Societies Act, effective November 28, 2016, FESBC is required to disclose in the annual financial statements all remuneration paid to directors and the annual remuneration paid to employees and contractors receiving greater than \$75,000 (up to a maximum of 10 individuals).

FESBC paid \$351,847 to three employees (2016 - nil) for services, each of whom received total annual remuneration of \$75,000 or greater. No contractors were paid a total annual remuneration of \$75,000 or greater the years presented.

FOREST ENHANCEMENT SOCIETY OF BC

Notes to Financial Statements

15 month period from January 1, 2017 to March 31, 2018 and the period from incorporation on February 16, 2016 to December 31, 2016

10. Remuneration paid to directors, employees and contractors (continued):

For the 15 month period ending March 31, 2018, FESBC paid total remuneration of \$27,275 (2016 - \$22,600) to directors. For director remuneration, the requirement is to disclose all remuneration paid to directors.

Director	\$ 11,550
Director	9,425
Director	5,100
Director	1,200

11. Related party transactions:

FESBC is related to all Provincial ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations in BC. Transactions with these entities, unless disclosed separately, are considered to be in the normal course of operations and are recorded at the exchange amount.

During the year, up to two of five directors of the Board were employees of the Province, and FESBC purchased services from related parties through employee secondment from the Province. These services were purchased on a cost recovery basis and totaled \$266,178 (2016 - \$62,747).