

**FOREST ENHANCEMENT SOCIETY
OF BC**

**2017/18
ANNUAL SERVICE PLAN REPORT**

July 2018



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Board Chair's Accountability Statement



The Forest Enhancement Society of BC *2017/18 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2017/18 - 2019/20 Service Plan* created in September 2017. I am accountable for those results as reported.

A handwritten signature in dark ink, appearing to read 'Wayne Clogg', on a light-colored background.

Wayne Clogg
Chair, Board of Directors
Forest Enhancement Society of BC

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Chair Report Letter



This Report covers the Service Plan period April 1, 2017 to March 31, 2018.

The Forest Enhancement Society of BC (“FESBC” or the “Society”) was established in March 2016 to deliver targeted investments to enhance Crown forest lands in B.C. During its first year of operation, the focus of the Society was to develop the governance, staff and resources to effectively deliver on its objectives and to begin delivering the enhancement program.

With a delivery framework largely in place, the focus of the Board and staff during the most recent Plan period has been to identify and deliver high value forest enhancement projects. I am pleased to report that from April 1, 2017 to March 31, 2018 the Society carried out two project intakes with the Board ultimately approving \$153 million in new funding for 112 projects. This brings total funding commitments to date for approved projects to \$163 million, representing approximately 70% of our current funding resources.

2017 highlights include:

- Zero safety incidents related to FESBC projects reported
- Additional funding of \$150 million granted to FESBC by the Province in February 2017
- Successful transition to Crown agency status; 2017/18 Service Plan and associated reports filed
- Significant expansion of the FESBC website content, and development of comprehensive application guide and electronic intake portal
- Allocation of \$103 million to 38 projects focused on reforestation and restoration of areas most heavily affected by wildfire in the Cariboo and Kamloops regions
- Successfully recruited a new Executive Director, Steve Kozuki, who replaced Greg Anderson at the end of his term in October and welcomed Brian Banfill and Keith Atkinson to the Board

During the Service Plan period, FESBC continued to deliver reliable and cost-effective service to the public of B.C. The significant increase in forest enhancement project funding in 2017/18 is strong evidence of this. The Society’s investments in all regions of the province provide employment and small business opportunities which particularly help to strengthen rural economies, including First Nations communities.

FESBC is accountable to the Minister of Forests, Lands, Natural Resource Operations and Rural Development (FLNRORD). In addition, FLNRORD is the Ministry primarily responsible for managing public lands subject to FESBC enhancement activities. Effective communications at both a strategic and operational level are vital to the success of the forest enhancement program.

FESBC was challenged in 2017 to deliver our program during an unprecedented wildfire season in B.C. which restricted access to project areas and redirected Crown resources from administration to firefighting. Following the 2017 fire season, the Board received a new mandate letter from the Minister directing FESBC to continue fulfilling the various purposes of the Society, but with an emphasis on assisting the Province with wildfire recovery and prevention, as well as assisting the Province to achieve its climate change objectives.

Looking forward, the focus for FESBC in 2018/19 and beyond will be to continue to identify and approve high value forest enhancement projects that meet our objectives and contribute to a strong and sustainable provincial economy.

I want to thank the FESBC Board and particularly the staff for their enthusiastic commitment to our Society, which is key to the success of this important program.

A handwritten signature in dark ink, appearing to read 'Wayne Clogg', is positioned above the printed name and title.

Wayne Clogg
Chair, Board of Directors
Forest Enhancement Society of BC

Purpose of the Organization

At inception in 2016 FESBC was a non-profit society, with its enabling legislation under the [Societies Act](#). In its constitution, the purposes of FESBC are to:

- Advance the environmental and resource stewardship of British Columbia's forests by:
 - Preventing and mitigating the impact of wildfires
 - Improving damaged or low value forests
 - Improving habitat for wildlife
 - Supporting the use of fibre from damaged and low value forests
 - Treating forests to improve the management of greenhouse gases
- Advocate for the environmental and resource stewardship of B.C.'s forests,
- Do all such other things as are incidental and ancillary to the attainment of the foregoing purposes and the exercise of the powers of FESBC

FESBC works closely with several service delivery partners to ensure timely and efficient, implementation of the Society's purposes.

Strategic Direction and Operating Environment

On February 26, 2016, the Government of British Columbia announced the formation of the Forest Enhancement Society of BC with initial funding of \$85 million and a five-member Board of Directors to oversee the establishment of FESBC and the delivery of its purposes.

In February 2017, an additional \$150 million grant was received from the Government under its Forest Carbon Initiative. FESBC began expanding its efforts, especially to advance environmental stewardship through reforestation, improving damaged or low-value forests, and to reduce greenhouse gases (GHG) emissions. In doing so, FESBC worked with FLNRORD to support the Government's climate change objectives and to help FESBC achieve its purposes.

The announcement of the Federal Government's Low Carbon Economy Fund (LCEF) on June 15, 2017 and subsequently the Canada-BC Low Carbon Economy Leadership Fund (LCELf) agreement, signed on March 23, 2018, expands the opportunity for FESBC to support the provincial government in achieving its climate change objectives. The bilateral agreement was signed with the understanding that eligible projects would include work started in June 2017.

In June 2017, the Government decided, with advice from the Auditor General, to consolidate FESBC's financial statements into the Government's Summary Financial Statements. Now that FESBC is part of the Government Reporting Entity, FESBC is considered a Service Delivery Crown Corporation. FESBC has been working with the Province to implement the operational transition to a Crown agency during 2017/18.

Operating as a Crown agency, FESBC's purposes remain especially relevant to the Government and continue to guide its operating environment going forward. Support for fuel management treatments

and FireSmart projects which mitigate wildfire impacts on B.C. communities remain priorities for FESBC, especially given the significant impacts of the 2017 fire season on communities. As well, projects that support Government's strategic priorities and leadership in achieving its climate change objectives are high priorities for FESBC.

In September 2017, FESBC received its [2017 Mandate Letter](#) from the Government. Since then FESBC has focused on the achievement of the priorities outlined in the letter. FESBC's operations, which extend to all parts of the province, help support the Government in delivering on its three key commitments to British Columbians – making life more affordable, delivering the services that people count on, and building a strong, sustainable innovative economy that works for everyone. A subsequent [2018 Mandate Letter](#) was provided to FESBC.

To support openness, transparency, and effective service delivery, FESBC continued to develop and build on its governance, and administrative systems to help deliver its mandate in an efficient and effective manner. The FESBC website www.fesbc.ca content was significantly expanded. A comprehensive project [Application Guide](#) was developed along with an electronic application intake portal, the Forest Enhancement Society Information Management System (FESIMS), for project applications. Staff continued to improve the processes for project proposal review, worked with proponents to help deliver previously approved projects, and continued to expand communication on the purposes of FESBC and opportunities for eligible applicants.

The Society was pleased to announce a renewed and expanded agreement with the Habitat Conservation Trust Foundation (HCTF) in 2017. As a result, FESBC committed to contributing up to two million dollars for projects that improve forested habitat for wildlife.

There were two project intakes in 2017/18. The first intake resulted in the Board approval and allocation of \$19 million to 41 projects across the province. The second intake included significant projects focused on the priorities identified by Government for the additional \$150 million given to the Society. From that intake, the Society approved and allocated an additional \$134 million to 71 projects across the province. A significant portion, \$99 million was allocated to projects located in the Cariboo Region which was severely impacted by the 2017 wildfires. Many of those projects focus on wildfire mitigation around communities and reforestation of the fire impacted landscape and will also support achievement of the provincial and federal climate change objectives through increased carbon sequestration.

FESBC staff continue to work closely with project proponents, partner agencies, and our delivery partner, Price Waterhouse Coopers to help facilitate effective and efficient delivery of all the projects approved to date.

Report on Performance

Goals, Strategies, Measures and Targets

During the fiscal year April 2017 to March 2018, the targets for allocation of project funds by the Society were generally met. Project expenditures were hindered, however, because the 2017 floods and wildfires directed resources away from project implementation, restricted access to a significant portion of the land base during the operational field season, and delayed the fall 2017 proposal intake. As a result, FESBC Board approvals for the majority of 2017/18 projects did not occur until late in the fiscal year and many of the targets for actual project expenditures within the fiscal year were not met.

As this was only the second full year of operation for the Society, it was difficult to anticipate the potential project uptake and subsequent funding opportunities in the 2017/18 Service Plan. Many of the 2017/18 performance measure targets were a reasoned estimate based on anticipated project expenditures and were useful to establish an initial baseline that will inform future service plan targets. This year saw a significant overall increase in the number of projects submitted and approved for funding by FESBC. Implementation of the fall 2017 proposal intake will be reflected in the next service plan report.

Goal 1: Prevent and Mitigate the Impact of Wildfires

Fire is a natural and essential ecological process in British Columbia's forests. Balancing the potential benefits and risks of wildfire is becoming increasingly challenging, especially considering climate change. FESBC will work collaboratively alongside provincial agencies, local governments, and First Nations to support risk reduction and impact mitigation associated with wildfires.

Objective

Provide funding support to build upon and enhance wildfire risk reduction activities for B.C. communities.

Strategies

- Support expansion and delivery of the FireSmart Program in B.C. communities through existing agencies including FLNRORD, [Fire Chiefs Association of British Columbia](#), [First Nations Emergency Services Society of British Columbia](#), [Office of the Fire Commissioner](#), and the Columbia Basin Trust
- Develop a co-funding relationship with the Union of BC Municipalities – [Strategic Wildfire Prevention Initiative](#) (UBCM-SWPI) for wildland urban interface fuel management projects near communities

Performance Measure 1: Community Wildfire Risk Reduction

Performance Measure(s)		2016/17 Target	2017/18 Target (\$M)	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
1a	Number of agreements entered into and implemented annually to support the FireSmart Program in B.C.	1	3	0	3	3
1b	FESBC funding committed to support the delivery of co-funded projects with UBCM-SWPI ¹	N/A	\$1.000	\$0.1500	\$2.500	\$5.000

Data Source: FESBC Letter of Agreement with UBCM

Discussion

This performance measure tracks progress towards FESBC's goal of preventing and mitigating the impact of wildfires through its activities to support the FireSmart program in B.C. and implementation of co-funded projects through the Strategic Wildfire Prevention Initiative (SWPI). Through the established Letters of Agreement, FESBC can contribute funding to these two key provincial programs which are essential to helping mitigate the risk of wildfires and their impacts on communities in B.C.

It was anticipated that opportunities to enter into agreements would increase in 2017/18. However, many of the potential partnering agencies are waiting for the outcome of the BC Flood and Wildfire review and clarity on the mandate of the newly formed BC Wildfire Service FireSmart initiative. As such there were no agreements entered into in 2017/18.

FESBC entered into a Letter of Agreement with the UBCM-SWPI program to expand the funding available to them to assist communities in undertaking fuel management treatment projects to reduce wildfire risk in the wildland urban interface. The UBCM Letter of Agreement provided funding up to \$1.0 million for co-funding of fuel management projects that met FESBC criteria. Only one proposal that met FESBC criteria was received and a total of \$150,000 was awarded.

Objective

Support strategic landscape-level fire management investments that lead to wildfire resilient ecosystems.

Strategies

- Work with FLNRORD to assess strategic wildfire risk management opportunities
- Provide financial support towards completing treatment projects to meet landscape-level fire management objectives

Performance Measure 2: Wildfire Risk Reduction Treatments

Performance Measure	2016/17 Target (\$M)	2017/18 Target (\$M)	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
² Approved funding applied towards planning and completion of operational treatments to meet landscape-level fire management objectives ¹	\$2.000	\$6.000	\$3.040	\$8.000	\$10.000

Data Source: FESBC Project Tracking Reports

¹2017/18 data is a compilation of projects approved for funding during two intakes in the 2017/18 year.

Discussion

This performance measure tracks expenditures on projects that support strategic, landscape-level fire management objectives. It is important to note that many of the projects funded for wildfire risk reduction also contribute to the achievement of other purposes such as improving low-value forests and wildlife habitat.

The 2017 wildfires disrupted implementation and delivery of approved projects and restricted access to a significant portion of the land base during the operational field season. However, the fires also resulted in a significant focus and priority on wildfire reduction and fuel mitigation related activities in FLNRORD integrated investment plans. The November 2017 intake reflected this shift in priority and resulted in a significant number of project proposals focused on this goal. In addition, the 2018 mandate letter specifically directed FESBC to support wildfire risk reduction and mitigation to the extent possible within its mandate. Supporting these priorities and reflecting the large number of proposals received, FESBC allocated \$28 million to 36 projects associated with this goal. Actual expenditures associated with these allocations will be reflected in future fiscal years.

Goal 2: Improve Damaged or Low-Value Forests

The impacts of catastrophic disturbances and the resulting constraints to timber supply are reducing the overall forest asset value of the province. FESBC believes in supporting collaborative initiatives that will ultimately improve damaged, low-value forests for the long-term lasting benefit of British Columbians.

Objective

Promote strategic landscape-level investments in damaged and low-value forests that lead to sustainable and reliable timber supply.

Strategies

- Work with the FLNRORD to assess strategic silviculture investment opportunities at a regional level
- Support the development of project proposals with proponents and FLNRORD
- Provide funding support towards operational silviculture treatments in damaged or low-value forests through collaborative planning with the [Forests for Tomorrow](#) program
- Develop a Letter of Agreement with FLNRORD regarding reforestation of FESBC-funded projects

Performance Measure 3: Improve Low Value or Damaged Forests

Performance Measure	2016/17 Target (\$M)	2017/18 Target	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
3 Funding provided to forest enhancement projects for low-value and damaged forests, as guided by FLNRORD Integrated Investment Planning ²	\$1.200	Establish baseline	\$0.937	Increase Baseline	Increase Baseline

Data Source: FESBC Project Tracking Reports

²2017/18 data is a compilation of projects approved for funding during two intakes in the 2017/18 year.

Discussion

Improvement of damaged or low-value forests is important for sustaining timber supply and rural communities. FESBC has worked closely with FLNRORD to fund priority projects that were identified through the ministry's integrated investment planning process.

The 2017/18 year was used as a measure to help determine a baseline for future funding in this category. It is anticipated that actual expenditures will increase significantly in future fiscal years as a significant number of project proposals associated with this goal were approved late in the fiscal year.

There were 30 projects approved with an associated total allocation of \$24.5 million targeted to this goal. Actual expenditures associated with these allocations will be reflected in future fiscal years as the various projects are implemented. The projects were located throughout the province and wide ranging in terms of specific activity being conducted to improve low value or damaged forests. Some of the projects with the greatest funding were associated with rehabilitation of residual mountain pine beetle impacted stands or stands damaged because of wildfires. Many will contribute to the achievement of other FESBC purposes such as fibre recovery and improving GHG management.

Goal 3: Improve Habitat for Wildlife

British Columbia's wildlife is diverse and abundant. Some wildlife populations and their habitats, however, are in decline due to factors such as habitat loss, increasing human population, resource development, and climate change. While many of the forest enhancement projects funded by FESBC effectively achieve multiple purposes including wildlife habitat improvement, FESBC recognizes a key opportunity to leverage its funding with existing organizations having a primary mandate and expertise in improving habitat for wildlife in the province.

Objective

Support strategic landscape-level investments in terrestrial wildlife habitat improvement

Strategies

- Develop a Letter of Agreement with [Habitat Conservation Trust Foundation](#) (HCTF) that outlines the co-funding partnership objectives and collaboration for wildlife habitat improvement projects in B.C.

Performance Measure 4: Wildlife Habitat Improvement

Performance Measure		2016/17 Target (\$M)	2017/18 Target (\$M)	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
4	Letter of Agreement negotiated and implemented with Habitat Conservation Trust Foundation with funding committed to co-funded projects delivered by them. ³	\$0.480	\$1.000	\$1.284	\$1.500	\$2.000

Data Source: FESBC Letter of Agreement with HCTF [HCTF Partnership](#) and FESBC Project Tracking Reports

³2017/18 data is a compilation of projects approved for funding during two intakes in the 2017/18 year.

Discussion

FESBC has cultivated a strong, mutually-beneficial working relationship with HCTF to share technical expertise and co-fund projects that help to support achievement of FESBC's wildlife habitat improvement goal. This relationship was formalized in a Letter of Agreement in 2016/17 with FESBC contributing a total of \$0.480 million towards project funding.

In 2017/18, this agreement was extended and the co-funding contribution by FESBC for habitat improvement projects increased up to \$1.0 million. FESBC acknowledges the value of these projects and the expertise that HCTF provides in adjudication and implementation of habitat projects. In recognition of that expertise and to continue to support its relationship with the HCTF, the co-funding contribution was increased to \$2.0 million later in 2017/18. Through this co-funding agreement, HCTF, FESBC and all British Columbians benefit by the expansion of the scope and opportunity to fund habitat improvement projects in the province.

In addition to the HCTF funding commitment, FESBC allocated \$0.85 million to a variety of projects that aligned with our purpose of improving habitat for wildlife. FESBC collaborates with FLNRORD wildlife and habitat staff to ensure the highest priority, highest value for money wildlife habitat projects are considered for funding. Many of the projects with approved funding will continue into the next fiscal year.

Goal 4: Support the Use of Fibre from Damaged or Low-Value Forests

Supporting the use of fibre encourages significant industrial activity in rural and provincial economies, creating employment and embracing innovation and diversification. FESBC believes that market-based economies can be enhanced or expanded in scope through financial support, thereby enabling more damaged and low-value forests to become economic opportunities.

Objective

Encourage diverse opportunities and support innovative utilization of fibre that contributes to the local economy.

Strategies

- Support communities in assessing the feasibility of the innovative use of low-value fibre
- Work with FLNRORD and local industry to promote increased utilization of fibre in FESBC-funded projects.

Performance Measure 5: Increased Fibre Utilization

Performance Measure	2016/17 Target (\$M)	2017/18 Target (\$M)	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
⁵ Annual funding for projects focusing on residual fibre utilization. ⁴	\$3.600	\$6.000	\$0.236	\$8.000	\$10.000

Data Source: FESBC Project Tracking Reports

⁴2017/18 data is a compilation of projects approved for funding during two intakes in the 2017/18 year.

Discussion

To support communities and encourage diverse and innovative economies throughout B.C., FESBC has encouraged fibre recovery projects throughout the province.

Where a facility exists that is willing to accept residual fibre volume, approved projects located near those facilities are expected to incorporate a mechanism that provides for the utilization of the residual fibre by the adjacent facility to the extent possible. This reduces the amount of residual wood piles that are burnt and increases opportunities for incremental bioenergy production, fossil fuel displacement, employment, value creation and even supplementing firewood supply to remote and rural communities. FESBC has been collaborating with FLNRORD in the development of policy and

procedures for increased fibre recovery initiatives. Many fibre recovery projects will provide incremental reductions in greenhouse gas emissions and may contribute to Provincial carbon sequestration targets.

The performance measure targets were based on the Board approved cost estimates for projects submitted during the FESBC March 2017 proposal intake. The number of project proposals submitted in the November 2017 intake that were focused on this goal was significantly less than anticipated. Several factors including limitations associated with available tenure options, current market conditions for forest fibre, abundance of available fibre, re-focusing of forest licensee resources on 2017 wildfire response and recovery influenced opportunities for this goal.

FESBC is supportive of proponents interested in recovering fibre and has approved several pilot projects. Market conditions as well as considerations of international trade agreements are key factors in determining the nature of the proposals that FESBC receives as well as the projects that can be approved.

Goal 5: Treat Forests to Improve the Management of Greenhouse Gases

British Columbia has vast forests that can be used to help reduce the impacts of climate change. Due to trees' ability to absorb and store carbon as they grow, forests can positively affect atmospheric concentrations of carbon dioxide and other greenhouse gases that are factors in causing climate to change.

Objective

Enhance the carbon sequestration of mountain pine beetle and wildfire impacted sites.

Strategies

- Develop a Letter of Agreement with FLNRORD regarding the capture of forest carbon benefits through FESBC-funded projects
- Require increased fibre utilization in silviculture treatment work plans funded by FESBC
- Support alternatives to burning of wood waste associated with logging operations
- Provide funding to priority projects that will result in increased sequestration of carbon

Performance Measure 6: Carbon Sequestration/GHG Emissions Reduction

Performance Measure	2016/17 Target	2017/18 Target (\$M)	2017/18 Actuals (\$M)	2018/19 Target (\$M)	2019/20 Target (\$M)
6 FESBC funding of carbon sequestration projects to support Provincial Targets ⁵	N/A	\$12.300	\$3.970	\$22.300	\$24.500

Data Source: FESBC management estimate prepared in July 2017.

⁵Data for funding levels built from estimates drawn from existing approved projects, multi-year budgets, and FLNRORD staff (carbon) consultation.

Discussion

Although FESBC is committed to working with FLNRORD carbon experts to act on climate change, the fires and floods of 2017/18 affected deployment of the targeted funding. To meet future targets, FESBC is engaging in projects designed to sequester forest carbon (e.g. reforestation of land impacted by wildfire, or fertilization of existing stands that result in a net carbon benefit) and reduce GHG emissions from forestry practices (e.g. improved utilization of residual fibre) in alignment with the provincial [Forest Carbon Strategy](#).

The announcement of the LCEF and anticipated funding agreement between the Province and Federal Government increased the focus on promoting and funding projects that would align with the climate change objectives. FESBC worked closely with FLNRORD on processes to increase the scope of carbon sequestration projects province-wide. The 2017 wildfires meant resources were directed away from implementation and delivery of existing projects, and access to a significant portion of the land base during the operational field season was restricted. Consequently, actual project expenditures were less than anticipated. However, the wildfire impacts also resulted in a significant increase in project submissions and funding approvals from the FESBC November 2017 application intake process that aligned with this performance measure. A total of \$98 million dollars was allocated towards projects that support the provincial and federal government climate change objectives. Several were multi-year projects and actual expenditures will occur over the next two to three years.

Financial Report

Discussion of Results

The 2017/18 – 2019/20 was the first service plan required to be submitted by FESBC and many of the 17/18 targets were a reasoned estimate based on anticipated project expenditures and, in some cases, this fiscal year was used to establish an initial baseline that will inform future service plan targets.

Financial Resources Summary Table

(\$ thousands)	2016/17 Restated	2017/18 Budget	2017/18 Actual	2017/18 Variance
Amortization of Provincial Contributions	1,287	29,153	9,432	(19,721)
Investment Earnings	447	3,044	2,230	(814)
Total Revenue	1,734	32,197	11,662	(20,535)
Carbon-leading projects	0	12,300	3,970	(8,330)
Wildfire risk mitigation, low-value forest and wildlife habitat improvement projects (not carbon-leading)	1,101	18,875	5,647	(13,228)
Administration	633	1,022	2,045	1,023
Total Expenses	1,734	32,197	11,662	(20,535)
Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)	0	0	0	0
Total Liabilities/Debt (even if zero)	234,896	205,840	227,225	21,385
Accumulated Surpluses/Retained Earnings/Equity (even if zero)	0	0	0	0
Capital Expenditures	44	29	18	(11)
Dividends/Other Transfers	0	0	0	0

Note 1: The above financial information was prepared based on current Generally Accepted Accounting Principles.

Variance and Trend Analysis

The impacts of the 2017 floods and wildfires directed resources away from implementation of approved projects, delayed on the ground delivery, and restricted access to a significant portion of the land base during the operational field season, all of which resulted in reduced FESBC expenditures during the fiscal year. The flood and fire impacts, as well as the Society's transition to a Crown agency and the development of a new project intake process, resulted in a two-month delay to the fall proposal intake. As a result, FESBC Board approvals associated with the majority of 2017/18 projects did not occur until late in the fiscal year, eliminating any opportunity for initiation of these projects in 2017. Therefore, no actual expenditures were incurred in the 2017/18 fiscal for any of the projects approved in the fall intake.

The variance between the target and actual expenditures in the table above reflects this. It needs to be recognized that once projects are approved and funds allocated by FESBC, the proponents play a key role in the timeliness of project delivery. Therefore, expenditures associated with approved projects may not occur in the same fiscal year. Future fiscal year reports will reflect the actual expenditures associated with the project funds allocated to date.

The 17/18 fiscal was only the second year of operations for the Society, and it is continually developing and improving its organizational development and processes.

Risks and Uncertainties

The following are factors that can influence the number and success of land-based investment activities funded by FESBC

- Significant landscape level events such as flooding, and wildfires can impact the timing of project submission, initiation, or completion
- Changes in Government investment priorities
- Weather conditions that prevent activities from being conducted in a timely manner
- Proponent interest

Auditor's Report



AUDIT

Forest Enhancement Society of BC

Audit Findings Report

For the 15 month period ended March 31, 2018

KPMG LLP, Chartered Professional Accountants

kpmg.ca

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please visit kpmg.ca/auditcommittee

Executive summary

Overview

The purpose¹ of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the financial statements of Forest Enhancement Society of BC (the “Society”) as at and for the period ended March 31, 2018.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Status

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- completing our discussions with the Board of Directors.
- obtaining evidence of the Board's approval of the financial statements.
- obtaining a signed management representation letter.
- Completing audit procedures over figures in the financial statements – the allocation of operating budget to individual expense items and the value of committed grants not yet paid at March 31, 2018.

We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations, and cash flows of the Society in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter.

¹ This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Directors. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- For the current period, materiality of \$50,000 has been determined.

Significant financial reporting risks

We did not identify any significant financial reporting risks as part of our audit planning.

Our audit focused on the areas identified during our audit planning as listed below along with a summary of our planned audit approach.

Cash, investments and prepaid expenses

- Confirmation of cash and investment balances directly with third parties.
- Performing cut-off testing over cash to test transactions are recorded in the correct period.
- Evaluating accuracy of working capital account held with administrator of grant programs.

Revenue and deferred revenue

- Evaluating restrictions associated with Provincial grants received and appropriate revenue recognition for principal and interest based on restrictions attached to funding.
- Assessing accuracy of revenue recognized to match operating costs incurred.

Operating expenses and accounts payable

- Assessing completeness of accounts payable through inspection of payments made subsequent to year end to test transactions are recorded in the correct period.
- Testing accuracy of salaries and benefits expense through inspection of employment contracts and payroll records.
- Testing existence and accuracy of expenses through sampling and inspection of source documentation.
- Agreeing grants paid to statement of account with administrator of grant programs.

Capital assets and amortization

- Testing existence and accuracy of capital assets through sampling and inspection of source documentation.
- Evaluating reasonability of amortization expense by verifying accuracy of expense based on useful life period.

Significant audit, accounting and reporting matters

Included in this report are matters we have highlighted for discussion at the upcoming meeting. We look forward to discussing these matters and our findings with you.

Matters to discuss

Conversion to Crown Agency

- At inception, FESBC was a non-profit society, with its enabling legislation under the Societies Act. In June 2017, Government decided to consolidate FESBC's financial statements into the Government's Summary Financial Statements. Now that FESBC is part of the Government Reporting Entity, FESBC is considered a Crown Agency.
- To align its fiscal reporting period with the Province, FESBC changed its fiscal year end from December 31 to March 31. During this transition period, a 15 month fiscal period from January 1, 2017 to March 31, 2018 is reported.
- For tax reporting purposes, an official request for change in year end has been filed with Canada Revenue Agency, pending confirmation of approval of the change.

Basis of Accounting

- In accordance with FESBC's conversion to a Crown Agency, the financial statements are prepared under Canadian Public Sector Accounting ("PSA") standards, supplemented by the requirements of Regulation 198/2011 issued by the Province of British Columbia Treasury Board. The Society prepared its December 31, 2016 financial statements in accordance with accounting standards for not-for-profit organizations.
- This regulation directs the Society to apply PSA, except in regard to accounting for restricted contributions. Under the regulations, restricted contributions are to be recognized in revenue in the year in which stipulations or restrictions on contributions have been met, not in accordance with the underlying stipulations on the funding, as required under PSA.
- As a result, the Society's revenue recognized in the statement of operations and certain related deferred capital revenue would have been recorded differently under Canadian Public Sector Accounting Standards.
- Disclosure of the adoption of a new accounting framework is disclosed in note 1 to the financial statements, and the basis of accounting is described in note 2a to the financial statements.

The Office of the Auditor General ("OAG") has requested additional reporting, under the Group Auditor requirements, in order to perform the consolidation of the Provincial Accounts under the PSA standards. We will provide information regarding deferred contributions annually as part of our audit.

Recognition of Government Funding Received

- On March 20, 2017, the Society received a \$150M grant from the Province of BC to further the Society's purposes, aims and objectives.
- A stipulation of the grant is that if any of the funds provided cannot be actively committed to the achievement of the Society's purposes and objectives, they must be return to the Province.
- In accordance with Regulation 198/2011, the grant funds were recorded as a deferred contribution upon receipt. The amount recognized each year will match the amount of expenses incurred and not funded through other sources of revenue.
- The Society invested the funds throughout the year and earned interest which was recorded as an addition to restricted contributions.
- We agreed the initial grant and interest earned to cash receipt and confirmed balances at March 31, 2018 with financial institutions. Investments held are permitted based on the Society's investment policy approved in October 2017.

Recognition of Grants Awarded and Paid

- During the 15 month period from January 1, 2017 to March 31, 2018, the Society paid grants to recipients of \$10,589,334. Grant administration fees of \$1,064,343 were paid to PWC for administration services.
- We agreed the monthly grant payments to the PWC statement of operations for the Society. We agreed the opening and ending balances of the working capital account to the general ledger, and noted no transactions other than grants made from this account during the period.
- We compared our expectation of administration fees to actual based on fees rates in the administration contract and noted no issues or adjustments.
- We noted revenue was recognized appropriately in the amount of grants paid during the 15 month period.

Control Observations – follow up on observations noted in prior periods

- In 2016, we obtained an understanding of the Society's policies, procedures and controls over key transaction streams. We noted review and approval controls are in place for expenditures such as expense reimbursements, payroll and credit cards, both in policy and based on our inspection of source documentation.
- We noted the following observations regarding opportunities to enhance existing controls in place, and provide an update on process changes implemented in 2017/2018. We have noted appropriate process changes have been implemented to address each of our observations.
 - Investment policy
 2016 observation: The Society's investment policy indicated funds must be invested to mature no later than 2018. With receipt of the an additional \$150M subsequent to year end, the Society can consider extending the maturity period of investments, as it is no longer likely all funds will be granted by the end of 2018 and therefore may be better invested to match the term of when funds will be issued.
 2018 update: The investment policy was updated in October 2017 to extend the investment period to 2022.
 - Pre-signed cheques
 2016 observation: Pre-signed cheques are stored in a filing cabinet that is accessible to all staff during the day. These were obtained during the start-up period of the Society when staff were not yet in place. Pre-signed cheques leads to a risk that cheques may be cashed without proper authorization. Because the majority of the transactions of the Society are electronic funds transfer or wire transfer and staff are now in place to manage cash disbursements, it may be appropriate to void the presigned cheques.
 2018 update: All pre-signed cheques were destroyed by December 2017.
 - Physical controls over banking information
 2016 observation: Cheques, deposit cards and credit cards are all stored in a file cabinet that is able to be accessed by all staff members during the day. This causes a risk that these items may be taken and used by unauthorized personnel. Cheques, deposit cards and credit cards should be stored in a separate cabinet or safe that is kept locked at all times. This process has been changed subsequent to our audit work and these items are now held in the Executive Director's office.
 2018 update: process change implemented subsequent to year end and throughout the current fiscal year.

- Credit card expense approval
2016 observation: The Society has a structured process in place for reporting and approval of expense reimbursements. A form is to be completed with receipts attached, and approved by the Board Chair for the Executive Director's expense reimbursement. A similar process is not in place over credit card expenses, where a credit limit up to \$25,000 exists and a preauthorized debit automatically withdraws funds on a monthly basis. Many organizations extend the approval process for expense reimbursements to corporate credit cards and require review of the Executive Director's expenses by the Finance or Board Chair. This review could take place in advance of the payment date, so it would not result in any delays in timeliness of payment.
2018 update: The Executive Director approves the Office Manager's card expenses while the Executive Director's gets scanned and sent to the Board Chair for approval. Receipts for each purchase are included for review prior to approval. Spending authority limits were updated in October 2017 and approved by the Board.

- Payroll approval
2016 observation: Currently the Office Manager is responsible for managing the payroll process including input of time each pay period and authorization once the paper copy is reviewed by the Executive Director. While there are detective controls in place such as review of the bank statement should an error occur, a stronger control would be to have the Executive Director electronically approve each pay disbursement in the Payworks system prior to payment being made. This will prevent the ability, for example, of the Office Manager to set up fictitious employees and share only a portion of the payroll report in paper copy for the Executive Director to review, as is currently possible in the existing process.
2018 update: Once the Office Manager has inputted employee and director time and prepared the payroll run for payment, a preview format is run to generate preliminary reports. These reports are reviewed by the Executive Director and must be approved using his account prior to processing and disbursing payroll. Signed paper copies with supporting documentation are also maintained in a locked cabinet in the Executive Director's office.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Significant accounting policies	Significant accounting policies or practices are disclosed in Note 2 to the financial statements.
Critical accounting estimates	There were no significant accounting estimates noted in the preparation of financial statements.
Critical disclosures and financial statement presentation	Significant disclosures included in the financial statements relate to the following: <ul style="list-style-type: none">• Adoption of new accounting framework• Basis of accounting• Revenue recognition for deferred contributions

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosures
- uncorrected misstatements, including disclosures.

Corrected misstatements

The management's representation letter in the Appendices includes all misstatements identified as a result of the audit, communicated to management and subsequently corrected in the financial statements. Adjustments proposed and corrected include:

Recognition of amortization expense on tangible capital assets.

Recognition of accounts payable at March 31, 2018.

Adjustment to revenue and deferred contributions to recognize sufficient revenue to fund expenses recorded as a result of audit procedures.

Uncorrected misstatements

There are no misstatements that remain uncorrected.

Appendices

Management representation letter

Current developments

Management Representation Letter

FOREST ENHANCEMENT SOCIETY OF BC
101-925 MCMASTER WAY
KAMLOOPS BC V2C 6K2

KPMG LLP
Chartered Accountants
St. Andrew's Square II
800-730 View Street
Victoria, BC V8W 3Y7

May 18, 2018

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as "financial statements") of Forest Enhancement Society of BC ("the Entity") as at December 31, 2016 and March 31, 2018 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.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 8, 2016, for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework
 - b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information
 - c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
 - d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements

INTERNAL CONTROL OVER FINANCIAL REPORTING:

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
 - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

- 5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

- 6) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

MISSTATEMENTS:

- 8) We approve the corrected misstatements identified by you during the audit described in Attachment II.

Yours very truly,

FOREST ENHANCEMENT SOCIETY OF BC



By: Steve Kozuki, Executive Director



By: Brian Banfill, Finance Chair

cc: Board of Directors

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with public sector accounting standards, a *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with public sector accounting standards, a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

Forest Enhancement Society of BC

Forest Enhancement Society of BC

Year End: March 31, 2018

Adjusting Journal Entries Date:

1/1/2017 To 3/31/2018

G3

Number	Date	Name	Account No	Reference	Annotation	Debit	Credit	Recurrence	Misstatement
AJE1	3/31/2018	Depreciation Expense	62400	Q100		5,023.73			
AJE1	3/31/2018	AA Leasehold Improvements	KPMG 1	Q100			5,023.73		
		To record Amortization on leasehold improvements							
AJE2	3/31/2018	Deferred Revenues- Interest	20305	J200		25,722.98			
AJE2	3/31/2018	Grant Revenue	40150	J200		2,204,447.00			
AJE2	3/31/2018	Interest Revenue	40160	J200			2,204,447.00		
AJE2	3/31/2018	Interest Revenue	40160	J200			25,722.98		
		To adjust income statement to a net zero position.							
AJE3	3/31/2018	Accounts Payable	20100				6,000.00		
AJE3	3/31/2018	Professional Fees	61200			6,000.00			
		to accrue year end audit fees							
AJE4	3/31/2018	Website Asset	13600				16,835.00		
AJE4	3/31/2018	AA Website Asset	13700			4,542.58			
AJE4	3/31/2018	AA Website Asset	13700						
AJE4	3/31/2018	IT Expenses	60300			14,446.51			
AJE4	3/31/2018	Depreciation Expense	62400				2,154.09		
		to write off website costs							
PBC1	3/31/2018	AA Furniture and Fixtures	13210	Q100			1,948.27		
PBC1	3/31/2018	AA Computer Equipment	13410	Q100			2,990.47		
PBC1	3/31/2018	AA Website Asset	13700	Q100			2,154.09		
PBC1	3/31/2018	AA Cellphones - Hardware	13810	Q100			170.05		
PBC1	3/31/2018	Depreciation Expense	62400	Q100		7,262.88			
		To match depreciation to continuity schedule							
PBC2	3/31/2018	Vacation Pay	20500	BB100		4,926.59			
PBC2	3/31/2018	Salaries and Wages-Employees	61950	BB100			4,926.59		
		To record vacation pay accrual to match PayWorks							
						2,272,372.27	2,272,372.27		
Net Income (Loss)			0.00						

Current Developments

Current Developments, created by the KPMG Public Sector and Not-for-Profit Practice, summarizes regulatory and governance matters impacting not-for-profit organizations. We provide this information to help not-for-profit organizations understand upcoming changes and challenges they may face in their industry. We attach this summary to every audit plan and audit findings report that we provide to our public sector and not-for-profit clients.

British Columbia Society Act

The new British Columbia Societies Act became effective November 28, 2016. Existing societies will have to transition under the new Act within two years after November 28, 2016. Management should consult with their legal counsel on the potential implications of the Act to the Association.

One of the new financial reporting requirements under the Act is the reporting on remuneration of directors, employees and contractors in the disclosures for financial statements prepared after the effective date of the new Act of November 28, 2016.

- Directors:
 - The financial statements of a publicly funded society must include a note listing all the directors that the Society has paid during the period covered by the financial statements along with their position or title, the amount of remuneration, and if remunerated for acting in a capacity other than director, a description of the capacity in which each such director acted. The names of the directors do not have to be disclosed.
- Employees and Contractors
 - The note must also include the remuneration paid by the society to all employees and contractors whose remuneration was at least \$75,000, unless there are more than ten employees and contractors remunerated at over \$75,000, in which case only the ten most highly remunerated persons must be included in the list.
 - As provided under Regulation 9 (2), there are two options to the disclosure requirement:

Option 1:

The list must include

- In the case of employees, each employee's position or title and, in the case of contractors, the nature of the contractual services provided by each contractor; and
- the amount of remuneration paid during the applicable period to each of those individuals

The list may, but is not required to include, the individuals' names.

Option 2:

- The second option is to provide the total number of individuals earning over \$75,000 and the total amount of remuneration paid to them during the applicable period.

Cyber Security - It's more than just Technology

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hacktivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security

Not-for-profit organizations are at particular risk due to the information they maintain, including research data, member or grant recipient data. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Not-for-profit organizations need to review their operations and consider cyber risks, then assess the organization's cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, recently presented a webinar called "*Cyber Security: The new threat for Not-for-Profit Organizations*". We encourage you to view this webinar on Imagine Canada's website at:

<http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg>

The importance of Enterprise Risk Management to a Not-for-Profit organization

Not-for-Profit organizations are facing unprecedented challenges in terms of ensuring that they can:

- fulfill growing client, stakeholder and donor demands;
- adapt to changing demographics;
- strengthen corporate governance;
- respond to greater transparency and accountability expectations;
- attract and retain highly qualified and experienced staff;
- meet ever increasing operating and capital needs;
- rise to competitive challenges;
- leverage information technology to improve service delivery and administration; and
- protect and enhance brand and reputation.

Strong governance, supported by effective risk management, are foundational to a Not-for-Profit organization's ability to anticipate and effectively respond to these complex challenges. More information can be found here: <http://www.kpmg.ca/ecomunications/external/2017/the-importance-of-erm-to-an-npo-gva.pdf>

Thought Leadership

Topic	Summary and implications
Employer compliance audits	<p>Recently, Canada Revenue Agency (“CRA”) has demonstrated a renewed focus on “Employer Compliance Audits”, which include a review of various employer-provided benefits, as well as the nature of the relationship that exists between an employer and its employees and other third party consultants.</p> <p>Employer compliance audits - Are your benefits taxable?</p>
Assets safeguarding	<p>Fraud can derail the good work an organization performs. Both the financial loss and the reputational damage that result from an incident of fraud can have lasting consequences and tarnish the goodwill created by the NPO’s past efforts.</p> <p>Safeguarding Not-for-Profit Organizations from fraud</p>
Audit Trends	<p>With a range of provocative data, insight and opinion gleaned from KPMG professionals and The Conference Board of Canada survey of Audit Committees and CFOs, Audit Trends examines seven key issues addressing corporate readiness, preparedness and priority in a volatile business environment.</p> <p>https://assets.kpmg.com/content/dam/kpmg/ca/pdf/2018/01/kpmg-audit-trends-en.pdf</p>
On the Audit Committee agenda	<p>Drawing on insights from our recent survey work and interactions with audit committees and business leaders of the past 12 months, we’ve highlighted seen items that audit committees should keep in mind as they consider and carry out their 2018 agendas.</p> <p>https://assets.kpmg.com/content/dam/kpmg/be/pdf/2018/01/audit-committee-agenda-2018.pdf</p>

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Audited Financial Statements

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.



Steve Kozuki
Executive Director



KPMG LLP
St. Andrew's Square II 800-
730 View Street Victoria BC
V8W 3Y7 Canada
Telephone 250-480-3500
Fax 250-480-3539

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.

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Forest Enhancement Society of
BC Page 2

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
	227,179,854	85,701,596
Liabilities:		
Accounts payable and accrued liabilities	59,371	108,975
Deferred contributions (note 5)	227,165,657	85,619,692
	227,225,028	85,728,667
Net debt	(45,174)	(27,071)
Non-financial assets:		
Tangible capital assets (note 6)	27,410	21,007
Prepaid expenses	17,764	6,064
	45,174	27,071
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	15 month period from January 1, 2017 to March 31, 2018	Period from incorporation on February 16, 2016 to December 31, 2016
	(note 7)		
Revenues:			
Deferred contributions recognized	\$ 33,725,025	\$ 12,819,504	\$ 570,131
Other	-	325	15,000
	33,725,025	12,819,829	585,131
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
	33,725,025	12,819,829	585,131
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
	\$ 133,204,577	\$ 85,697,141

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	\$ 227,165,657	\$ 85,619,692

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
	\$ 46,482	\$ 19,072	\$ 27,410

December 31, 2016		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
	\$ 25,319	\$ 4,311	\$ 21,007

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).

Appendix A –Additional Information

Corporate Governance

[Role and membership list of the Board of Directors](#)

[The FESBC Board of Directors Manual](#)

[FESBC Staff Information](#)

Organizational Overview

[FESBC Bylaws](#)

[FESBC Constitution](#)

[2016 Annual Report](#)

[FESBC 2016 Audited Financial Statements](#)

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