

Financial Statements of

**LOGAN LAKE COMMUNITY  
FOREST CORPORATION**

Year ended December 31, 2017



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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholder of Logan Lake Community Forest Corporation

We have audited the accompanying financial statements of Logan Lake Community Forest Corporation, which comprise the balance sheet as at December 31, 2017, the statements of operations and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting in note 1(a) to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 1(a) to the financial statements. This includes determining that the basis of accounting is acceptable for the basis of preparation of these financial statements in the circumstances, 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Logan Lake Community Forest Corporation as at December 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with the basis of accounting described in note 1(a) to the financial statements.

*Basis of Accounting*

Without modifying our opinion, we draw attention to note 1(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared for the purpose of the District of Logan Lake's oversight of the Logan Lake Community Forest Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

*Restriction of Use*

Our report is intended solely for the District of Logan Lake and the Logan Lake Community Forest Corporation and should not be used by parties other than the District of Logan Lake and the Logan Lake Community Forest Corporation.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants

Kamloops, Canada

May 16, 2018

# LOGAN LAKE COMMUNITY FOREST CORPORATION

Balance Sheet

December 31, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Current assets:		
Cash	\$ 1,926,088	\$ 1,453,466
Investments and marketable securities (note 2)	1,139,731	1,107,093
Accounts receivable	91,207	1,032,544
Prepaid expenses	122,719	13,161
	<u>3,279,745</u>	<u>3,606,264</u>
	<u>\$ 3,279,745</u>	<u>\$ 3,606,264</u>

## Liabilities and Shareholder's Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 3)	\$ 368,118	\$ 330,208
Deferred revenue	-	273
Current portion of silviculture liability	327,102	209,150
	<u>695,220</u>	<u>539,631</u>
Accrued silviculture liability (note 4)	533,654	555,807
Accrued road liability	36,046	36,046
	<u>1,264,920</u>	<u>1,131,484</u>
Shareholder's equity:		
Share capital (note 5)	120	120
Retained earnings	2,014,705	2,474,660
	<u>2,014,825</u>	<u>2,474,780</u>
Related party transactions (note 6)		
	<u>\$ 3,279,745</u>	<u>\$ 3,606,264</u>

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director \_\_\_\_\_ Director

# LOGAN LAKE COMMUNITY FOREST CORPORATION

## Statement of Operations and Retained Earnings

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
<b>Revenue:</b>		
Logging	\$ 1,569,391	\$ 3,180,026
Miscellaneous revenue	59,587	-
Grants	41,911	9,739
	1,670,889	3,189,765
<b>Expenses:</b>		
Administrative	20,314	17,367
Consulting fees	611,621	470,127
Forest licence fees	11,596	12,697
Professional fees	14,494	12,534
Road expense	-	36,046
Silviculture	237,426	877,890
Stumpage and supplies	53,714	138,166
Travel	2,701	1,527
	951,866	1,566,354
Earnings before the undernoted items	719,023	1,623,411
<b>Other income (expenses):</b>		
Accretion income	94,822	89,599
Cash donations to the District of Logan Lake	(1,277,282)	(100,000)
Investment income	41,343	33,855
Loss on sale of investments	(20,017)	(17,119)
Project sponsorships	(29,459)	(21,131)
Unrealized gain from investments and marketable securities measured at fair value (note 2)	11,615	54,904
	(1,178,978)	40,108
(Loss) net earnings for the year	(459,955)	1,663,519
Retained earnings, beginning of year	2,474,660	811,141
Retained earnings, end of year	\$ 2,014,705	\$ 2,474,660

See accompanying notes to financial statements.

# LOGAN LAKE COMMUNITY FOREST CORPORATION

## Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Earnings (loss) for the year	\$ (459,955)	\$ 1,663,519
Items not involving cash:		
Unrealized gain from investments and marketable securities measured at fair value	(11,930)	(54,904)
Loss from sale of investments and marketable securities	20,017	17,119
Accretion income	(94,822)	(89,599)
Change in non-cash operating working capital:		
Accounts receivable	941,337	(1,031,040)
Prepaid expenses	(109,558)	2,584
Accounts payable and accrued liabilities	37,910	209,537
Silviculture liability	190,621	847,397
Deferred revenue	(273)	(4,504)
Road liability	-	36,046
	513,347	1,596,155
Investing:		
Purchase of investments and marketable securities	(4,118,395)	(463,797)
Proceeds on disposal of investments and marketable securities	4,077,670	281,351
	(40,725)	(182,446)
Increase in cash	472,622	1,413,709
Cash, beginning of year	1,453,466	39,757
Cash, end of year	\$ 1,926,088	\$ 1,453,466

See accompanying notes to financial statements.

# LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements

Year ended December 31, 2017

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Logan Lake Community Forest Corporation (the "Corporation") was incorporated on January 25, 2007, under the laws of the Province of British Columbia and its major activity is utilizing certain timber rights pursuant to a permanent Community Forest Agreement issued on December 1, 2011.

## 1. Significant accounting policies:

### (a) Basis of accounting:

Canadian Public Sector Accounting Standards prescribe that government business enterprises ("GBE") must apply Part I of the CPA Canada Handbook - Accounting (International Financial Reporting Standards - "IFRS") in preparing their general purpose financial statements.

The Corporation is considered to be a GBE under Canadian Public Sector Accounting Standards and should be preparing IFRS financial statements. The Corporation has not prepared general purpose IFRS financial statements. Rather, these special purpose financial statements have been prepared in accordance with Part II of the CPA Canada Handbook – Accounting (Canadian Accounting Standards for Private Enterprises – "ASPE") for the purposes of the District of Logan Lake's oversight of the Corporation and its financial performance. As a result, the financial statements may not be suitable for another purpose.

### (b) Accrued silviculture liability:

The future estimated silviculture liability is accrued on the basis of the volume of timber cut from which revenue is earned by the Corporation. The obligation is accrued as the Corporation's share of the discounted estimated silviculture costs in the period in which the legal obligation was incurred.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculation are recognized in the statement of operations as they occur.

### (c) Revenue recognition:

The Corporation recognizes revenue on a fixed fee per cubic meter of scaled sawlog volumes delivered to a production facility, from the timber harvested pursuant to any cutting permits issued to the Corporation pursuant to the Community Forest Agreement ("CFA"). The income earned is recognized upon measurement and delivery to the mill yards, and collection of the receivable is reasonably assured.

Grant revenue is recorded when receivable and in the period in which the related expenses are incurred. Grant revenue received that relates to future expenses is included in deferred revenue. Investment income is reported as revenue in the period earned.

# LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 1. Significant accounting policies (continued):

### (d) Use of estimates:

The preparation of the financial statements, in conformity with ASPE, 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. Significant items subject to such estimates and assumptions include the estimated silviculture liability and the recoverable amount of accounts receivable. Actual results could differ from those estimates.

### (e) Financial instruments:

Financial instruments originating in an arm's length transaction are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments 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. These costs are amortized using the straight-line method.

In the case of financial instruments that originate as a result of a related party transaction, initial measurement will be at exchange amount or carrying value in accordance with Section 3840, Related Party Transactions, rather than fair value. If the sole relationship is in the capacity of management, the parties involved are deemed to be unrelated for purposes of Section 3856, Financial Instruments, and as such, transactions will be initially measured at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation 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 the Corporation 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 impairment charge.



# LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 1. Significant accounting policies (continued):

### (f) Income taxes:

As a municipal corporation, the Corporation is exempt from tax under Section 149 of Division H of the Income Tax Act.

## 2. Investments and marketable securities:

The Corporation holds various mutual funds and deposit notes. These investments are carried at fair market value.

	2017	2016
Balance, beginning of year	\$ 1,107,093	\$ 886,861
Purchases	4,118,395	463,797
Disposals	(4,097,372)	(298,469)
Fair value adjustment	11,615	54,904
Balance, end of year	\$ 1,139,731	\$ 1,107,093

## 3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$9,249 (2016 - \$718).

# LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

## 4. Accrued silviculture liability:

The Corporation's silviculture obligation relates to legislation that requires the Corporation to incur the cost of reforestation on its forest timber licenses and forest tenures.

	2017	2016
Silviculture liability at the beginning of year	\$ 764,957	\$ 7,159
Provisions made during the year	190,621	847,397
Accretion income	(94,822)	(89,599)
Reforestation obligation at end of year	860,756	764,957
Less: current portion of reforestation obligation	327,102	209,150
	<b>\$ 533,654</b>	<b>\$ 555,807</b>

## 5. Share capital:

	2017	2016
Authorized:		
Unlimited Class A common shares, voting, participating, no par value		
Unlimited Class B preferred shares, non-voting, participating, redeemable at \$1,000 per share, no par value		
Issued:		
120 Class A common shares	\$ 120	\$ 120
	<b>\$ 120</b>	<b>\$ 120</b>

# LOGAN LAKE COMMUNITY FOREST CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2017

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## 6. Related party transactions:

During the year, the Corporation donated \$1,299,000 (2016 - \$117,000) to the District of Logan Lake for contributions to be used towards community events and various capital projects. These amounts are included in project sponsorships and cash donations expenses. The Corporation paid other expenses totaling \$1,379 (2016 - \$1,941) to the District of Logan Lake. The District of Logan Lake paid for expenses totaling \$59,587 (2016 - \$nil) to the Corporation.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 7. Financial instruments

Credit risk:

Credit risk is the risk the Corporation will suffer a financial loss due to a third party failing to meet its financial contractual obligations with the Corporation. The maximum credit risk exposure for relates to the trade accounts receivable which are due from the Corporation's customers. Due to the decrease in accounts receivable, there has been a decrease to the credit risk exposure from 2016.

Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation prepares budgets to mitigate this risk. The Corporation does not consider its exposure to liquidity risk to be material at this time. There has been no change to the liquidity risk exposure from 2016.

Concentration of risk:

During the year, the Corporation earned approximately 88% of its logging income from two private forest companies. The Corporation enters short term contracts with these companies. The Corporation relies on contracts with private forest companies in order to operate. The Corporation operates in the forestry sector and a decline in demand for forest products would adversely effect financial results.

## 8. Comparative figures:

Certain 2016 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.