

FOREST RENEWAL BC

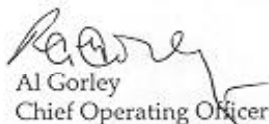
MANAGEMENT REPORT

The consolidated financial statements of Forest Renewal BC for the year ended March 31, 2000 have been prepared by management in accordance with generally accepted accounting principles for not-for-profit organizations. These consolidated financial statements present fairly the consolidated financial position of the Corporation as at March 31, 2000, and the results of operations and changes in cash flows for the year then ended.

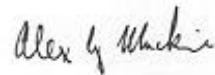
Management is responsible for the preparation of the financial statements and has established a system of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized, and financial records provide reliable information for the preparation of financial statements.

The Board of Directors carries out its responsibility for the review of the financial statements through its Audit Committee. The Committee meets with management and the external auditor to discuss the results of audit examinations and financial reporting matters. The external auditor has full access to the Audit Committee, with and without the presence of management.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of Forest Renewal BC. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements.



Al Gorley
Chief Operating Officer



Alex Mackie
Controller

June 28, 2000



Report of the Auditor General of British Columbia

*To the Members of the Board of Directors
of Forest Renewal BC, and*

*To the Minister of Forests,
Province of British Columbia:*

I have audited the consolidated statement of financial position of *Forest Renewal BC* as at March 31, 2000 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Forest Renewal BC* as at March 31, 2000 and the results of its operations and the changes in its net assets and cash flows for the year then ended in accordance with generally accepted accounting principles.

*Victoria, British Columbia
June 28, 2000*

Wayne Strelieff, CA
Auditor General

FOREST RENEWAL BC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2000 (\$000)

	<u>2000</u>	<u>1999</u>
ASSETS		
Current assets		
Cash and short term investments (Note 3)	307,399	447,945
Due from Province of British Columbia	209,256	85,805
Accountable advances	34,643	15,680
Prepaid expenses	<u>54</u>	<u>85</u>
	551,352	549,515
Long term investments (Note 4)	23,705	14,500
Capital assets (Note 5)	<u>1,578</u>	<u>1,816</u>
	<u>576,635</u>	<u>565,831</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	2,500	11,832
Project expenditures payable	<u>74,129</u>	<u>55,175</u>
	<u>76,629</u>	<u>67,007</u>
Net assets		
Reserve for program continuity (Note 7)	400,000	400,000
Reserve for finance purposes (Note 8)	31,600	16,600
Reserve for multi-year agreements (Note 9)	<u>24,897</u>	<u>22,150</u>
	456,497	438,750
Unappropriated	<u>43,509</u>	<u>60,074</u>
	<u>500,006</u>	<u>498,824</u>
	<u>576,635</u>	<u>565,831</u>
Commitments (Note 12)		
Contingent Liabilities (Note 13)		

The accompanying notes are an integral part of these financial statements

 , Director

 , Director

FOREST RENEWAL BC

CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended March 31, 2000 (\$000)

	<u>2000</u>	<u>1999</u>
REVENUES		
Statutory forest revenue	301,516	177,439
Investment and other income	<u>31,236</u>	<u>45,270</u>
	<u>332,752</u>	<u>222,709</u>
 EXPENDITURES		
Program expenditures (Schedule 1)	314,495	463,186
Administration (Note 6)	<u>17,075</u>	<u>24,131</u>
	<u>331,570</u>	<u>487,317</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	 <u>1,182</u>	 <u>(264,608)</u>

The accompanying notes are an integral part of these financial statements

FOREST RENEWAL BC

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the Year Ended March 31, 2000 (\$000)

	Reserve for Program Continuity	Reserve for Finance Purposes	Reserve for Multi-Year Agreements	Unappropriated	Total 2000	Total 1999
Balance, beginning of year	400,000	16,600	22,150	60,074	498,824	763,432
Excess (deficiency) of revenues over expenditures	0	0	(133,203)	134,385	1,182	(264,608)
Transfers to (from) reserves	0	15,000	135,950	(150,950)	0	0
Balance, end of year	400,000	31,600	24,897	43,509	500,006	498,824

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

FOREST RENEWAL BC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2000 (\$000)

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from statutory forest revenue	178,065	276,821
Cash received from investment income	31,236	45,270
Cash paid for program expenditures	(314,386)	(582,743)
Cash paid for administrative expenditures	<u>(25,786)</u>	<u>(25,162)</u>
	<u>(130,871)</u>	<u>(285,814)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Long term investment	(9,205)	(4,500)
Acquisition of capital assets	<u>(470)</u>	<u>(1,728)</u>
	<u>(9,675)</u>	<u>(6,228)</u>
DECREASE IN CASH AND EQUIVALENTS	(140,546)	(292,042)
CASH AND EQUIVALENTS, BEGINNING OF THE YEAR	<u>447,945</u>	<u>739,987</u>
CASH AND EQUIVALENTS, END OF THE YEAR	<u>307,399</u>	<u>447,945</u>

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

FOREST RENEWAL BC

SCHEDULE OF PROGRAM EXPENDITURES BY REGION AND ACTIVITY AREA

SCHEDULE I

For the Year Ended March 31, 2000 (\$000)

ACTIVITIES

REGIONS	Land and Resources	Environment	Workforce	Communities	Value Added	2000 TOTAL	1999 TOTAL
Cariboo-Chilcotin	16,464	8,653	2,471	332	1,756	29,676	46,831
Thompson-Okanagan	17,802	13,678	2,652	1,055	1,668	36,855	55,528
Kootenay-Boundary	11,430	11,546	4,915	788	2,321	31,000	45,795
Omineca-Peace	39,074	16,418	2,496	616	1,740	60,344	82,455
Skeena-Bulkley	14,165	10,625	2,132	1,398	1,530	29,850	45,406
Pacific	37,125	36,030	46,226	2,880	4,509	126,770	187,171
2000 Total	136,060	96,950	60,892	7,069	13,524	314,495	
1999 Total	223,931	141,773	75,900	9,632	11,950		463,186

ACTIVITY AREA OBJECTIVES:

Land & Resources	to increase investment in the forest resource and in the forest land base.
Environment	to invest in the environmental values of the forests.
Workforce	to foster forest employment opportunities and job training, and other related initiatives, to assist forest workers and to expand the forest workforce.
Communities	to support community development and adjustment.
Value Added	to promote activities that assist: i) forest industry diversification; ii) the further processing of wood supply; and iii) increased manufacturing of wood products.

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

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

1. THE CORPORATION

Forest Renewal BC, a Crown corporation, was incorporated under the Forest Renewal Act on June 2, 1994. The purpose of Forest Renewal BC is to renew the forest economy of British Columbia, enhance the productive capacity and environmental value of forest lands, create jobs, provide training for forest workers and strengthen communities.

Under the Forest Renewal Act, Forest Renewal BC is entitled to 80% of the increases in stumpage and royalty revenue attributable to changes in rates or stumpage fees under the Forest Act that have been implemented since April 30, 1994, less an annual offset of up to \$50 million. Effective June 1, 1998, the percentage of revenue received by Forest Renewal BC varies based on a new pricing structure.

The Corporation is exempt from federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles for not-for-profit organizations and include the assets, liabilities, revenues and expenditures of Forest Renewal BC and its 100% owned subsidiaries, New Forest Opportunities Ltd. and Office of the Jobs and Timber Accord Advocate Inc., formerly 561763 B. C. Ltd.

New Forest Opportunities Ltd. was incorporated on November 19, 1997. New Forest Opportunities Ltd. was established as a forest worker agency to assist Pacific Region forest workers who are being displaced during the current transition in the forest sector. New Forest Opportunities Ltd. assesses eligible workers, equips them with new skills and gives them priority placement for work on Forest Renewal BC land-based projects.

Office of the Jobs and Timber Accord Advocate Inc. was incorporated on March 24, 1998 and commenced operations April 1, 1998. The company was established to monitor the effectiveness of the Jobs and Timber Accord and ensure its timely implementation, monitor ongoing efforts to maintain and increase the employment base of the BC forest industry, and enforce the provisions of the accord to ensure a high degree of compliance.

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

Short Term Investments are carried at the lower of cost and market value.

Capital Assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Assets costing less than \$5,000 are expensed in the year purchased. Capital assets are amortized on the straight line basis over their estimated useful lives as follows:

Building and leasehold improvements	20 years
Automobiles	5 years
Computer hardware	3 to 5 years
Computer software	3 to 5 years
Office equipment	2 years

Revenue from stumpage and royalties is recognized for all timber scaled in the fiscal year.

Use of Estimates. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the year. Actual results could differ from these estimates.

3. CASH AND SHORT TERM INVESTMENTS

	2000 Cost	2000 Market value	1999 Cost	1999 Market value
Cash	14,697	14,697	7,647	7,647
Term deposits	22,466	22,466	22,490	22,490
Investments - Provincial Treasury	270,236	276,912	417,808	426,226
	307,399	314,075	447,945	456,363

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

4. LONG TERM INVESTMENTS

	<u>2000</u>	<u>1999</u>
Deposit in pooled investment fund as loan assistance for infrastructure projects. Interest paid quarterly. Repayable March 31, 2008. Municipal Finance Authority of British Columbia	10,000	10,000
Deposits in managed investment funds – Income earned upto specified maximums can be used by the universities for endowment program expenditures. Repayable March 15, 2029 to 2031. University of British Columbia	4,500	4,500
University of Northern BC	5,805	0
Simon Fraser University	<u>3,400</u>	<u>0</u>
	<u>23,705</u>	<u>14,500</u>

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2000 NBV	1999 NBV
Building	867	87	780	824
Leasehold improvements	148	21	127	65
Automobiles	134	37	97	136
Computer hardware	1,196	1,182	14	159
Computer software	1,600	1,042	558	628
Office equipment	8	6	2	4
	<u>3,953</u>	<u>2,375</u>	<u>1,578</u>	<u>1,816</u>

6. ADMINISTRATION

	<u>2000</u>	<u>1999</u>
Salaries, wages and benefits	8,539	12,664
Professional services	2,959	3,579
Advertising and publications	548	1,162
Information systems	812	1,668
Building occupancy	1,537	1,565
Staff travel	961	1,321
General operating	957	1,125
Furniture and equipment	17	162
Amortization	590	668
Board expenses	<u>155</u>	<u>217</u>
	<u>17,075</u>	<u>24,131</u>

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

7. RESERVE FOR PROGRAM CONTINUITY

The Reserve for Program Continuity was established to ensure that funds are available to cover program commitments in years where Forest Renewal BC revenues fall below existing and anticipated program commitments.

8. RESERVE FOR FINANCE PURPOSES

The Reserve for Finance Purposes was initially established to fully cover all loan guarantees made by Forest Renewal BC. As at March 31, 1999, the reserve was expanded to set aside funds for long-term investments, provided to entities to enable them to finance long-term program objectives.

The reserve was increased by \$15 million during the year ended March 31, 2000, primarily to include the managed funds held by BC universities to fund Forest Renewal BC's endowment program.

9. RESERVE FOR MULTI-YEAR AGREEMENTS

The Reserve for Multi-Year Agreements was established to reserve, for future years, those unspent funds committed annually under these agreements.

During the year ended March 31, 2000, \$136 million was transferred to the reserve, of which \$133 million was spent by recipients, increasing the reserve by \$3 million.

10. RELATED PARTY TRANSACTIONS

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, considered to be in the normal course of operations, are recorded at cost for program delivery, and at normal commercial terms for other administrative services.

Ministries, agencies and Crown corporations accounted for 36.42% (1999 - 38%) of program expenditures and 18.58% (1999 - 15%) of administrative expenditures.

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

11. PENSION PLAN

The Corporation and its employees contribute to the Public Service Pension Plan in accordance with the Pension (Public Service) Act. New Forest Opportunities Ltd. and its employees do not contribute to the Public Service Pension Plan. The Superannuation Commission of the Province of British Columbia administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plan is a defined benefit pension plan. The Province of British Columbia has statutory responsibility for any unfunded liability.

The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position. As a result of this valuation, the Superannuation Commission has refunded a portion of the Corporation's employer contributions of \$343,722, which will be collected through a reduction in the Corporation's employer contributions in fiscal 2000/2001.

12. COMMITMENTS

(a) The Corporation has entered into facilities leases for office space in Victoria, Kamloops, Williams Lake, Prince George, Cranbrook, Nanaimo, Vancouver, Campbell River and Smithers expiring on various dates to 2002. The Corporation also leases vehicles. Future minimum payments under these leases are as follows:

2001	1,053
2002	991
2003	693
2004	564
2005	<u>470</u>
	<u>3,771</u>

(b) At March 31, 2000, the Corporation has contracted project commitments that carry over to subsequent years, as follows:

2001	172,150
2002	166,634
2003	142,136
2004	19,627
Subsequent Years	<u>967</u>
	<u>501,514</u>

FOREST RENEWAL BC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

(tabular amounts in \$000)

13. CONTINGENT LIABILITIES

Forest Renewal BC has entered into agreements through which it indemnifies loans advanced by various lenders, mainly financial institutions to support the communities and value added programs. As at March 31, 2000 Forest Renewal BC has the following indemnities outstanding:

- Canadian Imperial Bank of Commerce- 85% guarantee to a maximum of \$800,000 if the total portfolio is less than \$4 million (current indemnification \$210,000)
- BC Advanced System Foundation - up to the amount of the loans outstanding with respect to the Forest Innovation Development Fund (current indemnification \$3 million)

Forest Renewal BC is the defendant in a writ filed in the BC Supreme Court in January 27, 2000. The writ involves a class action claim involving the personal income tax liabilities incurred by recipients of benefits under one of Forest Renewal BC's programs. To date, no Statement of claim has been filed and the amount and outcome of the action cannot be estimated.