



ALGONQUIN
FORESTRY AUTHORITY

Maintaining the Balance since 1975



Annual Report
2016 - 2017

Forty-Second Annual Report 2016 – 2017



TO HER HONOUR

The Lieutenant Governor
of the Province of Ontario

Ontario

MAY IT PLEASE YOUR HONOUR

The undersigned begs respectfully to present to Your Honour the Annual report of the Algonquin Forestry Authority for the year beginning April 1, 2016 and ending March 31, 2017.

The Honourable Kathryn McGarry
Minister



THE HONOURABLE KATHRYN MCGARRY
Minister of Natural Resources and Forestry

Honourable Madam:

I have the honour to submit to you the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2016 and ending March 31, 2017.

DAVID STEWART
Chair

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ROLE AND MANDATE

The Algonquin Forestry Authority (AFA) operates under the Algonquin Forestry Authority Act, R.S.O. 1990. The Authority is a self-financing operational enterprise Crown agency. The Minister of Natural Resources and Forestry is responsible for the administration of the Algonquin Forestry Authority Act. This legislation sets out the management, objectives and powers of the AFA.

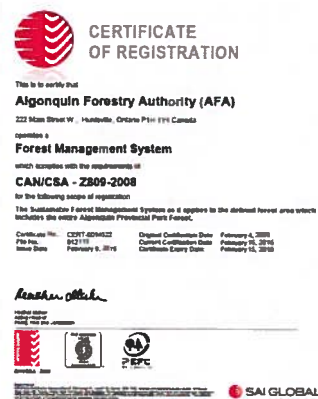
- Ensuring the sustainable management of Algonquin's forests
- Planning of all forestry operations
- Harvesting and distribution of wood products to mills
- Monitoring forestry operations

All forestry activities are carried out under the direction of a Ministry of Natural Resources and Forestry's approved Forest Management Plan (FMP). These activities are subject to an Independent Forest Audit every five years and the audit results are tabled in the Ontario Legislature and made available to the public. In addition, the Algonquin Park forest is certified to Canada's national forest certification standard CSA Z-809. This certification demonstrates the Authority's commitment to sustainable forest management and provides the public access to results from annual independent audits to defined standards.

A key component of the CSA Z-809 standard is the AFA's environmental and sustainable forest management system (ESFMS). Key components of the ESFMS are prevention of pollution, sustainable forestry, continual improvement and compliance with applicable laws and guidelines. AFA receives management direction from several different plans and legislation, but its Sustainable Forest Management (SFM) Policy guides its day-to-day activities.

AFA's commitment to SFM can be found in its Vision Statement:
**To achieve the highest standards of sustainable forest management practices,
 in order to maintain Park values for future generations.**

The Authority applies the principles of SFM to balance the public's concern for protecting Park values. Protection of recreation, fisheries, wildlife habitat and natural and cultural heritage values is of utmost importance while maintaining a supply of forest products to mills dependent on Park timber. Harvesting is carefully regulated to minimize impacts on other forest values. The Authority contracts out both harvesting and forest management work to companies from communities in the region. The timber harvested supports 12 mills in communities such as Huntsville, Whitney, Madawaska, Pembroke, Killaloe and Eganville. Another five to ten mills in the region receive periodic supplies.



CHAIR'S MESSAGE

By David Stewart

I am pleased to present this Annual Report outlining Algonquin Forestry Authority (AFA) operations for the 2016-2017 operating year. This report marks AFA's 42nd year of delivering sustainable forest management in Algonquin Provincial Park. The Authority is committed to its mandate and the important economic, social and environmental benefits derived from this iconic forest.

Demand for timber that we produce has continued to trend positively with Ontario's growing economy. We remain optimistic the economic opportunities will continue as we move forward with strategies to grow our productive capacity and improve upon achieving important financial and forest management targets.

During the year separate independent audits were completed on finance and administration, and environmental performance. The Office of the Auditor General's audited financial report is provided herein. The AFA's Environmental and Sustainable Forest Management System is certified to the CSA Z809 national forestry standard. I am happy to report that all of these audits have had successful outcomes and we continue on a path of continual improvement. The Board is satisfied with the financial statements in this annual report and that the AFA's mandate and business plan objectives have been met.

In April of 2016 the Algonquin Park Forest Certification Advisory Group was recognized and presented with the Program for the Endorsement of Forest Certification (PEFC) Canada Stewardship Award (cover photo) for their outstanding leadership and dedication to Sustainable Forest Management in Algonquin Provincial Park. We are proud of the working relationships forged with stakeholders including Indigenous communities in sustainable forest management planning processes.



This year also marked the retirement of key AFA staff and subsequent recruitment exercises. Retiring were; Invoice Clerk Carolyn Wood, Area Manager Bill Hubbert and IT/IM Supervisor Peter Vanderkraan. Incoming staff were; Area Manager Keith Fletcher and Area Forester Tracey Bradley. We wish them well in all of their future endeavours.

Photo L to R, AFA directors, Pineau, Lemkay, Lauer, Bros, Stewart. Nicholas Hill, Prince of Wales Forest Leadership intern, General Manager Levey, Treasurer Doyle, and outgoing AFA director LeClerc.

As Chair of the Authority, I am grateful for the dedicated members of the governing Board of Directors and their contributions of leadership, oversight and advice to management and staff. An effective group, representing valuable work and life experience from a variety of perspectives, we have met every few months or when the need arises. During this year, we wished past-director Karen LeClerc all the best in her retirement, and welcomed new appointees; Gordon Clark, Carl Corbett, Damion Ketchum, Sarah Morgan-White and Rodney Smith. Please see page 10 of this report for a complete list of meetings and directors serving during this term.

On behalf of the AFA Board, I would like to congratulate all forestry contractors, their employees, and AFA staff for their part in meeting the Authority's objectives and for their continued dedication to sustainable forest management in the Algonquin Park Forest.

Sincerely,

DESCRIPTION OF ACTIVITIES

The activities of the Algonquin Forestry Authority are described primarily as harvesting and sustainable forest management. As the Authority is self-financing, it relies on sales of forest products harvested to fund all aspects of its operations including forest management activities such as forest access, renewal and tending operations. The next sections titled harvesting and forest management outline specific activities and a brief discussion of annual operational performance levels and target achievement. Targets discussed herein are set out in the agency's 2016 to 2019 business planning document.

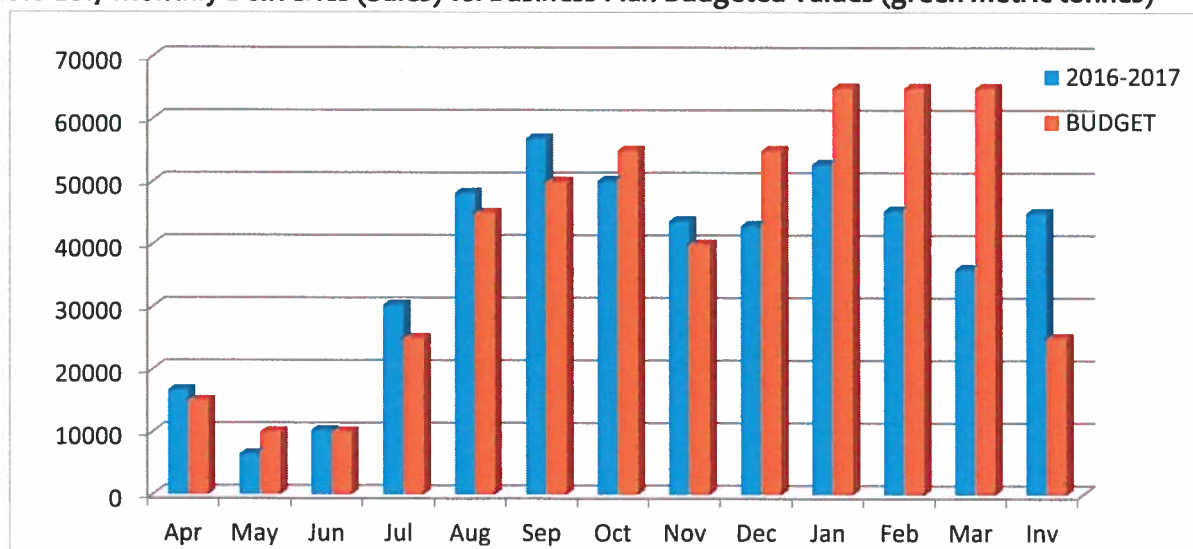
Factors affecting achievement of objectives are market demand for forest products, weather conditions, Algonquin Park recreational and biological timing limitations on operating. Business planning and budget setting are conducted 3-6 months prior to the beginning of AFA's fiscal year start in April, which is also another six months before full production is underway. Most of the harvest is conducted between September and March, while forest management activities begin in May and are mostly concluded in December.

The approved forest management plan and AFA's sustainable forest management plan also set targets to which operational performance is measured and reported in separate reporting documents as required by the Crown Forest Sustainability Act (CFSA) and Canadian Standards Association (CSA) Z-809 standard requirements, respectively.

Harvesting

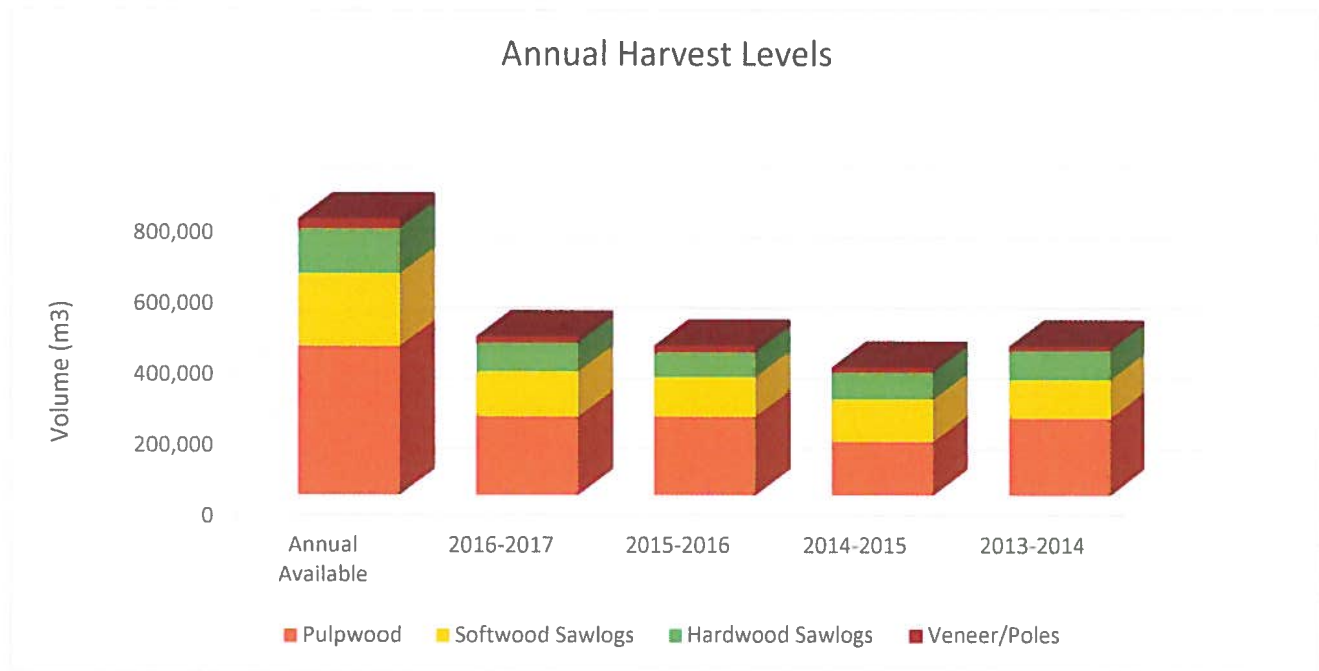
The approved 2010-2020 Forest Management Plan for the Algonquin Park Forest states that a sustainable annual harvest of 783,075 cubic metres (m³) is available from the forest. The 2016-2019 AFA Agency Business Plan set out a planned level of 500,000 m³ for 2016-2017 based on economic and operational factors. The 2016-2017 harvest from the forest was 439,691 green metric tonnes (source: AFA Sales System) or approximately 450,000 m³, which is well within the sustainable level that the Algonquin forest can provide, yet reflective of harvest levels in a recovering economy.

2016-2017 Monthly Deliveries (Sales) vs. Business Plan Budgeted Values (green metric tonnes)



This year's harvest level was 90% of business planned levels contributing to slightly better achievement of financial and forest management objectives than in 2015-2016 when 85% of the harvest budget was achieved. Monthly delivery (sales) targets are compared to monthly budgeted values in the preceding chart.

Spring inventories developed as planned in March of the previous fiscal year and provided near-budget sales in April and May. June through September deliveries were above budget reflecting delivery of remaining inventory, implementation of additional capacity and earlier starts for most contractors. Rains in the fall, and mild temperatures throughout the winter slowed harvest and hauling to mills as displayed in the chart above. Although deliveries slowed, harvesting proceeded to build inventory that was stockpiled on site or in concentration yards for delivery as road conditions allowed, or to be carried forward in the next fiscal year. Inventoried volume met planned targets, but is not reported until finally sold in the next fiscal year. Volume harvested in 2016-2017 is illustrated by broad product category in the following graph and is compared to the annual available harvest (described in the FMP) and harvest/sales performance from the previous three years.



There is a larger proportion of pulpwood quality timber available from the forest than other products. Harvesting and sales of pulpwood quality timber (firewood & fibre) is the same as last year which was almost 50% better than the previous year. Access to the sawlog and better forest products is often limited by a lack of economical pulpwood markets. In this term, utilization of pulpwood quality material has been followed by increased recovery and sales of sawlogs (softwood sawlogs +14%, hardwood sawlogs +15%) over the previous year.

The Authority's 2016-2019 Agency Business Plan identifies strategies to increase production. Generally, to develop existing contractor capacity, secure new contractors and provide additional effort and investment in terms of human and financial resources in response to increasing demands for forest products in all areas.

The Authority retains a professional and responsible work force to achieve its objectives and as such actively promotes safe and effective work practices. W. F. Dombroski & Sons Logging Contractors of Barry's Bay, ON was awarded the annual Safety Award for the 2016/17 season, a repeat performance from the previous three years. This award is presented annually to the Algonquin Park logging contractor maintaining the best safety record. In addition to the safety award, AFA and the contractors administer an "Environmental and Safety Award System" that recognizes positive work practices. Based on the point system, the top logging crews and operators on each contractor operation are formally recognized. The hauling and road construction sectors are also recognized for their contributions to the overall results.

Forest Management

The approved 2010-2020 Forest Management Plan (FMP) for the Algonquin Park Forest details the goals, objectives and strategies for the ten-year period and outlines specific operations for two 5- year terms. The Authority is operating in the second term, 2015-2020. Forest management activities in Algonquin Park must follow FMP prescriptions. Targets set out in the FMP are further refined in the Agency Business Plan (see the following table) as required to reflect economic and operational considerations.

AFA Harvest & Forest Management Programs – 2016-2017 Budget versus Actual

Program	2016/17 Budget	2016/17 Actual
Harvest (m3)	500,000	423,641
Silvicultural Activities		
Silvicultural Effectiveness Monitoring Surveys (ha)	4,900	3,200
Scarification (ha)	55	0
Site preparation (ha)	390	195
Stand Improvement (ha)	3,520	3,070
Tending (ha)	525	1,648
Tree marking (ha)	7,500	7,519
Tree planting (# trees'000s)	615	611
Tree planting stock ('000s)	425	709
Tree seed collection (hl)	58	0

Forest management activities such as prescription setting and tree marking occur in advance of harvesting at a level sufficient to provide for planned harvest operations, while forest renewal activities that follow the harvest, such as site preparation and tending reflect actual harvest levels in preceding years and subsequent actual renewal treatment needs. The partial harvesting systems predominantly used in Algonquin Park rely heavily on natural regeneration. To date, this has been largely successful.

Tree Marking

To implement forest management systems in Algonquin Park it is first necessary to designate which trees are to be harvested and which ones are to be retained, while protecting other resource values. This is done by skilled tree markers who follow the prescriptions prepared by Registered Professional Foresters in the Forest Management Plan. Tree marking was carried out on 7,519 hectares in 2016/17 representing 100% of business planned levels and was sufficient to provide for the actual area harvested and some marking for the upcoming year.

Site Preparation, Tree Planting and Scarification

Trees planted in Algonquin Park are grown from seed sources appropriate for planting within the Park. No seed collection occurred in 2016/17 due to the poor seed crop observed throughout the Park. A review of stored seed inventories reveals sufficient volume of seed for our near term growing stock needs. A total of 611,342 tree seedlings were planted on 470 hectares in 2016/17 representing target achievement of 99%. A significant portion of the areas

planted in 2016/17 originated from windstorm damage and required a higher-than-expected density of trees to be planted due to the open nature of the sites. Average density for the 2016/17 tree plant was 1,300 trees per hectare.

195 hectares were site prepared for planting in future years, which is 50% of planned. The site preparation program for 2016/17 was reduced due to unplanted area carried forward from the 2015/16 site preparation program. Program reduction was required to ensure all site prepared areas are planted in 2017/18. Private nurseries are growing seedlings under contract with AFA for planting in upcoming years. To ensure all available site prepared areas are treated in a timely manner, additional stock was required (709k compared to 425k budgeted) and a summer plant is scheduled for 2017/18 in addition to the spring plant. Program increases reflect site preparation and tree planting needed to ensure harvested areas are successfully regenerated. Most areas harvested regenerate naturally. Sometimes scarification is conducted to prepare seedbeds for natural regeneration and timed with good seed crops. No scarification work was required on sites this year. Seed crop forecasting indicates better prospects in 2017/18.

Tending and Stand Improvement

Manual tending was performed on 338 hectares to release established white pine and red pine regeneration from competing vegetation. A further 83 hectares of white pine, red pine and jack pine were pre-commercially thinned and 1,227 hectares of even-aged understory improvement work was completed in order to improve light conditions for regeneration establishment. This represents more than triple the tending target, a function of receiving special project funding from the Forestry Futures Trust Fund and renewal treatment needs identified through silviculture effectiveness monitoring. This tending work is essential to protect the investments made in regeneration. Stand improvement was completed on 3,070 hectares to assist growth of residual trees and natural regeneration in areas managed under the selection system. This is 87% of business planned levels. This is a significant increase over 2015/16 as treatment areas originating from previous fiscal years were treated in 2016/17. Stand improvement may also be carried out concurrently with harvest operations, without the need for renewal account funding, such as when firewood and pulpwood markets are strong. Only funded stand improvement is budgeted and reported.

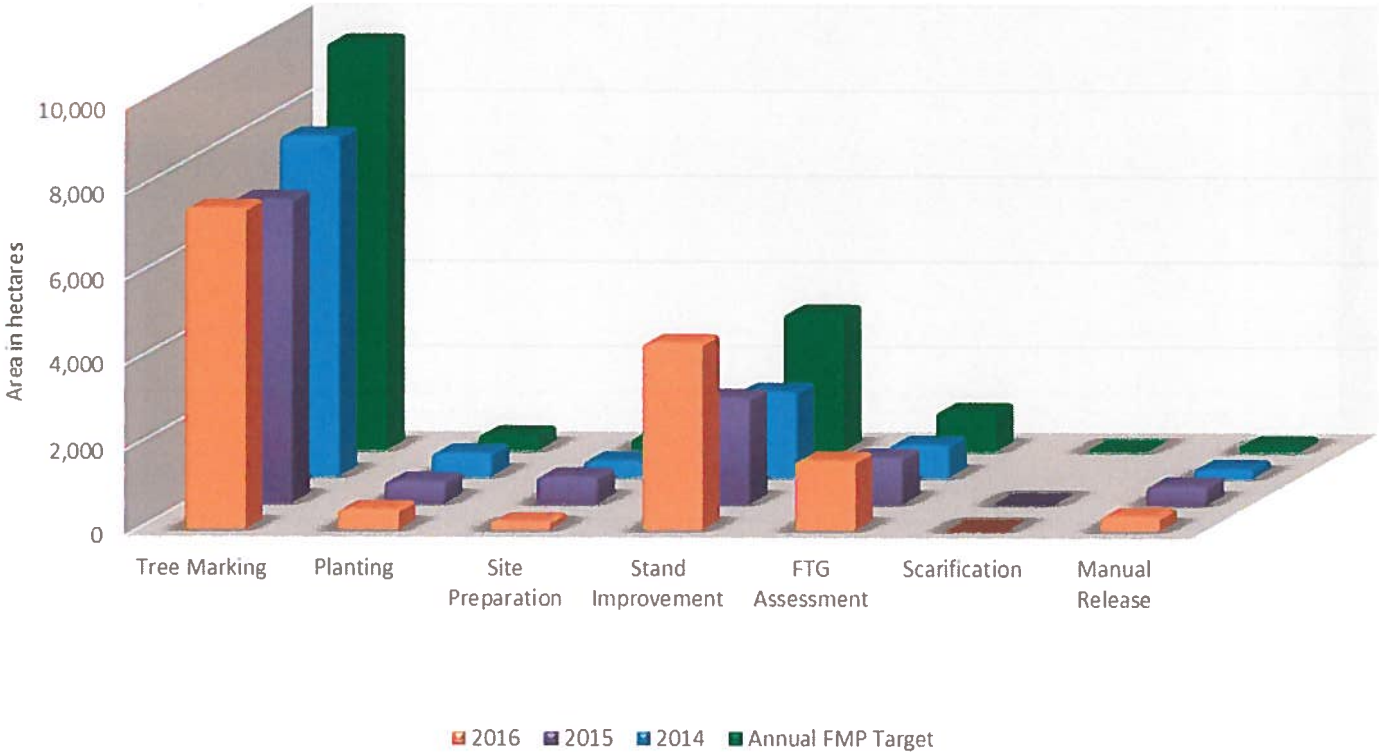
Silvicultural Effectiveness Monitoring

Regeneration assessments were conducted on over 3,200 hectares to ensure that regeneration treatments are progressing as planned. Results of 'Free to Grow' assessments are reported in the Management Unit Annual Report to MNRF in November each year and available to the public. Additionally, all selection management areas have received tree marking and audits to ensure appropriate results to predetermined standards. Regeneration assessments conducted (excluding tree marking audits) represent 65% of planned surveys. The annual monitoring target was set higher than required, based on initial planning information. Actual annual monitoring is reflective of harvest progress and scheduling of treatments. Targets have been reduced from FMP targets based on additional information and a better understanding of survey needs on an annual basis.

The 2016/17 forest management program is illustrated below and is compared to annual FMP targets. The program is the seventh year of the approved 2010-2020 FMP.

The Authority is satisfied with its operational and forest management performance relative to annual harvest levels. Development and revision of targets to ensure achievement of FMP and CSA SFM targets are completed within the business planning, work planning and budgetary processes.

Forest Management Summary 2014 - 2016



FINANCIAL RESULTS

AFA Financial Performance – 2016-2017 Budget versus Actual

	2016/17 Budget General Fund \$ (000s)	2016/17 Budget Renewal Fund \$ (000s)	2016/17 Budget Total \$ (000s)	2016/17 Actual General Fund \$ (000s)	2016/17 Actual Renewal Fund \$ (000s)	2016/17 Actual Total \$ (000s)
Revenue	25,659	2,316	27,975	23,168	1,947	27,115
Expense	23,856	1,823	25,679	23,112	1,507	24,619
Operating Income	1,803	493	2,296	2,056	440	2,496
Administrative & Other	1,747	409	2,156	1,557	325	1,882
Net Income <Loss>	56	84	140	499	325	614

Harvesting and the Statement of Operations

The following commentary references financial information in the Audited Financial Statements and the summarized table above to compare with budgeted targets.

Operating revenues for the year were \$27,114,976 which represents an increase of \$1,355,579 or 5.3 % compared to 2015/16. Demand for our contractor produced forest products increased by 2.9% during the year and slightly higher stumpage and selling prices were achieved resulting in a 5.5% increase in product sales dollars. Standing timber sales volumes decreased by 9.6% in 2016/17 but the increase in the quality of products produced and their related stumpage resulted in revenue increases of about 5.4%.

"Other revenue" of \$2,798,500 as compared to \$2,541,080 in 2015/16 has been itemized in Note 10.

Costs for contracted production, direct labour and stumpage were higher than the previous year due to increased production levels, but lower than budget. Combined with slightly increased spending on public access road maintenance and operations planning, the results show a decline in operating income to \$2,496,198 as compared to \$2,857,988 in the previous year, but closer to budget. Operations planning costs associated with our Environmental Management System, CSA certification and the FMP process were \$272,003 as compared to \$275,180 in the previous year.

Administration costs for the year were \$1,882,147 which represents a decrease of \$14,162 or 0.8% compared to 2015/16. The decrease is primarily related to senior staff retirements during the year that resulted in reduced salaries and benefits. These savings were partially offset by increases in amortization, director expenses and staff travel.

Forest Renewal Fund

The method of accounting for Crown Stumpage reflects the requirements of the Crown Forest Sustainability Act. The forest renewal portion of the Crown Stumpage Matrix is retained by the Authority, in trust for the Crown, and is to be used to fund eligible forest renewal work on a cost recovery basis. The forest renewal revenue of \$1,729,884 (\$1,802,007 in 2015/16) from stumpage represents amounts actually charged to customers during the year for renewal fund purposes. Higher sales volumes of about 1.7% have not resulted in increased renewal revenue as a result of changes in the species mix.

Actual forest renewal expenditures incurred during the year amounted to \$1,831,254 as compared to \$1,856,835 in 2016. Total revenue in the renewal fund of \$1,946,559 (\$2,124,617 in 2015/16) has been sufficient to cover the costs of renewal operations and administration in this term. This is the fourth consecutive year of a surplus \$115,305 (\$267,782 in 2015/16) after eight consecutive years of losses.

Financial Position- Balance Sheet

The Statement of Financial Position disclosure reflects disclosure requirements affecting government not-for-profit organizations, such as the Authority, recommended by the Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. Funds received in advance of the planned expenditure are disclosed as "Deferred Contributions" and amounts once referred to, in a single disclosure component, as "Retained Income" have been disclosed as three separate components of 'Net Assets'. This disclosure clarifies the restricted/unrestricted nature of our net asset position.

At March 31, 2017 our cash was \$1,698,756 higher and our accounts receivable balance was \$1,527,624 lower than the previous year balances. Knowing that our cash position was positive, additional inventories were produced at the end of the season for delivery in the spring of 2017/18 to meet the anticipated early demand for products.

March 31 payables and accruals were slightly higher by \$191,976 compared to 2015/16 as a result of having higher year end HST due. Also included in the \$1,475,788 balance is \$492,002 (\$455,050 in 2015/16) of provincial road maintenance funding that was reimbursed to AFA for maintenance activities performed and then reimbursed by AFA directly to the forest industry in May 2017. The Renewal Account balance of \$3,050,709 (\$2,935,404 in 2016) remains well above the minimum required balance of \$1,500,000.

PUBLIC APPOINTMENTS – BOARD of DIRECTORS

	<u>DATE OF APPOINTMENT</u>	<u>CURRENT TERM'S EXPIRATION</u>
CHAIR: David Stewart Cobden, ON	February 18, 2009	March 21, 2020
VICE-CHAIR: David Lemkay Douglas, ON	September 12, 2012	September 11, 2018
Sarah Bros North Bay, ON	February 1, 2013	January 31, 2018
Gordon Clark Coldwater, ON	June 30, 2016	June 29, 2019
Carl Corbett Huntsville, ON	June 22, 2016	June 21, 2019
Damion Ketchum Toronto, ON	August 4, 2016	August 3, 2019
Charles Lauer Peterborough, ON	January 5, 2015	January 4, 2018
Karen LeClerc Laurentian Hills, ON	November 10, 2005	December 13, 2017
Sarah Morgan-White Gloucester, ON	June 22, 2016	June 21, 2019
John Pineau Mattawa, ON	January 28, 2015	January 27, 2018
Rodney Smith Arnprior, ON	August 4, 2016	August 3, 2019

The total remuneration paid to Directors for this period is \$ 24,600.

OFFICERS:

Jeffrey W. Leavey
General Manager

Timothy K. Doyle, CPA, CA
Secretary-Treasurer

GENERAL MEETINGS:

April 8 – 9, 2016
Huntsville, ON

October 27 – 29, 2016
Petawawa, ON

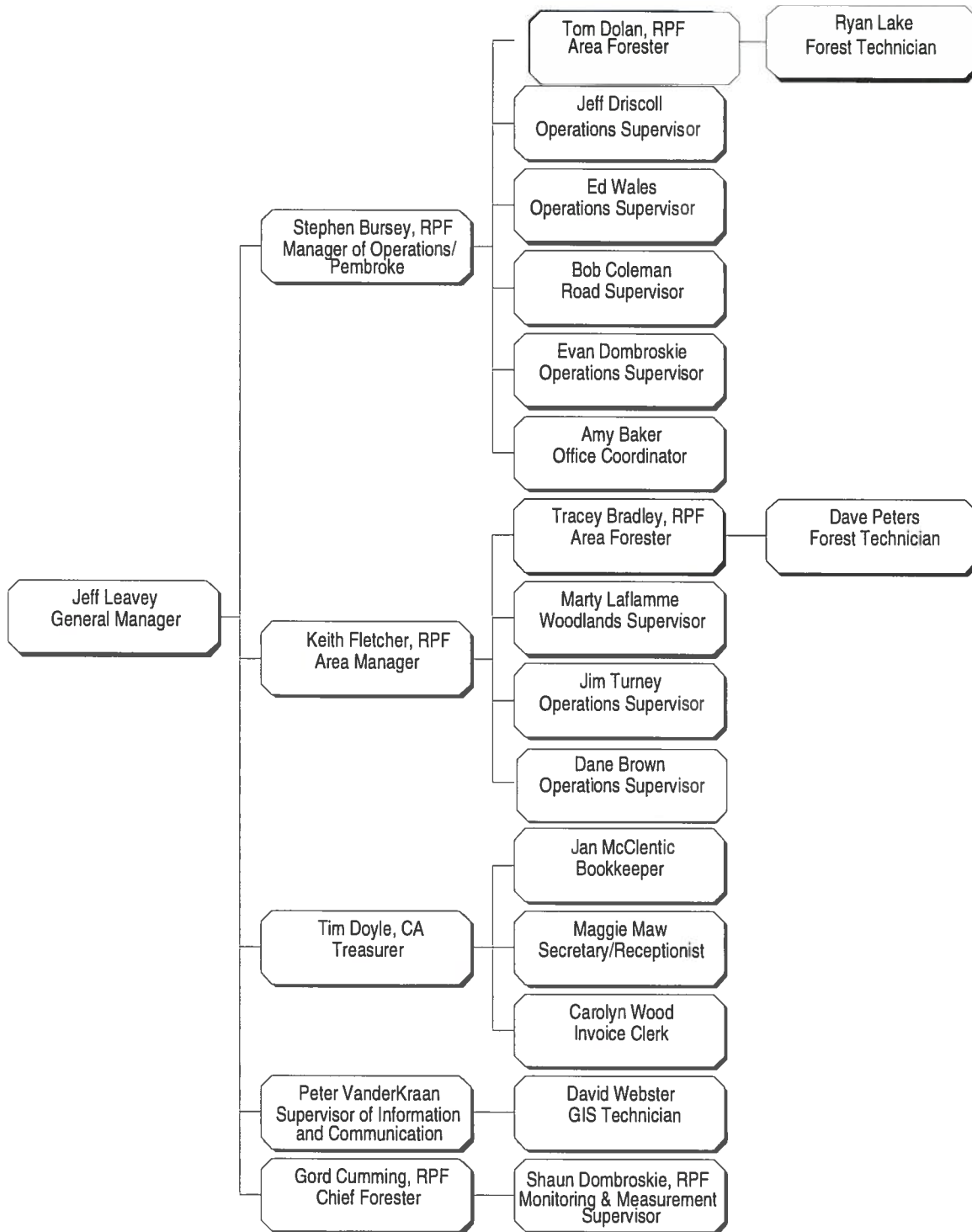
March 24 – 25, 2017
Huntsville, ON

May 19 – 20, 2016
Peterborough, ON

December 2 – 3, 2016
Huntsville, ON

July 22, 2016
Algonquin Park, ON
February 3 – 4, 2017
Mattawa, ON

ORGANIZATION CHART



Financial Statements

Algonquin Forestry Authority

March 31, 2017

Algonquin Forestry Authority
Year ended March 31, 2017

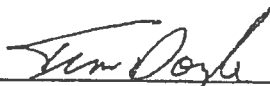
Management's Responsibility for Financial Information

Management and the Board of Directors of the Algonquin Forestry Authority are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and, where appropriate, include amounts based on Management's best estimates and judgements.

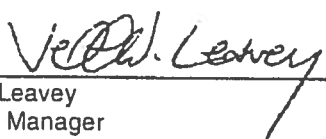
The Algonquin Forestry Authority is dedicated to the highest standards of integrity in its business. To safeguard the Authority's assets, the Authority has a sound and dynamic set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the *Algonquin Forestry Authority Act*.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets regularly to oversee the financial activities of the Authority and at least annually to review the audited financial statements and the external auditors' report thereon, and recommends them to the Minister of Natural Resources and Forestry for approval.

The financial statements have been examined by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.



Tim Doyle, CPA, CA
Treasurer



Jeff W. Leavey
General Manager



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Algonquin Forestry Authority
and to the Minister of Natural Resources and Forestry

I have audited the accompanying financial statements of the Algonquin Forestry Authority, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 the auditor's 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, the auditor considers 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Algonquin Forestry Authority as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Susan Klein, CPA, CA, LPA
Assistant Auditor General

Toronto, Ontario
June 15, 2017

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Algonquin Forestry Authority

Statement of Financial Position

As at March 31

2017

2016

Assets

Current assets

Cash	\$ 3,305,316	\$ 1,606,560
Accounts receivable (Note 3)	7,130,035	8,657,859
Inventories held for sale	543,036	328,808
Prepaid expenses	1,962	7,401
	<u>10,980,349</u>	<u>10,600,228</u>

Capital assets (Note 4)

	<u>534,874</u>	<u>275,257</u>
	<u>\$ 11,515,223</u>	<u>\$ 10,875,485</u>

Liabilities

Current liabilities

Accounts payables and accrued liabilities	\$ 1,475,788	\$ 1,283,815
Contractors' performance holdbacks	60,124	80,007
Due to Consolidated Revenue Fund (Note 13)	225,969	292,876
Deferred contributions (Note 5)	33,240	25,849
	<u>1,795,121</u>	<u>1,682,547</u>


Obligation for employee future benefits (Note 6)

	<u>349,947</u>	<u>436,834</u>
	<u>2,145,068</u>	<u>2,119,381</u>

Net assets

Restricted - Forest Renewal Fund (Notes 7 and 9)	3,050,709	2,935,404
Invested in capital assets (Note 8)	534,874	275,257
Unrestricted - General Fund	5,784,572	5,545,443
	<u>9,370,155</u>	<u>8,756,104</u>
	<u>\$ 11,515,223</u>	<u>\$ 10,875,485</u>

On behalf of the Board

 Director

 Director

Algonquin Forestry Authority

Statement of Operations

Year Ended March 31

2017

2016

	General Fund	Forest Renewal Fund	Total	Total
Revenue				
Product sales	\$ 22,362,486	\$ -	\$ 22,362,486	\$ 21,203,665
Forest renewal activity	-	1,729,884	1,729,884	1,802,007
Standing timber sales	224,106	-	224,106	212,645
Other (Note 10)	2,581,825	216,675	2,798,500	2,541,080
	<u>25,168,417</u>	<u>1,946,559</u>	<u>27,114,976</u>	<u>25,759,397</u>
Expenses				
Direct program costs	19,520,537	1,506,366	21,026,903	19,376,839
Crown timber stumpage charges (Note 13)	2,986,500	-	2,986,500	2,941,724
Public access road maintenance	292,609	-	292,609	274,151
Operations planning	272,003	-	272,003	275,180
Wood measurement	40,763	-	40,763	33,515
	<u>23,112,412</u>	<u>1,506,366</u>	<u>24,618,778</u>	<u>22,901,409</u>
Operating income	<u>2,056,005</u>	<u>440,193</u>	<u>2,496,198</u>	<u>2,857,988</u>
Administrative and other				
Salaries and benefits	1,138,952	228,811	1,367,763	1,438,221
Amortization of capital assets	112,125	64,328	176,453	142,914
Office supplies and other	112,261	182	112,443	107,786
Office rent	43,243	13,860	57,103	56,339
Directors' allowance	53,306	-	53,306	34,270
Staff travel and training	40,357	8,554	48,911	34,988
Insurance	22,604	9,153	31,757	31,220
Public relations	29,213	-	29,213	37,392
Consulting, legal and miscellaneous	3,198	-	3,198	11,551
Interest and bank charges	2,000	-	2,000	1,628
	<u>1,557,259</u>	<u>324,888</u>	<u>1,882,147</u>	<u>1,896,309</u>
Excess of revenue over expenses	<u>\$ 498,746</u>	<u>\$ 115,305</u>	<u>\$ 614,051</u>	<u>\$ 961,679</u>

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Changes in Net Assets

Year Ended March 31

2017	Invested in Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	Total
Balance, beginning of year	\$ 275,257	\$ 2,935,404	\$ 5,545,443	\$ 8,756,104
(Deficiency) excess of revenue over expenses (Note 8)	(176,453)	115,305	675,199	614,051
Invested in capital assets (Note 8)	<u>436,070</u>	<u>-</u>	<u>(436,070)</u>	<u>-</u>
Balance, end of year	<u>\$ 534,874</u>	<u>\$ 3,050,709</u>	<u>\$ 5,784,572</u>	<u>\$ 9,370,155</u>
2016	Invested in Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	Total
Balance, beginning of year	\$ 271,742	2,667,622	\$ 4,855,061	\$ 7,794,425
(Deficiency) excess of revenue over expenses (Note 8)	(125,634)	267,782	819,531	961,679
Invested in capital assets (Note 8)	<u>129,149</u>	<u>-</u>	<u>(129,149)</u>	<u>-</u>
Balance, end of year	<u>\$ 275,257</u>	<u>\$ 2,935,404</u>	<u>\$ 5,545,443</u>	<u>\$ 8,756,104</u>

Algonquin Forestry Authority

Statement of Cash Flows

Year Ended March 31

2017

2016

	2017	2016
Cash flows from operating activities:		
Excess of revenue over expenses	\$ 614,051	\$ 961,679
Adjustments for non-cash items:		
Amortization of capital assets	176,453	142,914
Amortization of deferred capital contributions	-	(17,280)
Gain on sale of capital assets	(15,195)	(22,811)
Obligation for employee future benefits	-	17,326
	<u>775,309</u>	<u>1,081,828</u>
Change in non-cash operating working capital:		
Accounts receivable	1,527,624	290,055
Inventories held for sale	(214,428)	(158,162)
Prepaid expenses	5,439	(5,439)
Accounts payable and accrued liabilities	191,973	(12,582)
Contractors' performance holdbacks	(19,883)	13,706
Due to Consolidated Revenue Fund	(66,907)	88,790
Deferred contributions	7,391	25,849
Obligation for employee future benefits	(86,887)	-
	<u>2,119,631</u>	<u>1,324,045</u>
Cash flows from capital activities		
Acquisition of capital assets	(436,070)	(129,149)
Proceeds from sale of capital assets	15,195	22,811
	<u>(420,875)</u>	<u>(106,338)</u>
Net increase in cash	1,698,756	1,217,707
Cash		
Beginning of year	<u>1,606,560</u>	<u>388,853</u>
End of year	<u>\$ 3,305,316</u>	<u>\$ 1,606,560</u>

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

Algonquin Forestry Authority (the "Authority") is a Crown Agency which was established by the Ontario Government on January 4, 1975 under the Algonquin Forestry Authority Act, 1974. The Authority is responsible for forest management in Algonquin Provincial Park and operates on a not-for-profit basis. The Authority is exempt from income taxes under the Income Tax Act.

1. Significant accounting policies

Basis of accounting

The Authority's financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. A statement of remeasurement gains and losses has not been presented as there is nothing to report therein.

Fund accounting

The General Fund accounts for the Authority's revenue generating and administrative activities. The Forest Renewal Fund accounts for the forest management activities, including silvicultural work.

Revenue recognition

Revenue from product sales and forest renewal charges are recognized when the wood is delivered, and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed and determinable.

The Authority accounts for contributions, which include government grants, under the deferral method of accounting as follows:

Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of a period are accrued. Grants relating to future periods are deferred and recognized in the subsequent period when the related activity occurs. Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are recognized as revenue in the period in which the related expenses are recognized. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on the same basis and at rates corresponding to those of the related capital assets.

Other income is recognized when earned.

Inventories held for sale

Inventories held for sale, which consist of harvested wood not yet delivered to customers, are measured at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis. Cost includes all acquisition costs incurred in bringing inventory to its present location and condition. Net realizable value is estimated selling price in the ordinary course of business less any applicable selling expenses.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

1. Significant accounting policies (continued)

Capital assets

Capital assets are stated at cost. Amortization is provided on the straight-line basis using the following annual rates:

<u>Asset</u>	<u>Rate</u>
Automotive equipment and trailers	25%
Portable steel structures	20%
Technical and data processing equipment	10%
Furniture and fixtures	10%
Leasehold improvements	10%

The cost of bridges and access roads is amortized over the estimated number of operating seasons for which the bridges and roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets (comprised of furniture and fixtures, technical and data processing equipment, automotive equipment and trailers) are amortized on the same basis and at the same rates as the assets mentioned above.

Financial instruments

The Authority's financial assets and financial liabilities are accounted for as follows:

Cash is subject to an insignificant risk of change in value so carrying value approximates fair value.

Accounts receivable are recorded at amortized cost less any amount for valuation allowances. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowances are recognized in the Statement of Operations.

Accounts payable and accrued liabilities, contractors' performance holdbacks and Due to Consolidated Revenue Fund are recorded at amortized cost.

The Authority does not use derivative financial instruments.

Employee future benefits

The Authority provides termination benefits to qualifying employees for services rendered prior to January 1, 2016. The costs of severance entitlements under the *Public Service of Ontario Act* and unused vacation entitlements earned by employees during the year are accrued for in the financial statements. The costs of any legislated severance are recognized when earned by eligible employees.

Defined contribution plan accounting is applied to a multi-employer defined benefit plan for which the Authority has insufficient information to apply defined benefit plan accounting.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

1. Significant accounting policies (continued)

Measurement uncertainty

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include determination of the allowance for doubtful accounts receivable, inventory obsolescence and employee future benefits. Actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are reported in the statement of operations in the year in which they become known.

2. Related party transactions

The Authority, under the provisions of the Algonquin Forestry Authority Act, is subject to the direction and control of the Ministry of Natural Resources and Forestry ("the Ministry"). During the normal course of operations, the Authority entered into the following related party transactions with the Ministry during the year:

- i) Received funding for the reimbursement of road construction and maintenance costs (see Notes 5 and 10)
- ii) Received funding for the reimbursement of public access road maintenance costs (see Notes 5 and 10)
- iii) Paid crown timber stumpage charges (see Note 13)

All related party transactions have been recorded at their exchange amount, which is the amount of consideration established and agreed to by the related parties.

3. Accounts receivable

	<u>2017</u>	<u>2016</u>
Trade receivables	\$ 6,666,575	\$ 8,267,725
Billable stumpage and other	<u>501,374</u>	<u>427,848</u>
	7,167,949	8,695,573
Less allowance for doubtful accounts	<u>(37,914)</u>	<u>(37,914)</u>
	<u>\$ 7,130,035</u>	<u>\$ 8,657,659</u>

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

4. Capital assets

	2017		
	Cost	Accumulated amortization	Net book value
Bridges and access roads	\$ 5,346,799	\$ 5,346,799	\$ -
Portable steel structures	958,076	676,496	281,580
Forest renewal assets	512,662	384,558	128,104
Automotive equipment	459,190	349,752	109,438
Technical equipment	176,007	172,623	3,384
Data processing equipment	74,720	70,181	4,539
Furniture and fixtures	50,608	50,608	-
Leasehold improvements	44,804	44,804	-
Trailers	12,550	4,721	7,829
	<u>\$ 7,635,416</u>	<u>\$ 7,100,542</u>	<u>\$ 534,874</u>
	2016		
	Cost	Accumulated amortization	Net book value
Bridges and access roads	\$ 5,346,799	\$ 5,346,799	\$ -
Portable steel structures	681,279	629,597	51,682
Forest renewal assets	433,026	320,532	112,494
Automotive equipment	430,954	339,815	91,139
Technical equipment	176,007	170,920	5,087
Data processing equipment	74,720	68,668	6,052
Furniture and fixtures	50,608	50,608	-
Leasehold improvements	44,804	44,804	-
Trailers	23,432	14,629	8,803
	<u>\$ 7,261,629</u>	<u>\$ 6,986,372</u>	<u>\$ 275,257</u>

5. Deferred contributions

Deferred contributions represent unspent resources received from the Ministry in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	Road construction and maintenance	Public access road maintenance	2017 Total	2016 Total
Balance, beginning of year	\$ -	\$ 25,849	\$ 25,849	\$ -
Add: contributions received in the year	1,869,561	300,000	2,169,561	1,884,209
Less: amount spent in the year	(1,869,561)	(292,609)	(2,162,170)	(1,858,360)
Balance, end of year	<u>\$ -</u>	<u>\$ 33,240</u>	<u>\$ 33,240</u>	<u>\$ 25,849</u>

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

6. Employee future benefits

(a) Multi-employer pension plan

The Authority's full-time employees participate in the Public Service Pension Fund ("PSPF") which is a defined benefit pension plan for certain employees of the Province of Ontario and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Authority's annual payments to PSPF. As the sponsor is responsible for ensuring that the pension fund is financially viable, any surpluses or unfunded liabilities arising from the statutory actuarial funding valuations are not assets or obligations of the Authority. The Authority's annual payments of \$117,019 (2016 - \$106,694) are included in salaries and benefits in the Statement of Operations.

(b) Termination benefits

The Authority provides termination benefits to qualifying employees. All full-time employees hired before April 1, 2014 qualify for a severance payment equal to one week of salary for each year of continuous service with the Authority provided before January 1, 2016, to a maximum of one-half of the employees' annual salary. The total obligation for vested severance payments amounts to \$349,947 (2016 - \$436,834) at year end.

(c) Non-pension post-retirement benefits

The cost of other non-pension post-retirement benefits is the responsibility of the Province of Ontario, a related party, and accordingly is not accrued or included in the Statement of Operations.

7. Forest Renewal Fund

Effective September 6, 2012, the Authority renewed its agreement with the Ministry to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis, for these activities is derived from stumpage charges levied under the Crown Forest Sustainability Act and grants from the Forestry Futures Fund. The term of the agreement commenced April 1, 2007 and expires March 31, 2027.

The agreement also requires the Authority to maintain a minimum balance of \$1,500,000 in the Forest Renewal Fund.

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

8. Invested in capital assets	2017	2016
(a) Investment in capital assets	\$ 534,874	\$ 275,257
(b) Change in net assets invested in capital assets is calculated as follows:		
Deficiency of revenues over expenses:		
Amortization of deferred contributions related to capital assets	\$ -	\$ 17,280
Amortization of capital assets	(176,453)	(142,914)
	\$ (176,453)	\$ (125,634)
(c) Net change in investment in capital assets:		
Purchase of capital assets	\$ 436,070	\$ 129,149

9. Interfund transfer

The Board of Directors has approved, by resolution, that any loss incurred in the Forest Renewal Fund resulting from forest renewal activity expenses exceeding revenues, net of related capital asset amortization, during the year which cannot be funded by the Forest Renewal Fund without causing the Forest Renewal Fund balance to fall below \$2,500,000 shall be funded by the General Fund. No amount has been transferred during the year (2016 - \$Nil).

10. Other revenue	2017	2016
Ministry reimbursement - road construction and maintenance	\$ 1,869,561	\$ 1,584,209
Ministry reimbursement - public access road maintenance	292,609	274,151
Interest	269,315	320,271
Gain on sale of capital assets	15,195	22,811
Other	351,820	339,638
	\$ 2,798,500	\$ 2,541,080

Included in General Fund other revenue is revenue of \$1.87 million (2016 - \$1.58 million) received by the Authority pursuant to an agreement with the Ministry. The purpose of the agreement is to provide the Authority with reimbursement of road construction and maintenance costs on eligible primary and secondary forest access roads where access to those roads is not limited to the forest industry. A portion of the Ministry funding was passed on to the Authority's customers through a rebate allocated on the basis of sales volumes. In fiscal year 2017, \$492,002 (2016 - \$455,050) was passed on to the Authority's customers and is netted in product sales in the Statement of Operations.

11. Remuneration of appointments

Total remuneration of the Board members of the Authority was approximately \$24,600 during the fiscal year (2016 - \$12,100).

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2017

12. Financial instruments risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Authority's credit risk arises from its financial assets including cash and receivables. The Authority's receivables are due from various customers and from government agencies and are collectible. All cash deposits are held with financial institutions. As such, the Authority is not exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet all cash outflow obligations as they come due. The Authority is exposed to this risk mainly in respect of its accounts payable and accrued liabilities, contractors' performance holdbacks and amounts due to the Consolidated Revenue Fund. The Authority mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining adequate cash balances in the near-term if unexpected cash outflows arise.

13. Crown timber stumpage charges

Crown timber stumpage charges are incurred during the normal course of operations and are paid to the Ministry. Any amounts owing by the Authority at year end are recorded as Due to Consolidated Revenue Fund on the Statement of Financial Position. Year end balances are normally settled in full in the first quarter of the following year.

The Algonquin Forestry Authority

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