



ALGONQUIN
FORESTRY AUTHORITY
Maintaining the Balance since 1975



Annual Report
2017 - 2018

Forty-Third Annual Report 2017 – 2018



TO HER HONOUR

The Lieutenant Governor
of the Province of 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, 2017 and ending March 31, 2018.

The Honourable Jeff Yurek
Minister



THE HONOURABLE JEFF YUREK
Minister of Natural Resources and Forestry

Honourable Sir:

I have the honour to submit to you the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 2017 and ending March 31, 2018.

DAVID LEMKAY
Acting 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 within Algonquin Provincial Park.

- 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 (MNR) 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.

A mandate letter was not prepared by the MNR for this fiscal period. Instead, an agency mandate review was conducted that would inform the development of a mandate letter and business planning documents in the next fiscal year.

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 Lemkay

On behalf of the AFA Board of Directors, I am pleased to present this Annual Report outlining Algonquin Forestry Authority (AFA) operations for the 2017-2018 operating year. This report marks AFA's 43rd 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.

I am equally pleased to report our commitment has been reconfirmed by separate independent audits completed on finance and administration, environmental performance, forest operations and forest management planning. To say the least, 2017-2018 has been a very busy audit year.

This year the AFA's Finance & Audit Committee worked with staff and the auditor to represent the governing Board's interests during the audit. The Office of the Auditor General's audited financial report is provided herein. The AFA's Sustainable Forest & Environmental Management System, certified to the CSA Z-809 standard underwent a surveillance audit. Certification was maintained for another year through this process.

An Independent Forest Audit (IFA) required every five years by the Crown Forest Sustainability Act, and referenced in the preceding section, was completed on forest management planning and operations for the 2012 to 2017 term. The professional independent audit firm provided the opinion that the Algonquin Park Forest was being sustainably managed and recommended the Minister extend the current term of the Algonquin Park Forestry Agreement another five years.

The AFA was also the subject of a mandate review, coordinated by Treasury Board on behalf of Government that answered in the affirmative, three very significant questions: whether the agency continues to be relevant to the goals and priorities of Government, whether the agency is carrying out activities and operations as required by its mandate, and whether the functions of the agency are best performed by the agency as opposed to some other entity.

Audits are an important and necessary part of our business so on behalf of the AFA Board, I wish to convey my congratulations and appreciation for the hard work and dedication required to maintain high standards and a clear path of continual improvement. The Board is satisfied with the results of audits and is pleased to acknowledge the Authority is achieving its mandate, including the objectives set out by the Board in the agency's approved business plan and budget.

This year AFA recognized Maggie Maw's retirement after 28 years of dedicated service and welcomed Cindi Sandiland to the position of Administrative Assistant, Huntsville. We wish them well in all of their future endeavours.



Photo – At the Algonquin Park Logging Museum. Left to Right: AFA Board of Directors; Gord Clark, Carl Corbett, Rod Smith, Sarah Bros, Jeff Leavey (General Manager), Dave Lemkay, Tom Haynes (Prince of Wales Forest Leadership Intern), Tim Doyle (Treasurer), Sarah Morgan-White and Damion Ketchum. Missing from photo are Dave Stewart and John Pineau.

As Acting Chair of the Authority, I would like to acknowledge the important work that Directors are putting into governing the Authority, including commitments to committee work. In particular, the Finance & Audit and Governance committees are raising the bar on oversight and strategic planning, and finally the HR committee are commended for their diligence to deliver mission critical AFA staff and executive compensation projects. Please see page 10 of this report for a 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,

David Lemkay, Acting Chair, AFA Board of Directors

DESCRIPTION OF ACTIVITIES

The activities of the Algonquin Forestry Authority are described primarily as harvesting and forest management. As the Authority is self-financing, it relies on the sale of forest products harvested to fund all aspects of its operations including planning and 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 2017 to 2020 business planning document.

Factors affecting achievement of objectives are typically 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.

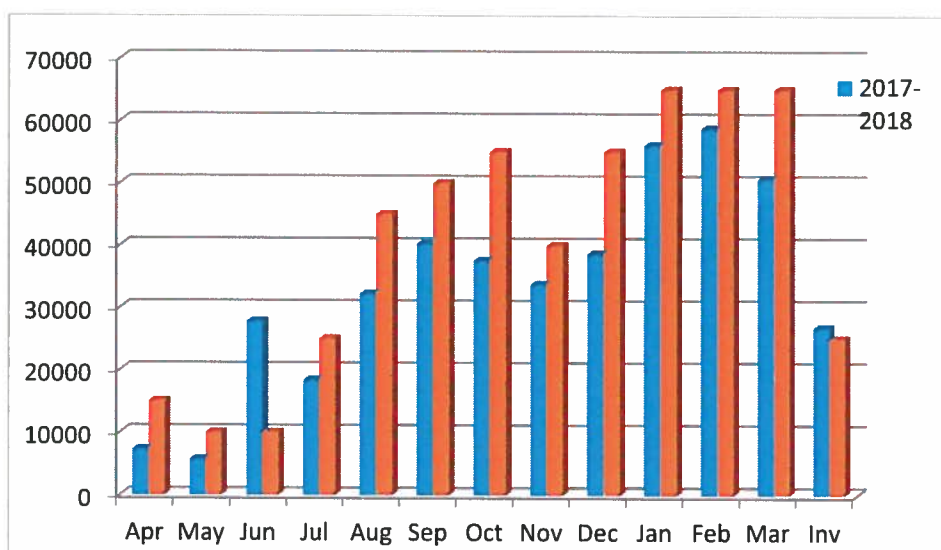
Harvesting

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 2017-2020 AFA Agency Business Plan set out a planned level, or target of 500,000 m³ for 2017-2018 based on improving economic and operational factors.

The 2017-2018 harvest from the forest was 392,844 m³ (source: AFA Sales System), which is well within the sustainable level that the Algonquin forest can provide, yet reflective of continuing challenges to increase harvest levels. The previous year's harvest level was 427,158 m³. Harvest levels are tracked in-year as volume is sold in green metric tonnes (gmt), the unit of measure most commonly used by clients. Mathematical conversions from gmt to net m³ are made at year-end for consistency with FMP and business planning units of measure.

This year's harvest level (m³) was 78% of business planned targets, which is lower than the previous year's performance of 85%. Monthly delivery (gmt sales) targets are compared to monthly budgeted values in the following chart and explained in the following text.

2017-2018 Monthly Deliveries (Sales) vs. Business Plan Budgeted Values (green metric tonnes)



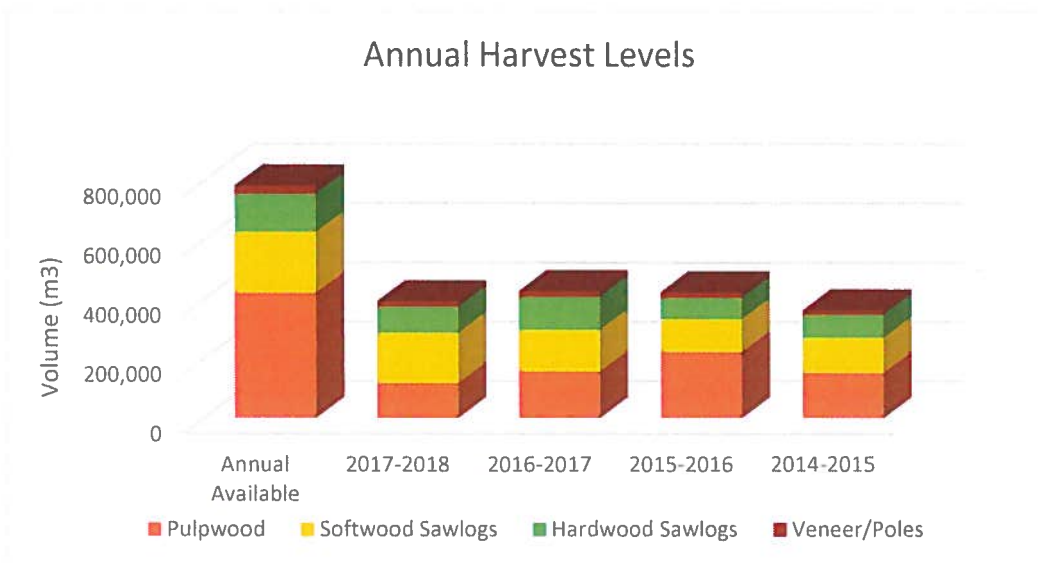
Timber volume inventoried in March of the previous year was higher than planned, but spring rains, road restrictions and curtailment of spring pulpwood deliveries resulted in low volumes delivered until June of the first quarter. Q1 performance of 116% of planned levels compares to 95% in the previous year. The wet weather and poor pulpwood markets continued into the second quarter, limiting start-ups for contractors, especially those operating in hardwood forest types. Production and sales fell short of targets throughout the summer and early fall. Q2 (July, August, and September) performance of 76% of planned levels compares to 113% in the previous year.

Although operating conditions improved in October, one major receiver of the AFA's pulpwood was only open for short periods due to a number of unforeseen issues, including unscheduled repairs. A local area sawmill also curtailed deliveries to undertake significant mill upgrades. Q3 performance of 73% of planned levels compares to 91% in the previous year.

Winter operating conditions improved with consistently colder weather and very little precipitation compared to the previous winter. Pulpwood demand and therefore volume sold also improved in the final quarter of the year, but not enough to make up for lost production and sales. Q4 performance of 85% compares favorably to 65% in the previous year.

Inventoried volume developed as planned even though deliveries/sales ran through March and into April as weather and market conditions cooperated. Contractor seasons were extended an average of three weeks beyond last year's finish date, compensating somewhat for lost time during the summer. Two contractors even worked on into April. Year-end inventoried volume is not reported in our sales system until finally sold in the following fiscal year.

Volume harvested and delivered in 2017-2018 is illustrated by broad product category in the following graph for comparison with the annual available harvest (described in the FMP) and harvest/sales performance levels from the previous three years.



There is a larger proportion of hardwood pulpwood quality timber available from the forest (see Annual Available in the graph above) than other products. Harvesting and sales of pulpwood quality timber has been less in 2017/18 than in the previous three years. The lack of pulpwood markets often has a direct effect on hardwood log production. Conifer (softwood) log production in 2017/18 has offset volume losses and added value to the overall financial results discussed later in this report.

The Authority's 2017-2020 Agency Business Plan identifies strategies to increase production and utilization of the harvest volume; 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. These strategies have been implemented with generally successful results, especially considering sporadic pulpwood markets and weather conditions beyond the AFA's control.

The Authority retains a professional and responsible work force to achieve its objectives and as such actively promotes safe and effective work practices. Mieske Forestry Inc., of Bancroft, ON was awarded the annual Safety Award for the 2017/18 season with an impressive record of no lost time injuries for over 8,800 person days on the job. This award is presented annually to the Algonquin Park logging contractor maintaining the best safety record. All operations show a trend of continual improvement. In addition to the safety award, AFA and the contractors administer an "Environmental and Safety Award System" that recognizes positive work practices. Based on a monthly score card for logging contractor operations, including road building and hauling sectors, the top performing contractors and their workers are formally recognized.

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 realities.

The AFA has begun the planning process following the 2017 Forest Management Planning Manual for a 2020-2030 FMP. A planning team and terms of reference have been approved. Work has focused on public consultation and preparing/updating the forest inventory for planning. Staff have also undertaken renewal of the AFA's Sustainable Forest Management Plan to comply with recently implemented CSA Z-809-2016 standard required to be confirmed by a planned re-registration audit in 2018.

Forest management activities such as prescription setting and tree marking occur in advance of harvesting at levels planned to be enough for harvest operations. 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.

The AFA reviewed its forest management (silviculture) program, and forecasted funding needs that will eventually exceed renewal revenues generated (renewal funds from stumpage) from forecasted harvesting, even though surpluses have been achieved in the past five years (see bottom of page 12). A proposal to increase renewal rates was presented to MNR in 2017 for approval prior to the 2018-2019 fiscal year.

AFA Harvest & Forest Management Programs – 2017-2018 Budget versus Actual

| Program | 2017/18 Budget | 2017/18 Actual |
|--|-------------------|-------------------|
| Harvest (m3) | 500,000 | 392,844 |
| Silvicultural Activities | | |
| Silvicultural Effectiveness Monitoring Surveys (ha) | 2,100 | 1,737 |
| Scarification (ha) | 55 | - |
| Site preparation (ha) | 540 | 596 |
| Stand Improvement (ha) | 4,000 | 1,530 |
| Tending (ha) | 795 | 1,525 |
| Tree marking (ha) | 7,500 | 6,703 |
| Tree planting (# trees'000s) | 715 | 734 |
| Tree planting stock ('000s) | 799 | 543 |
| Tree seed collection (hl) | 58 | 95 |

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 6,703 hectares in 2017/18 representing 89% 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. Seed collection exceeded business planned levels (164%) due to the above average seed crop produced by both white and red pine within Algonquin Park. Resources were allocated to ensure full advantage was taken of the seed available. (See the cover photo). A review of stored seed inventories reveals sufficient volume of seed for our near term growing stock needs.

A total of 733,690 tree seedlings were planted on 554 hectares in 2017/18 representing target achievement greater than 100%. The above average tree planting program took place over two projects (May and late August) to complete all available site prepared ground, including area carried forward from 2016/17. Average density for the 2017/18 tree plant was 1,300 trees per hectare.

Forest management reporting conventions differentiate between site preparation for artificial regeneration (planting) and scarification for natural regeneration. We often do not plan for scarification in white and red pine stands. 595 hectares were site prepared for planting in future years, which is slightly above planned levels. Due to contractor availability and the aforementioned seed crop present in white pine and red pine, efforts were made to complete as much site preparation (some may be scarification) as possible in preparation for planting and natural regeneration in 2018/19. Sites with above average seed crop for potential for natural regeneration will be monitored.

Private nurseries are growing 543,000 seedlings under contract with AFA for planting in upcoming years. The planned (budgeted) total of 799,000 seedlings includes “current crop” seedlings ordered in-year for the August tree plant. Program levels reflect site preparation and tree planting needed to ensure harvested areas are successfully regenerated. Most areas harvested regenerate naturally. As previously indicated, no actual scarification is reported this year.

Tending and Stand Improvement

Manual tending was performed on 355 hectares to release established white pine and red pine regeneration from competing vegetation. A further 1,169 hectares of even-aged understory improvement work was completed in order to improve light conditions for regeneration establishment.

This represents almost double 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.

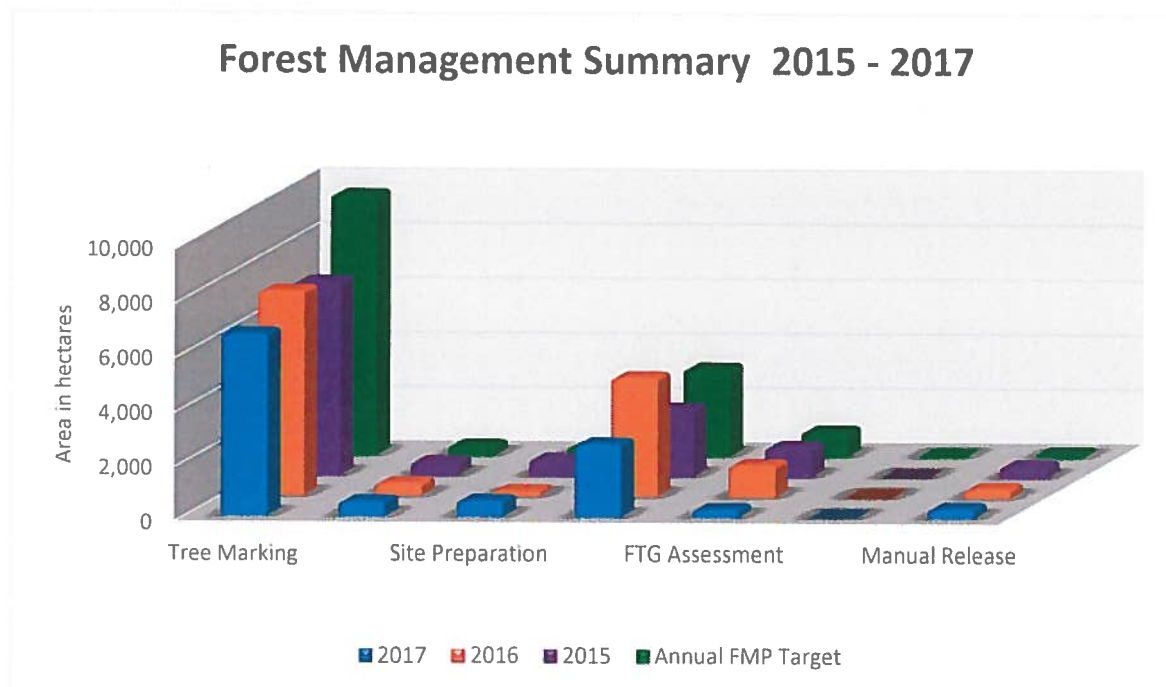
Stand improvement was completed on 1,530 hectares to assist growth of residual trees and natural regeneration in areas managed under the selection system. This is 38% of business planned levels. This is a decrease over 2016/17 as a backlog of treatment areas originating from previous fiscal years were treated in 2016/17. The level of 2017/18 stand improvement work is more reflective of normal levels of funded stand improvement. Stand improvement is also sometimes 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 1,737 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 83% of planned surveys. Actual annual monitoring is reflective of harvest progress and scheduling of treatments and does not include surveys completed to determine plantation survival. Annual targets are usually set lower than FMP targets based on additional information and a better understanding of actual harvest depletions, stage of management and survey timing.

The 2017/18 forest management program is illustrated on the next page and is compared to annual FMP targets. The program is the eighth 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.



The agency's forest management program was audited by Arbor Vitae Environmental Services Inc., under contract with the Forestry Futures Trust to conduct a 2017 Independent Forest Audit (IFA) on behalf of the province of Ontario. The IFA assessed the management of the Algonquin Park Forest for the period April 1, 2012 to March 31, 2017. The audit reviewed the performance of the AFA, which manages the Forest under the Algonquin Park Forestry Agreement (APFA), and the Algonquin Zone Ontario Parks branch of the Ministry of Natural Resources and Forestry.

The overall results of the audit were favourable and the level of performance by the MNRF and the AFA was found to be high during the audit period. The auditor was of the opinion that the AFA has substantially met the obligations in its Agreement and is adhering to the direction in the FMPM and that management was found to be sustainable and in compliance with the Crown Forest Sustainability Act.

The audit team recommended the Minister extend the term of the APFA for a further five years. Tabling by the Minister in the Legislature is required before the IFA report document is made public.

FINANCIAL RESULTS

AFA Financial Performance – 2017-2018 Budget versus Actual

| | 2017/18 Budget General Fund \$ (000s) | 2017/18 Budget Renewal Fund \$ (000s) | 2017/18 Budget Total \$ (000s) | 2017/18 Actual General Fund \$ (000s) | 2017/18 Actual Renewal Fund \$ (000s) | 2017/18 Actual Total \$ (000s) |
|---------------------------------------|--|--|---|--|--|---|
| Revenue | 27,089 | 2,395 | 29,484 | 25,090 | 2,255 | 27,345 |
| Expense | 24,915 | 1,919 | 26,834 | 23,015 | 1,541 | 24,556 |
| Operating Income | 2,174 | 476 | 2,650 | 2,075 | 714 | 2,789 |
| Administrative & Other | 1,784 | 466 | 2,250 | 1,890 | 473 | 2,363 |
| Net Income <Loss> | 390 | 10 | 400 | 185 | 241 | 426 |

Harvesting and the Statement of Operations

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

Operating revenues for the year were \$27,345,238 which represents an increase of \$230,262 or 0.85 % compared to 2016/17. Demand for our contractor produced forest products decreased by about 1.0% during the year and slightly higher stumpage and selling prices were achieved resulting in a nominal 0.64% increase in product sales dollars. Standing timber sales volumes decreased significantly in 2017/18 as required volumes were obtained by the parties from other forest management units.

"Other revenue" of \$2,987,827 as compared to \$2,798,500 in 2016/17 has been itemized in Note 10.

Costs for contracted production, direct labour and stumpage were lower than the previous year due to decreased production levels. Combined with slightly increased spending on public access road maintenance and operations planning, the results show an increase in operating income to \$2,789,471 as compared to \$2,496,198 in the previous year. Operations planning costs associated with our Environmental Management System, CSA certification and the FMP process were \$371,447 as compared to \$272,003 in the previous year.

Administration costs for the year were \$2,362,949 which represents an increase of \$480,802 or 25.5% compared to 2016/17. The increase is primarily related the implementation of an updated salary administration system for staff, many of whom had seen wages frozen since 2009.

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 \$1,815,831 (\$1,729,884 in 2016/17) from stumpage represents amounts actually charged by the Ministry to

customers during the year for renewal fund purposes. Lower sales volumes of about 7.4% did not result in lower renewal revenue as a result of changes in the species mix, in particular pine volumes that were up over 20% over the previous year.

Actual allowable forest renewal expenditures incurred during the year amounted to \$2,014,041 as compared to \$1,831,254 in 2017. This increase was also related to the updated salary administration system.

Total revenue in the renewal fund of \$2,255,571 (\$1,946,559 in 2016/17) has been sufficient to cover the costs of renewal operations and administration in this term. This is the fifth consecutive year of a surplus \$241,530 (\$115,305 in 2016/17) 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, 2018 our cash was \$1,951,906 lower and our accounts receivable balance was \$3,315,750 higher than the previous year balances. This change resulted from a slowdown in customer payments and a longer than normal end of year operating season that resulted in higher than normal March sales. Knowing that our cash position was negatively impacted no additional inventories were produced at the end of the season for delivery in the spring as was the case of 2016/17.

March 31 payables and accruals were much higher by \$773,671 compared to 2016/17 as a result of the extended operating season, retroactive salary adjustments and retroactive WSIB adjustments (\$150,000).

Also included in the \$2,249,459 balance is \$472,632 (\$492,002 in 2016/17) 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 2018

The Renewal Account balance of \$3,292,239 (\$3,050,709 in 2017) 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, 2021 |
| 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 5, 2021 |
| Sarah Morgan-White Gloucester, ON | June 22, 2016 | June 21, 2019 |
| John Pineau Mattawa, ON | January 28, 2015 | January 27, 2021 |
| Rodney Smith Arnprior, ON | August 4, 2016 | August 3, 2019 |

The total remuneration paid to Directors for this fiscal period is \$28,693.

OFFICERS:

Jeffrey W. Leavey
General Manager

Timothy K. Doyle, CPA, CA
Secretary-Treasurer

GENERAL MEETINGS:

March 16-17, 2017
Huntsville, ON

May 26-27, 2017
Peterborough, ON

August 18-19, 2017
Algonquin Park, ON

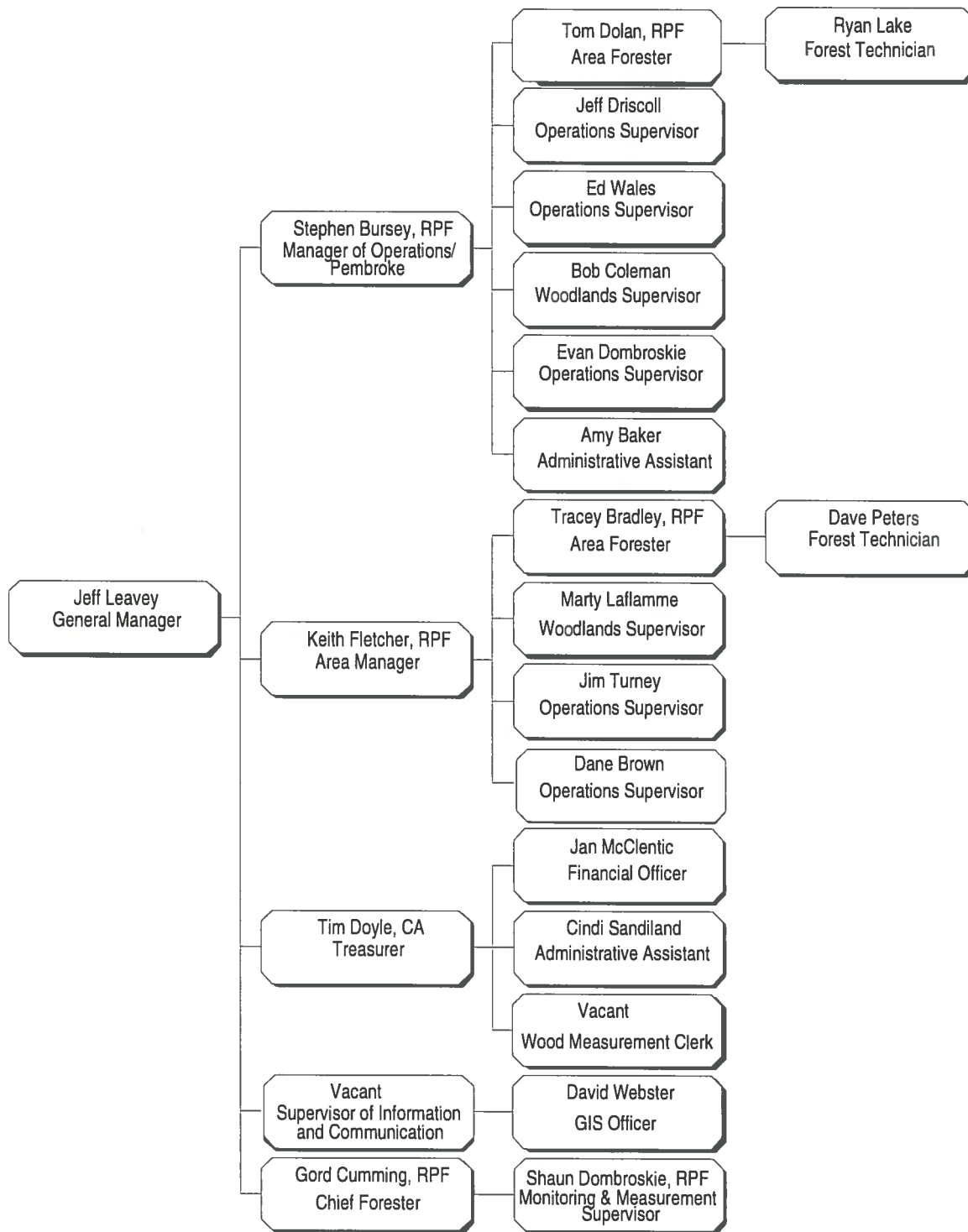
October 27-28, 2017
Petawawa, ON

December 8-9, 2017
Huntsville, ON

February 2-3, 2018
Mattawa, ON

March 16-17, 2018
Huntsville, ON

ORGANIZATION CHART



Financial Statements

Algonquin Forestry Authority

March 31, 2018

Algonquin Forestry Authority
Year ended March 31, 2018


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 du vérificateur général 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, 2018, 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, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 15, 2018

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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www.auditor.on.ca

Algonquin Forestry Authority Statement of Financial Position

As at March 31

2018

2017

Assets

Current assets

| | | |
|------------------------------|-------------------|-------------------|
| Cash | \$ 1,353,410 | \$ 3,305,316 |
| Accounts receivable (Note 3) | 10,445,785 | 7,130,035 |
| Inventories held for sale | 520,520 | 543,036 |
| Prepaid expenses | 1,962 | 1,962 |
| | <u>12,321,677</u> | <u>10,980,349</u> |

Capital assets (Note 4)

| | | |
|--|----------------------|----------------------|
| | <u>451,956</u> | <u>534,874</u> |
| | <u>\$ 12,773,633</u> | <u>\$ 11,515,223</u> |

Liabilities

Current liabilities

| | | |
|--|------------------|------------------|
| Accounts payables and accrued liabilities | \$ 2,249,459 | \$ 1,475,788 |
| Contractors' performance holdbacks | 74,580 | 60,124 |
| Due to Consolidated Revenue Fund (Note 13) | 302,857 | 225,969 |
| Deferred contributions (Note 5) | 15,888 | 33,240 |
| | <u>2,642,784</u> | <u>1,795,121</u> |

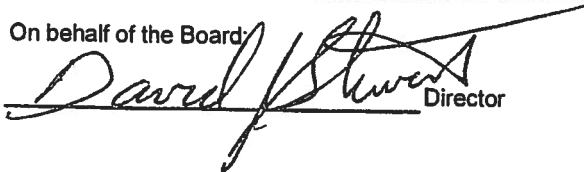
Obligation for employee future benefits (Note 6)

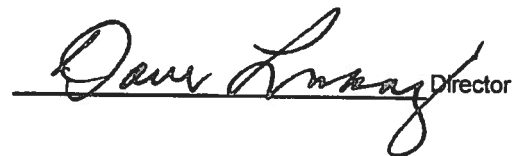
| | | |
|--|------------------|------------------|
| | <u>334,172</u> | <u>349,947</u> |
| | <u>2,976,956</u> | <u>2,145,068</u> |

Net assets

| | | |
|--|----------------------|----------------------|
| Restricted - Forest Renewal Fund (Notes 7 and 9) | 3,292,239 | 3,050,709 |
| Invested in capital assets (Note 8) | 451,956 | 534,874 |
| Unrestricted - General Fund | 6,052,482 | 5,784,572 |
| | <u>9,796,677</u> | <u>9,370,155</u> |
| | <u>\$ 12,773,633</u> | <u>\$ 11,515,223</u> |

On behalf of the Board:


Director


Director

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Operations

Year Ended March 31

2018

2017

| | General Fund | Forest Renewal Fund | Total | Total |
|---|-------------------|------------------------|-------------------|-------------------|
| Revenue | | | | |
| Product sales | \$ 22,506,224 | \$ - | \$ 22,506,224 | \$ 22,362,486 |
| Forest renewal activity | - | 1,815,831 | 1,815,831 | 1,729,884 |
| Standing timber sales | 35,356 | - | 35,356 | 224,106 |
| Other (Note 10) | 2,548,087 | 439,740 | 2,987,827 | 2,798,500 |
| | <u>25,089,667</u> | <u>2,255,571</u> | <u>27,345,238</u> | <u>27,114,976</u> |
| Expenses | | | | |
| Direct program costs | 19,309,526 | 1,540,613 | 20,850,139 | 21,026,903 |
| Crown timber stumpage charges (Note 13) | 2,971,286 | - | 2,971,286 | 2,986,500 |
| Public access road maintenance | 317,352 | - | 317,352 | 292,609 |
| Operations planning | 371,447 | - | 371,447 | 272,003 |
| Wood measurement | 45,543 | - | 45,543 | 40,763 |
| | <u>23,015,154</u> | <u>1,540,613</u> | <u>24,555,767</u> | <u>24,618,778</u> |
| Operating income | <u>2,074,513</u> | <u>714,958</u> | <u>2,789,471</u> | <u>2,496,198</u> |
| Administrative and other | | | | |
| Salaries and benefits | 1,424,230 | 380,051 | 1,804,281 | 1,367,763 |
| Amortization of capital assets | 121,986 | 67,780 | 189,766 | 176,453 |
| Office supplies and other | 132,218 | 95 | 132,313 | 112,443 |
| Directors' allowance | 59,284 | - | 59,284 | 53,306 |
| Office rent | 43,414 | 14,348 | 57,762 | 57,103 |
| Public relations | 37,280 | - | 37,280 | 29,213 |
| Insurance | 19,953 | 8,264 | 28,217 | 31,757 |
| Staff travel and training | 23,660 | 2,890 | 26,550 | 48,911 |
| Consulting, legal and miscellaneous | 26,054 | - | 26,054 | 3,198 |
| Interest and bank charges | 1,442 | - | 1,442 | 2,000 |
| | <u>1,889,521</u> | <u>473,428</u> | <u>2,362,949</u> | <u>1,882,147</u> |
| Excess of revenue over expenses | <u>\$ 184,992</u> | <u>\$ 241,530</u> | <u>\$ 426,522</u> | <u>\$ 614,051</u> |

See accompanying notes to the financial statements.

Algonquin Forestry Authority Statement of Changes in Net Assets

Year Ended March 31

| 2018 | Invested in Capital Assets | Restricted - Forest Renewal Fund | Unrestricted - General Fund | Total |
|---|---|---|--|---------------------|
| Balance, beginning of year | \$ 534,874 | \$ 3,050,709 | \$ 5,784,572 | \$ 9,370,155 |
| (Deficiency) excess of revenue over expenses (Note 8) | (189,766) | 241,530 | 374,758 | 426,522 |
| Invested in capital assets (Note 8) | 106,848 | - | (106,848) | - |
| Balance, end of year | <u>\$ 451,956</u> | <u>\$ 3,292,239</u> | <u>\$ 6,052,482</u> | <u>\$ 9,796,677</u> |
| 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) | 436,070 | - | (436,070) | - |
| Balance, end of year | <u>\$ 534,874</u> | <u>\$ 3,050,709</u> | <u>\$ 5,784,572</u> | <u>\$ 9,370,155</u> |

See accompanying notes to the financial statements.

Algonquin Forestry Authority

Statement of Cash Flows

Year Ended March 31

2018

2017

Cash flows from operating activities:

| | | |
|---------------------------------|----------------|----------------|
| Excess of revenue over expenses | \$ 426,522 | \$ 614,051 |
| Adjustments for non-cash items: | | |
| Amortization of capital assets | 189,766 | 176,453 |
| Gain on sale of capital assets | (9,115) | (15,195) |
| | <u>607,173</u> | <u>775,309</u> |

Change in non-cash operating working capital:

| | | |
|--|--------------------|------------------|
| Accounts receivable | (3,315,750) | 1,527,624 |
| Inventories held for sale | 22,516 | (214,428) |
| Prepaid expenses | - | 5,439 |
| Accounts payable and accrued liabilities | 773,671 | 191,973 |
| Contractors' performance holdbacks | 14,456 | (19,883) |
| Due to Consolidated Revenue Fund | 76,888 | (66,907) |
| Deferred contributions | (17,352) | 7,391 |
| Obligation for employee future benefits | (15,775) | (86,887) |
| | <u>(1,854,173)</u> | <u>2,119,631</u> |

Cash flows from capital activities

| | | |
|--------------------------------------|-----------------|------------------|
| Acquisition of capital assets | (106,848) | (436,070) |
| Proceeds from sale of capital assets | 9,115 | 15,195 |
| | <u>(97,733)</u> | <u>(420,875)</u> |

Net (decrease) increase in cash (1,951,906) 1,698,756

Cash

| | | |
|-------------------|---------------------|---------------------|
| Beginning of year | <u>3,305,316</u> | <u>1,606,560</u> |
| End of year | <u>\$ 1,353,410</u> | <u>\$ 3,305,316</u> |

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2018

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, 2018

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, 2018

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, useful lives of capital assets 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>2018</u> | <u>2017</u> |
|--------------------------------------|----------------------|---------------------|
| Trade receivables | \$ 9,984,921 | \$ 6,666,575 |
| Billable stumpage and other | <u>498,778</u> | <u>501,374</u> |
| | 10,483,699 | 7,167,949 |
| Less allowance for doubtful accounts | <u>(37,914)</u> | <u>(37,914)</u> |
| | <u>\$ 10,445,785</u> | <u>\$ 7,130,035</u> |

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2018

4. Capital assets

| | 2018 | | |
|---------------------------|---------------------|--------------------------|-------------------|
| | Cost | Accumulated amortization | Net book value |
| Bridges and access roads | \$ 5,346,799 | \$ 5,346,799 | \$ - |
| Portable steel structures | 958,076 | 723,395 | 234,681 |
| Forest renewal assets | 498,042 | 395,978 | 102,064 |
| Automotive equipment | 518,870 | 420,106 | 98,764 |
| Technical equipment | 181,435 | 174,869 | 6,566 |
| Data processing equipment | 74,720 | 71,694 | 3,026 |
| Furniture and fixtures | 50,608 | 50,608 | - |
| Leasehold improvements | 44,804 | 44,804 | - |
| Trailers | 12,550 | 5,695 | 6,855 |
| | <u>\$ 7,685,904</u> | <u>\$ 7,233,948</u> | <u>\$ 451,956</u> |
| | 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> |

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 | 2018 Total | 2017 Total |
|---|-----------------------------------|--------------------------------|------------------|------------------|
| Balance, beginning of year | \$ - | \$ 33,240 | \$ 33,240 | \$ 25,849 |
| Add: contributions received in the year | 1,951,566 | 300,000 | 2,251,566 | 2,169,561 |
| Less: amount spent in the year | (1,951,566) | (317,352) | (2,268,918) | (2,162,170) |
| Balance, end of year | <u>\$ -</u> | <u>\$ 15,888</u> | <u>\$ 15,888</u> | <u>\$ 33,240</u> |

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2018

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 \$141,080 (2017 - \$117,019) 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 \$334,172 (2017 - \$349,947) 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, 2018

| 8. Invested in capital assets | 2018 | 2017 |
|---|--------------|--------------|
| (a) Investment in capital assets | \$ 451,956 | \$ 534,874 |
| (b) Change in net assets invested in capital assets is calculated as follows: | | |
| Deficiency of revenues over expenses: | | |
| Amortization of capital assets | \$ (189,766) | \$ (176,453) |
| (c) Net change in investment in capital assets: | | |
| Purchase of capital assets | \$ 106,848 | \$ 436,070 |

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 (2017 - \$Nil).

| 10. Other revenue | 2018 | 2017 |
|--|--------------|--------------|
| Ministry reimbursement - road construction and maintenance | \$ 1,951,566 | \$ 1,869,561 |
| Ministry reimbursement - public access road maintenance | 317,353 | 292,609 |
| Interest | 196,167 | 269,315 |
| Gain on sale of capital assets | 9,115 | 15,195 |
| Forestry Futures Trust Ontario | 397,914 | 196,901 |
| Other | 115,712 | 154,919 |
| | \$ 2,987,827 | \$ 2,798,500 |

Included in General Fund other revenue is revenue of \$1.95 million (2017 - \$1.87 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 2018, \$472,632 (2017 - \$492,002) 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 \$28,700 during the fiscal year (2017 - \$24,600).

Algonquin Forestry Authority

Notes to the Financial Statements

March 31, 2018

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.

Algonquin Forestry Authority

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