

Clinton & District Community
Forest of BC Limited
Financial Statements
For the Year Ended December 31, 2019

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Independent Auditor's Report

To the shareholders of
Clinton & District Community Forest of BC Limited

Opinion

We have audited the financial statements of Clinton & District Community Forest of BC Limited, which comprise the balance sheet as at December 31, 2019, and the statements of operations and retained earnings and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter-Basis of Accounting and Restriction on Use

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist Clinton & District Community Forest of BC Ltd. with its internal reporting requirements of its shareholder, The Corporation of the Village of Clinton. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for Clinton & District Community Forest of BC Ltd. and The Corporation of the Village of Clinton and should not be used by parties other than Clinton & District Community Forest of BC Ltd. and The Corporation of the Village of Clinton. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises; this includes determining that Canadian accounting standards for private enterprises are an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Company's



ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Kamloops, British Columbia
May 26, 2020

Clinton & District Community Forest of BC Limited Balance Sheet

As at December 31	2019	2018
Assets		
Current		
Cash	\$ 210,688	\$ 1,572,437
Term deposit (Note 2)	1,654,611	-
Accounts receivable	10,000	45,264
Prepaid expenses	236	1,746
	1,875,535	1,619,447
Term deposit (Note 2)	-	128,292
Property and equipment (Note 3)	11,310	14,167
	\$ 1,886,845	\$ 1,761,906

Liabilities and Shareholder's Equity

Current		
Accounts payable and accrued liabilities (Note 4)	\$ 69,041	\$ 99,528
Silviculture liability (Note 5)	558,715	544,075
	627,756	643,603
Shareholder's Equity		
Share capital (Note 6)	1	1
Retained earnings	1,259,088	1,118,302
	1,259,089	1,118,303
	\$ 1,886,845	\$ 1,761,906

On behalf of the Board:

_____ Director

_____ Director

Clinton & District Community Forest of BC Limited Statement of Operations and Retained Earnings

For the year ended December 31	2019	2018
Revenue		
Logging revenue	\$ 1,836,315	\$ 3,595,111
Wildfire survey revenue	54,958	-
Grant revenue	-	22,980
Interest income	1,321	3,248
Other revenue	500	-
	<u>1,893,094</u>	<u>3,621,339</u>
Operating expenses		
Advertising and promotion	1,406	899
Amortization of property and equipment	2,857	2,117
Annual rent	9,205	7,384
BCCFA AGM expense	1,628	2,456
Bookkeeping and accounting	12,625	9,510
Consultation fees	7,132	45,540
Hauling	287,548	426,745
Insurance	6,948	3,375
Interest and bank charges	654	471
Legal fees	600	274
Management fees	135,118	92,447
Meeting expense	1,210	725
Memberships and licences	10,000	1,100
Office expenses	971	508
Other donations	-	4,500
Post harvest expense	17,718	-
Repairs and maintenance	-	1,232
Road maintenance	1,437	232
Road use	-	1,200
Silviculture expenses	59,456	469,456
Silviculture liability	15,191	-
Stumpage	74,189	161,997
Subcontractors	746,662	1,312,905
	<u>1,392,555</u>	<u>2,545,073</u>
Income before other expenses	500,539	1,076,266
Other expenses		
Donations	115,046	28,000
Distribution to Village of Clinton	241,707	58,056
Scholarships	3,000	1,500
	<u>369,753</u>	<u>87,556</u>
Net income	140,786	988,710
Retained earnings, beginning of the year	<u>1,118,302</u>	<u>129,592</u>
Retained earnings, end of the year	<u>\$ 1,259,088</u>	<u>\$ 1,118,302</u>

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

Clinton & District Community Forest of BC Limited Statement of Cash Flows

For the year ended December 31	2019	2018
Cash flows from operating activities		
Cash receipts from customers	\$ 1,926,537	\$ 3,572,827
Cash paid to suppliers and employees	(1,763,788)	(2,075,480)
Interest received	1,821	3,248
	164,570	1,500,595
Cash flows from investing activities		
(Acquisition) redemption of term deposit	(1,526,319)	71,752
Acquisition of property and equipment	-	(11,872)
	(1,526,319)	59,880
Net (decrease) increase in cash	(1,361,749)	1,560,475
Cash, beginning of the year	1,572,437	11,962
Cash, end of the year	\$ 210,688	\$ 1,572,437

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

Clinton & District Community Forest of BC Limited

Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies

Nature of Business	Clinton & District Community Forest of BC Ltd. (the "Company") is incorporated under the laws of British Columbia and its principle business activity is logging and log hauling.
Basis of Accounting	As a government business enterprise, Canadian public sector accounting standards require the Company to adhere to the standards applicable to publicly accountable enterprises in the CPA Handbook - Accounting. Accordingly the Company is required under Canadian generally accepted accounting principles to prepare its financial statements using International Financial reporting Standards. Management has determined that the internal reporting needs of the Company and its shareholder, The Corporation of the Village of Clinton, are met through the use of Canadian accounting standards for private enterprises ("ASPE") and, therefore, these financial statements have been prepared in accordance with that framework. Since ASPE is not designed to necessarily meet the needs of all users of the financial statements of a government business enterprise, the readers of these financial statements may require additional information.
Revenue Recognition	Revenue includes the sale of raw logs. Revenue from the sale of raw logs is recognized upon transfer of the significant risks and ownership of the logs, provided that collectibility is reasonably assured.
Income Taxes	As a municipal corporation, the Company is exempt from tax under Section 149 of Division H of the Income Tax Act.
Financial Instruments	<p>Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from its financial statements.</p> <p>Financial instruments are recorded at fair value at initial recognition.</p> <p>Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.</p>

Clinton & District Community Forest of BC Limited

Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies (continued)

Silviculture Liability Forestry legislation in British Columbia obligates the Company to incur the costs of reforestation on its harvested forest and community forest licenses, which include the costs to restore, maintain and manage the timberland over an approximate ten year period. Accordingly, the Company records an estimate at fair value of the costs of reforestation in the current period in which the timber is cut, with the fair value of the liability determined with reference to the present value of the estimated future cash flows. In the periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to the estimated future cash flows are recognized in the statement of earnings as they occur. Estimates for reforestation may be materially impacted by forest fires, adverse weather conditions, wildlife damage, forest health issues, changing government legislation and inaccurate projections.

Property and Equipment Property and equipment are stated at cost less accumulated amortization. Expenditures for repairs and maintenance are expensed as incurred. Betterments that extend the useful life of the asset are capitalized.

Amortization based on the estimated useful life of the asset is calculated as follows:

	Method	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	50%

Impairment of Long-lived Assets In the event that facts and circumstances indicate that the Clinton & District Community Forest of BC Limited's long-lived assets may be impaired, a test of recoverability would be performed.

Such a test entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

Clinton & District Community Forest of BC Limited Notes to Financial Statements

December 31, 2019

1. Significant Accounting Policies (continued)

Use of Estimates The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Term Deposit

Investments consist of two cashable term deposits: \$1,000,000 earning interest at 2.1% and \$654,611 earning interest at 1.9% both maturing on January 16, 2024.

3. Property and Equipment

	2019		2018	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture and equipment	\$ 18,179	\$ 6,908	\$ 18,179	\$ 4,090
Computer equipment	1,571	1,532	1,571	1,493
	19,750	8,440	19,750	5,583
		\$ 11,310		\$ 14,167

4. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$563 (2018 - \$75,134).

Clinton & District Community Forest of BC Limited Notes to Financial Statements

December 31, 2019

5. Silviculture Liability

The Company is obligated to meet the legislative standards for reforestation of harvested timberlands. The obligation occurs at the time the timber is cut, and the estimated fair value of the liability for reforestation is established with reference to the present value of the estimated future cash flows required to settle the liability.

The reforestation expenditures to occur over the next four years have been adjusted for inflation and discounted at the Company's estimated credit adjusted risk free average rate of 2.00% (2018 - 1.45%)

Measurement uncertainty exists to the extent which the Company estimates the cost of future reforestation on current production and forecasts future reforestation costs on the current condition of reforested timberlands with reference to legislative expectations. The degree of uncertainty is unknown as future events outside of the Company's control including government legislation, and environmental impacts to reforested timberlands may impact reforestation costs.

6. Share Capital

Issued and outstanding shares:

2019	2018
\$ 1	\$ 1

7. Unused Credit Facility

The company has an available operating line with Integris Credit Union with a credit limit of \$50,000, bearing interest at the banks line of credit rate of 5.30%. Cost of borrowing expressed as an annual percentage rate, payable on the unpaid balance at the end of each monthly payment period. Sum outstanding for less than 30 days will bear interest at the stated annual percentage applied daily for the number of days the said sum is outstanding.

Clinton & District Community Forest of BC Limited Notes to Financial Statements

December 31, 2019

8. Community Distributions

As a part of its annual budgeting process, the Board identifies the amount of profit that is to be distributed to the Village of Clinton and to other non-profit groups. The distribution of profits is done on a split of 60% to the Village of Clinton and 40% to other non-profit groups. Profits to be distributed is determined by reviewing the annual income and looking forward to what upcoming reforestation, capital or other expenses will be required in the following year. The distribution balances are as follows:

	Village of Clinton	Other non- profit groups
Undistributed funds, beginning of year	\$ 241,707	\$ 155,805
Distributions in the year	(241,707)	(118,046)
Undistributed funds, end of year	<u>\$ -</u>	<u>\$ 37,759</u>

9. Financial Instruments

Liquidity risk

Liquidity risk is the risk that the Clinton & District Community Forest of BC Limited will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Clinton & District Community Forest of BC Limited will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value, which is less than what they are worth; or may be unable to settle or recover a financial asset. The Clinton & District Community Forest of BC Limited is exposed to this risk mainly in respect of its accounts payable and silviculture obligation.

The Clinton & District Community Forest of BC Limited's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions. The Clinton & District Community Forest of BC Limited maintains a portion of its invested assets in term deposits. The Clinton & District Community Forest of BC Limited also maintains certain credit facilities, which can be drawn upon as needed.

There have not been any changes in the risk from the prior year.

Clinton & District Community Forest of BC Limited Notes to Financial Statements

December 31, 2019

10. Subsequent Event - Global Pandemic

The global pandemic has disrupted economic activities and supply chains. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of business disruption and the related financial impact cannot be reasonably estimated at this time. The entity's ability to continue to meet other obligations as they come due is dependent on the continued ability to generate earnings and cash flows, including the use of existing credit facilities.
