

Wells-Barkerville Community Forest Ltd.

Board Meeting (Open)

January 8, 2018 at 6:00 PM, Wells Municipal Hall

1. CALL TO ORDER AND ADOPTION OF AGENDA

- a. Adoption of Agenda for January 8, 2018 WBCF Ltd (WBCF) Board Meeting

Recommendation: That the Board approves the Agenda for the January 8, 2018 WBCF Board meeting.

2. ADOPTION OF MINUTES

- a. Adoption of Minutes from December 11, 2017 Board Meeting

Recommendation: That the Board approves the Minutes of the December 11, 2017 WBCF Board meeting.

3. DELEGATIONS AND PETITIONS: Nil

4. BUSINESS ARISING FROM THE MINUTES / UNFINISHED BUSINESS:

- a. Shareholder / Corporation Contract – Distribution Agreement (Final to be reviewed by PMT Accountants)
- b. Financial, Accounting and Taxation Advice – PMT Accountants & KPMG – LLP (attached)
- c. Insurance Requirements for WBCF and Board (report to follow)
- d. 2018 Budget discussion (2017 Budget attached for reference)
- e. Community Forest Coordinator (Note posting of position closed Dec 15-2017)

5. NEW BUSINESS: Nil

6. COMMITTEE REPORTS: Nil

7. CORRESPONDENCE:

- a. TBD

8. PUBLIC COMMENTS: TBD

9. CLOSED MEETING: TBC

- a. The following portion of this meeting is closed to the public to discuss matters related to:
- i. Sensitive or proprietary matters concerning an identifiable individual or party (i.e. company or corporation) that requires Board discussion; and

ii. Human Resource / Employment matters.

10. RECALL TO ORDER AND REPORT

Recommendation: That the Board recalls the Open meeting to order and reports out the following decisions / resolutions from the In-Camera Board meeting (if any).

11. NEXT MEETING: TBC

12. ADJOURNMENT

Recommendation: That the WBCF Board meeting of January 8, 2018 be adjourned.

Wells-Barkerville Community Forest Ltd.

Board Meeting (Open)

December 11, 2017 at 6:00 PM, Wells Municipal Hall

Attendance: John Massier (Board Chair); Paul Galliazzo, RPF; Margaret Inoue; Ian Macdonald; Jerritt Dupilka; Councillor Lorraine Kozar

Absent: Andrew Young, CAO, District of Wells

Guest/s: None

Public Attending: None

1. CALL TO ORDER AND ADOPTION OF AGENDA

- a. The Meeting of the Wells-Barkerville Community Forest Ltd (WBCF) Board was called to order by the Chair at 6:00 PM
- b. Agenda – Moved by Margaret Inoue, seconded by Ian Macdonald, that the Agenda for the December 11, 2017 WBCF Board meeting be adopted as amended.

Passed Unanimously

2. ADOPTION OF MINUTES

- a. Adoption of Minutes from October 23, 2017 Board Meeting

Moved by Lorraine Kozar, seconded by Jerritt Dupilka that the minutes of the October 23, 2017 Board meeting be adopted as presented.

Passed Unanimously

3. DELEGATIONS AND PETITIONS: Nil

4. BUSINESS ARISING FROM THE MINUTES / UNFINISHED BUSINESS:

- a. Shareholder/Corporation Contract-Distribution agreement (Draft)

Concept of contributions to community foundation discussed (Wells Community Foundation established now). Mechanics of contribution will require advice from accountant.

Moved to accept draft distribution policy as amended (attached). Item 5 amended to add that profits will be divided between the shareholder and the Wells Community Foundation.

Moved by Ian Macdonald, seconded by Paul Galliazzo.

Passed Unanimously

- b. Community Forest Coordinator
no update
- c. Financial, Accounting and Taxation Advice
no update
- d. Insurance requirements for WBCF and Board

Motion by Jerritt Dupilka to request that secretary treasurer arrange for purchase of General Liability and Directors Insurance through HUB International Insurance prior to years end (Jerritt has details for contact at Prince George office). Seconded by Ian Macdonald.

Passed Unanimously

5. NEW BUSINESS:

- a. Tour-general discussion: attended by 4 members of community, 4 board members and one shareholders representative. Tour was generally well received.
- b. Discussed general community feed back received by board members.
- c. Financial discussion: Moved to issue \$15,000.00 dividend to District of Wells prior to year end. Moved by Ian Macdonald, seconded by Paul Galliazzo.
Passed Unanimously
General discussion regarding purchase of laptop/computer as identified in 2017 budget.
- d. Budget Discussion: Moved to defer budget discussion to next meeting. Moved by Margaret Inoue, seconded by Ian Macdonald.

Passed Unanimously

- 6. COMMITTEE REPORTS: Nil
- 7. CORRESPONDENCE: Nil
- 8. PUBLIC COMMENTS: Nil
- 9. CLOSED MEETING: Nil
- 10. RECALL TO ORDER AND REPORT: Nil
- 11. NEXT MEETING: Regular Meeting – January 8, 2018 (TBC)

12. ADJOURNMENT

- a. At 7:58 pm it was moved by Paul Galliazzo, Seconded by Ian Macdonald that the WBCF Board meeting of December 11, 2017 be adjourned.

Passed Unanimously

Wells-Barkerville Community Forest Distribution Policy

Approved December 11, 2017

Background and Purpose

The Wells-Barkerville Community Forest Corporation was created for the benefit of the Wells-Barkerville area. The WBCF intends to create profit through its Community Forest Agreement tenure and its forestry business activities. Given the small land base of the tenure, non-financial community benefits will also be a priority.

The WBCFC has an obligation to plan for the future financial health of the corporation and its tenure obligations.

The sole shareholder of the WBCF is the District of Wells and intends to distribute revenues and dividends to the shareholder.

Distributions shall be at the discretion and timing of the WBCF Board and will be guided by this policy.

Application

This policy shall apply to the WBCF Corporation and its Board of Directors

Procedure

1. At the end of each fiscal year, the WBCFC Board of Directors will assess the actual spending of the previous fiscal year and develop an operating budget for the next year.
2. To the extent possible, the WBCFC Board of Directors will anticipate all costs that may incur between cuts and revenues (as these are not anticipated to be annual)
3. The WBCFC will, to the best of its ability, plan for the future operating costs of the Wells-Barkerville Community Forest. In order to do so, the WBCFC Board of Directors may develop a reserve fund for future operations and obligations. *(Note: It may be advisable for the WBCFC to develop a reserve fund policy)*
4. When funds accrue to a level greater than those required for its operations and reserves, these will be considered profits.
5. 100% of the profits will be divided between the Wells Community Foundation and the District of Wells.
6. The WBCFC will make its budget, reserve and distribution decisions publicly available to the shareholder and the community of the Wells-Barkerville area.

PMT Accountants Dec 20, 2017 response to Wells Barkerville Community Forest Board

Questions and Answers:

1. What is needed to correctly differentiate between corporate revenues and dividends paid to the shareholder? And how is that best done? Please note that the District of Wells is the 100% shareholder of the WBCF.

In order to pay dividends, there needs to be legal documents prepared to declare these dividends. So if the WBCF wanted to pay a dividend to the District of Wells, they would declare a dividend and then pay this dividend. There would then be a T5 slip issued to support this revenue.

Corporate revenues would be monies the WBCF pays to the District in regards to services rendered. Normally, these would be substantiated by an invoice issued by the District for these services. The normal item is an annual administration fee which would be set by the board to recover their costs.

2. When taxes are paid to the CRA by a Community Forest under what circumstances might it receive a refund from the CRA? We understand that the Clinton Community Forest may have received tax refunds from the CRA.

The taxes paid by a community forest are no different than taxes paid by any other corporation.

One way to receive a refund from CRA would be to have taxable losses in a subsequent year which you are permitted to carry back three years to reduce taxable income in those years.

As to what method the Clinton Community Forest used to receive a refund, I cannot comment but recommend trying to contact them and enquiring.

3. Given that the WBCF is 100% owned by the District of Wells, what would be the preferred approach to handling the annual audit for the WBCF? Should it be separate from the municipal audit, or integrated with it?

The District of Wells requires an annual audit. Because the WBCF is wholly owned by the District it is a subsidiary and its entire operations need to be included in the Districts annual financial statements.

Normally, how this would happen is the WBCF would prepare its own financial statements and the Districts auditor would then incorporate these numbers. These statements can be either compiled, review or audited – which engagement depends on the circumstances. If the financial statements as a whole are not material to the audit then a compilation is sufficient. Likely a compilation would be sufficient with some additional work to confirm the revenue amounts. Normally, there would be a cost savings to having the audit firm in charge of both of these engagements however, they do not need to be integrated and are two stand alone jobs.

4. Board members asked for additional details about how the cheques received from West Fraser Mills need to be handled; for example, in the current or future tax year (2017 or 2018) as well as how the cheques related to the physical harvesting in the WBCF.

Both the accounting and tax treatments need to be on an accrual basis. The only exception to this is silviculture obligations.

This means, revenue is recorded when your obligation is met under the terms of your contract. The contract should specify when West Fraser has realized beneficial ownership of the log; this is the point when your obligation is met. It will be either when the log is cut or when the log is delivered.

If West Fraser takes ownership when the log is cut: revenue is recorded when the tree is cut. If West Fraser does not take ownership until the logs are delivered, when the logs are cut they become inventory and the revenue is not recognized until they are delivered.

5. Another important question for the board is to obtain clarification about the WBCF business year and what impacts it might have with regard to taxation.

The year end should already be established as from what I understand; corporate tax returns have been filed in the past. The tax year is established when the very first corporate tax return is filed. If for some reason this tax year is not the same as the Districts you can file a request with CRA to align the WBCF tax year end with the Districts. Since the subsidiary needs to be included in the Districts audited financial statements, this date makes the most sense as it will reduce costs since financial information will always need to be prepared for this date (Dec 31).

6. Board members also asked for clarification from the accountants if there is a need to mark the loads of timber removed from the WBCF cut blocks that are located inside and outside of the District of Wells municipal boundaries for taxation and accounting purposes.

Our tax specialist as done some preliminary work on this area and there are some specific considerations. We assume that the WBCF only source of income is the sale of timber per their BC community forest license.

You should have two separate accounting streams to record the timber harvests and sales as you will need to be able to provide for both timber harvested and sold inside District Boundaries as well as outside district boundaries regarding:

- 1) the net income
- 2) gross revenue,
- 3) cubic meters of timber harvested

He recommends having someone identify the legal boundary of the Wells District Municipality over the WBCF harvesting map so you can confirm where timber is harvested and sold from on a year by year basis.

The reason for this is each year a determination is made if the net income is taxable or not. If during the year, 90% or more of the timber was harvested and sold from within the district boundaries than ALL net income for the year may be tax exempt. However, if

in that year less than 90% of the timber was harvested and sold from within the boundaries, ALL the net income may be taxable.

For this reason, the practice may be to alternate harvest years inside and outside the district boundaries. Harvest and sell 90% or more from within the boundaries one year and the next year harvest from outside the boundaries. This may be the better practice to effectively utilize the tax exemption.

Some advisors have proposed that all timber sales net income might be exempted under another tax exemption provision on the basis that the WBCF timber license is an “agreement in writing” with the Province of BC; and WBCF may be tax exempted under that provision instead of the “90% or more” provision. In a 1999 published interpretation, Canada Revenue Agency advised that “licenses” do not qualify for the “agreement in writing” tax exemption. On the other hand, in 2008, a Saskatchewan municipal corporation was successful in tax court regarding interpretation of “agreement in writing” tax exemption. But of course, the case was not specifically regarding BC forest licenses. Anyway, for WBCF, we propose that this “agreement in writing” tax exemption appears to be tax aggressive, and therefore, at this time, we do not support such a tax filing position. However, in spite of our non- support for this tax filing positions, WBCF may wish to consider a legal tax counsel advisory.

Related to this, a few questions about the timber harvesting contract:

- 1) is WBCF getting revenue that is “net” of all harvesting expenses only from West Fraser? That is West Fraser incurs all harvesting operating costs.
- 2) Is WBCF incurring any operating harvesting costs other than non-operating administrative costs?
- 3) Would need to decide how to allocate any administrative expenses to the inside/outside boundary net income streams – cubic meter to other? This will involve setting up appropriate bookkeeping for the 2 revenue/expenses net income streams.
- 4) What about post harvesting silviculture obligations – are these West Fraser’s or WBCF’s? Normally, the community forest wants to leave silviculture obligations with the forest company - as in West Fraser. For accounting the silviculture obligation is typically set up as liability/expense but income tax does not allow the deduction until the expense is actually incurred. So much simpler if West Fraser has assumed ALL of the silviculture obligations on the WBCF harvest licence.

| 23-May-15 DRAFT | | Wells Barkerville Community Forest Budget Outline | | | | Description | 2017 | 2018 | 2019 | Notes |
|-----------------|--|---|--------------------|--|---|--------------|--------------|------------|---|-------|
| Income | | | | | | | | | | |
| | \$541,775 /5 | | | | | \$108,355.00 | \$433,420.00 | ??? | Account for irregular income stream?? | |
| Expenses | | | | | | | | | | |
| a) | Annual rent | | | | | \$0.00 | \$0.00 | | \$1800.00 paid by WFM during term of current contract | |
| b) | BCCFA dues | | | | | \$875.00 | \$875.00 | \$875.00 | | |
| c) | Insurance | | | | | \$2,500.00 | | | CGI plus Forest fire fighting insurance for non WFM related activities | |
| | Directors insurance | | | | | \$500.00 | | | | |
| d) | Legal and Accounting | | | | | \$3,000.00 | | | | |
| e) | Bank Charges | | | | | \$200.00 | \$200.00 | \$200.00 | | |
| f) | Office and Sundry | | | | | \$2,000.00 | \$500.00 | \$500.00 | computer purchase first year | |
| | Office rent | | | | | \$1,200.00 | | | | |
| g) | Communication | | | | website development and maintenance | \$500.00 | \$500.00 | \$500.00 | | |
| h) | Projects/Development/Education | | | | | | | | WFM to provide planning support... what is appropriate vehicle to fulfil goals stated in management plan? | |
| | | | | | BCCFA AGM (2 board members) | \$2,100.00 | \$2,800.00 | | | |
| i) | Professional services | | | | | | | | | |
| | | i) | support services | | | \$4,000.00 | \$8,000.00 | | part time coordinator as per Margaret's proposal | |
| | | ii) | strategic planning | | | \$5,000.00 | | | may be partially covered under West Fraser agreement | |
| | | iii) | operations | | plans | \$0.00 | | | covered under WFM agreement | |
| | | | | | management/supervision | | | | "forestry operations" covered under WFM agreement (further extent required...audit type activities??) Work authorized outside of terms of WFM contract would require admin/supervision capacity | |
| | | | | | logging/road building/silviculture | \$0.00 | | | covered under WFM agreement | |
| | | | | | fire fighting/danger tree assessments/falling | | | | items 11 and 15 cover fires arising from industrial operations conducted by WFM on behalf of WBCF, not other activities undertaken by, or on behalf of, WBCF e.g. trail construction | |
| | | | | | Annual expenses | \$21,875.00 | \$12,875.00 | \$2,075.00 | | |
| i) | Dividend to shareholder | | | | | \$85,000.00 | | | \$80,000 dividend plus \$5000 expense repayment to District of Wells | |
| | Total Annual Expense | | | | | \$106,875.00 | | | | |
| | Balance available | | | | | \$1,480.00 | | | Subject to finalization of budget line items | |
| | Reserve for liabilities (silviculture obligations / incremental management techniques) | | | | | | \$20,000.00 | | intended to remain at this amount if a contract arrangement similar to WFM agreement is in place...would have to change if WBCF assume more direct management and liability | |
| | Provision for corporate income tax | | | | | ????? | | | Need advice from CGA | |

DRAFT