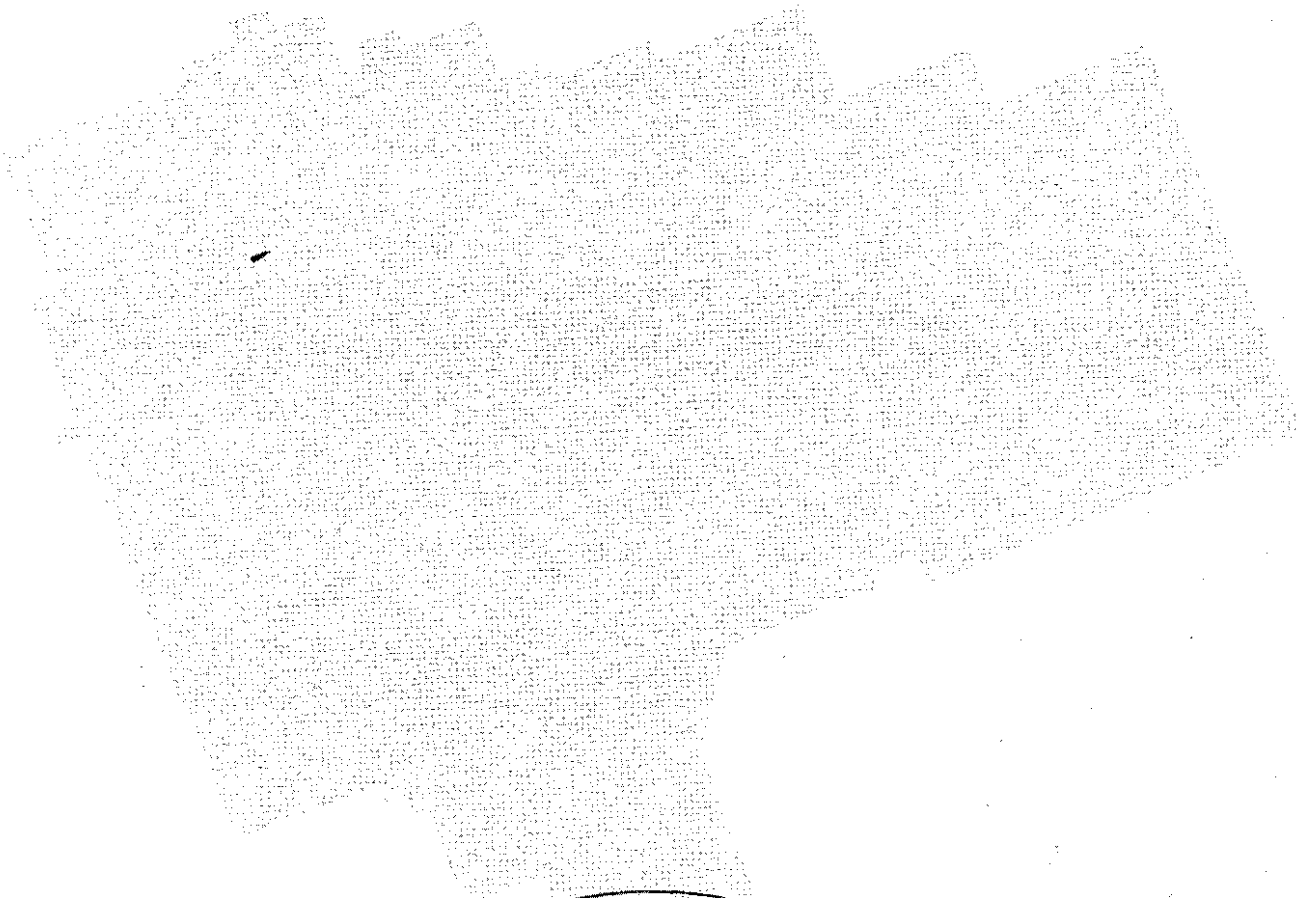
Sessional Paper No. 134
2nd Session, 36th Parliament
Date Tabled:
Oct 8/98
For Clerk Assistant:



Algonquin Forestry Authority
1997 - 1998

Twenty-third Annual Report 1997 - 1998

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, 1997 and ending March 31, 1998.

THE HONOURABLE JOHN C. SNOBELEN
Minister

THE HONOURABLE JOHN C. SNOBELEN
Minister of Natural Resources

Honourable Sir:

I have the honour to submit to you the Annual Report of the Algonquin Forestry Authority for the year beginning April 1, 1997 and ending March 31, 1998.

JACK DUGGAN
Chairman

Table of Contents

Chairman's Foreword

By Jack Duggan

I was pleased to accept my appointment as Chairman of the Board of the AFA during the year. There were a number of other changes to the Board of Directors including the reappointment of Ken Wilson from Boulter, Ontario. Ken sat on the Board from 1981 - 1987. We welcome his return.

Terms were completed by the past chairman Rob Keen and Directors Roy Campbell, Andrea Hodgins, and Barbara Carlstrom. On behalf of the Minister, congratulations on a job well done and thank you for your interest and commitment to the forests of Algonquin Park. Rob Keen served for five years, initially as a director and for the past three years as Chairman.

Several new appointments to the Board were made during the year. Three members were appointed in December 1997; four more were named in March 1998. Their duties will commence this year.

The Authority was the subject of an operational review by the government committee on agencies, boards and commissions plus an independent audit of the Algonquin forest during 1997-98.

I am pleased to report that the outcomes were positive in connection with both. Once again, the AFA has been examined closely and judged to be operating effectively and to high standards.

The AFA continues to work cooperatively with The Friends of Algonquin Park in the ongoing development of the Algonquin Park Logging Museum. Additional buildings are planned for 1998 as well as an updated video presentation.

The financial statements speak for themselves. The forest renewal program is fully funded by forest renewal fees and the harvest and distribution program fully recovers all its costs.

I look forward to working with my colleagues on the Board and the AFA staff in the effort to continuously improve the management of the Algonquin Park forests.

Introduction

When Algonquin Park was first established in 1893, logging had been underway for more than 50 years. To this day, logging endures as an important part of Algonquin's unique heritage.

The Algonquin Forestry Authority (AFA) is an Ontario Crown agency established in 1975, in response to public concern for the most beneficial means of maintaining a multiple-use approach in Algonquin Provincial Park. The AFA is responsible for forest management and harvesting activities within the Park's 7,600 square kilometres; 4,850 square kilometres of productive forest area are available for forest management.

The Authority follows the direction identified in the Algonquin Provincial Park Master Plan and the Forest Management Plan for Algonquin Park. The Park is managed for multiple uses including camping, wilderness canoeing and hiking, wildlife habitat, lodging, and timber production.

The Board of Directors of the Authority supervises the affairs of the Authority to ensure its efficiency and effectiveness, and advises the Minister on new policies or objectives which the Board feels may warrant adoption.

The Authority applies the principles of sustainable forest management to balance the public's concern for protecting Park values in recreation, fisheries, wildlife habitat and natural and cultural heritage areas, with the need to maintain a supply of forest products to mills dependent on Park timber.

The goal of sustainable forest management is *'to maintain and enhance the long-term health of forest ecosystems, while providing ecological, economic, social and cultural opportunities for the benefit of both present and future generations.'* (Canadian Council of Forest Ministers).

The Authority contracts out both logging operations and silvicultural work to companies from the communities in the region.

General Manager's Report

By W. J. Brown, R.P.F.

The positive economic circumstances in Ontario during 1997/1998 were reflected in all sectors of the forest industry in which AFA does business. Volume production was similar to 1997/98 and sales revenue was up, primarily due to higher stumpage rates.

The rapid change and volatility that have characterized the Ontario stumpage system for the past few years finally settled down during the year.

Last year I reported here that a legal action had been initiated which challenged the legal authority of the Minister of Natural Resources to approve the 1995-2000 Forest Management Plan for Algonquin Park. The court released its decision on this matter February 6, 1998. The court concluded that the Algonquin Park plan was properly prepared and legally approved by the Minister of Natural Resources under the Crown Forest Sustainability Act.

An independent audit of the Algonquin Park forest was completed in the fall of 1997 which covered the period 1990 - 1997. The report and an action plan are expected to be released this year.

The summary of conclusions and recommendations from the report notes . . . *"This high level of attention imposes pressure on the AFA not only to meet provincial forestry guidelines, but to exceed them. The AFA has met this challenge by being a leader in forest management within the province of Ontario."*

Work began during the year on the preparation of a renewed Forest Management Plan for the period from April 1, 2000 forward. This effort will be an important priority over the next two years.

Forecast for 1998 - 1999

Economic conditions for the year are expected to remain positive for most of the year, although there is reason to be cautious and monitor basic economic factors closely.

As new sustainable forest licence companies get underway in the areas surrounding Algonquin Park, there will be structural changes within the logging sector and wood flows will change in response to cost pressures and new ways of doing business.

Forest Management

The forest management goal for Algonquin Park is:

To produce a continuous supply of forest products to the forest industry of the region through environmentally-sound forest management practices and in harmony with other Park uses and values.

This is accomplished by using forest management techniques that preserve and protect recreational values, fish and wildlife habitat, and other Park resources. This allows Algonquin Park to support both an important forest harvesting and manufacturing business, and a major tourism industry.

The 1995-2015 Forest Management Plan (FMP) provides the specific direction for conducting forest management operations in Algonquin Park. The forest management program for 1997-1998 is illustrated on the next page and is compared to annual targets from the FMP and the operating programs for the previous two years.

Treemarkers identify trees for harvest and retention on all areas prior to harvest. Treemarking was carried out on 7,490 hectares.

Seven thousand red pine were planted on a red pine seed tree site. The level of planting was low due to the closure of some Ministry of Natural Resources tree nurseries in 1996. Arrangements were made to grow container stock with a private nursery using seed from Algonquin Park. In the spring of 1998, 340,000 trees were planted. Site preparation was completed on 393 pine hectares to be planted in 1998.

Scarification for natural regeneration was completed for white spruce and hemlock; hemlock was manually seeded as well.

Manual cleaning was done to release pine regeneration from competing species. Spacing, thinning and improvement work was done on 298 hectares of white pine stands and 335 ha of tolerant hardwood polewood. Hardwood stand improvement was done on 2,947 ha which enhances the growth of residual trees and natural regeneration.

Regeneration/stocking assessments were conducted on 6,816 ha. Surveys on 381 ha of area previously planted or prepared for natural regeneration indicated that 253 ha (66%) are now Free-to-Grow (FTG). The remaining area requires more time to reach FTG status.

Assessments on areas identified for natural regeneration indicate that 72% is FTG or will be in a few years. Three hectares require release from competing vegetation over the next few years; 558 ha will need planting or enhancement of pine regeneration; 704 hectares will require harvesting to open the forest canopy and encourage natural regeneration.

Contractor Safety Award

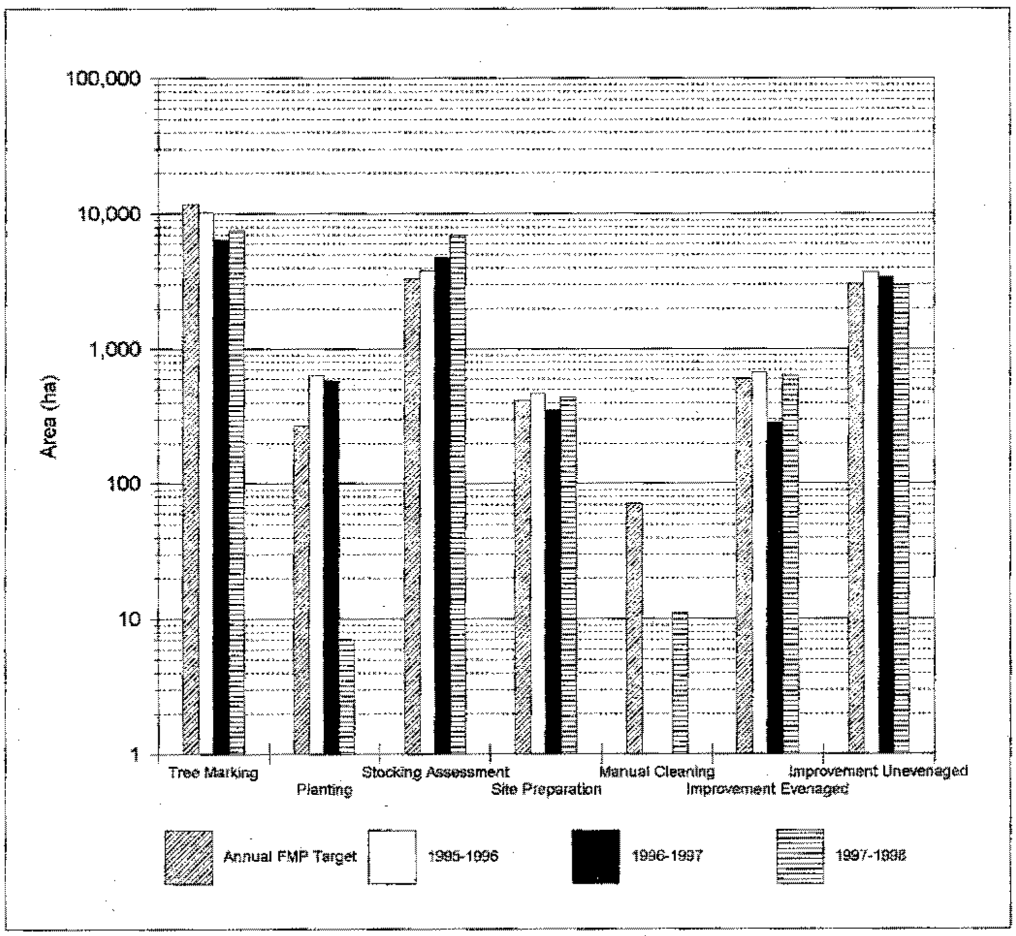
Walter Dombroski & Sons Logging Contractor of Barry's Bay, Ont. received the 1997/98 AFA Safety Award. The crews worked over 4,280 man days without a lost time accident.

Product Distribution - Algonquin Park

Volumes in m^3 (000's)	Annual Available Harvest ('95/00)	Annual Allocation ('95/00)	Harvest ('97/98)	Harvest ('96/97)
Veneer	7.6	7.6	5.2	4.3
Pulpwood	302.1	172.5	148.1	213.1
Hardwood Sawlogs	96.8	96.8	136.8	79.3
Softwood Sawlogs and Poles	138.6	135.6	123.0	124.1
TOTALS	545.1	412.5	413.1	420.8

Summary of 1997 - 1998 Forest Management Program

Algonquin Park Management Unit



Results of Operations

Harvesting and the Statement of Operations

The continued demand for forest products coupled with a change in the reporting of costs and revenues associated with the maintenance of public access roads resulted in higher total operating revenues for the year of $14,385,975. This represents an increase of $659,516 compared to 1996-1997.

The continued refinement to our treelength logging and distribution systems has contributed to reduced logging and distribution costs and increased operating income of $1,536,974, which is $277,324 above the previous year.

Administrative costs increased $120,990 during the year as a result of a change in the allocation of salaries and benefits to the Statement of Operations and away from the Forest Renewal Account activities. This change, and the return to full, matching employer pension contributions and higher depreciation charges led to the increased administrative costs. These increases were partially offset by reduced interest charges. Net income for the year amounted to $89,920 compared to the 1996-97 net loss of $66,414.

Forest Renewal Account

As was the case in the previous year, the method of accounting for Crown stumpage has been adjusted to reflect 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 used to fund eligible silvicultural work on a cost recovery basis. This year's forest renewal revenue of $1,098,931 ($ 1,301,117 in 1997) represents, on a cost recovery basis, the allowable silvicultural expenditures incurred during the year.

The current year net income of $65,095 ($35,917 in 1997) results directly from Consulting and other revenues generated during the year.

The shift of costs and revenues associated with the maintenance of the public access roads from the Forest Renewal Account to the Statement of Operations contribute significantly to the decline in expenditures.

Financial Position - Balance Sheet

Our Balance Sheet disclosure has been amended to reflect new disclosure requirements affecting not-for-profit organizations, such as the Authority, recommended by the Canadian Institute of Chartered Accountants. Funds received in advance of the planned expenditure are disclosed as "Deferred Contributions" and amounts previously referred to, in a single disclosure component, as "Retained Income" have been disclosed as three separate components of "Net Assets". This improved disclosure clarifies the restricted/unrestricted nature of our net asset position.

A long production season combined with strong product demand and continued high stumpage rates resulted in year-end accounts receivable balances increasing slightly to $3,223,815 from $3,045,108 at March 31, 1997. Year-end cash balances totalled $2,980,240 compared to $3,790,969 from last year. The transfer during the year of $1,500,000 to provide a minimum balance in the Forest Renewal Account (Restricted Cash) contributed to the decline in cash balances.

The Renewal Account balance of $2,618,940 ($781,116 in 1997) is disclosed in two components. "Deferred Contributions" of $903,845 ($677,315 in 1997), i.e., renewal charges in excess of current program expenditures, and secondly as "Net assets restricted for forest renewal activity" of $1,715,095 ($103,801 in 1997).

Board of Directors

Chairman:
Robert Keen, R.P.F., Huntsville

Vice-Chairman:
Tom Coghlan, Harcourt

Directors:
Tom Bartlett, Mattawa
Roy Campbell, Woodlawn
Barbara Carlstrom, Lakefield
Jack Duggan, Combermere
Andrea Hodgins, Toronto
Brian Sarginson, Bancroft
Ken Wilson, Bancroft

Officers:
W. J. Brown, R.P.F.
General Manager

T. K. Doyle, C.A.
Treasurer

General Meetings:
April 4 - 5, 1997
Huntsville, Ontario

May 29 - 30, 1997
Barry's Bay, Ontario

July 25 - 26, 1997
Algonquin Park, Ontario

October 17, 1997
Pembroke, Ontario

December 11, 1997
Haliburton, Ontario

Offices

222 Main Street West
Huntsville, Ontario
P1H 1Y1
Telephone: (705) 789-9647
Facsimile: (705) 789-3353

84 Isabella Street
Pembroke, Ontario
K8A 5S5
Telephone: (613) 735-0173
Facsimile: (613) 735-4192

This publication is available in French upon request.
Sur demande, vous pouvez obtenir la version française de ce rapport annuel.

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

AUDI ALTERAM PARTEM

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416)327-2381 Fax: (416)327-9862

Auditor's Report

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

I have audited the balance sheets of the Algonquin Forestry Authority as at March 31, 1998 and the statements of operations, forest renewal account, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

K W Leishman

Toronto, Ontario
June 11, 1998

K. W. Leishman, C.A.
Assistant Provincial Auditor

Balance Sheet
Year Ended March 31

		1998		1997
Assets				
Current				
Cash	$	**2,980,240**	$	3,790,969
Receivables		**3,223,815**		3,045,521
Inventory		**449,230**		243,251
Prepaids		**12,627**		38,815
		6,665,912		7,118,556
Restricted cash (Note 3)		**1,715,095**		103,801
Property and equipment (Note 4)		**1,621,764**		1,638,026
	$	**10,002,771**	$	8,860,383
Liabilities				
Current				
Payables and accruals	$	**662,037**	$	476,385
Contractors' performance holdbacks		**68,361**		60,759
Due to Consolidated Revenue Fund		**1,046,751**		851,898
		1,777,149		1,389,042
Deferred contributions (Note 5)		**372,736**		---
Deferred contributions related to forest renewal activity (Note 6)		**903,845**		677,315
		1,276,581		677,315
Net assets				
Invested in capital assets		**1,621,764**		1,638,026
Restricted for forest renewal activity (Note 3)		**1,715,095**		103,801
Unrestricted		**3,612,182**		5,052,199
		6,949,041		6,794,026
	$	**10,002,771**	$	8,860,383

On behalf of the Board:

Director

Director

See accompanying schedule and notes to the financial statements.

Statement of Operations
Year Ended March 31

	1998	1997
Revenue		
Product sales	$ 12,254,655	$ 12,322,347
Standing timber sales	1,645,459	1,193,846
Consulting and other	485,861	210,266
	14,385,975	13,726,459
Expenditure		
Logging and distribution costs	8,591,777	9,037,079
Crown timber stumpage charges	3,742,897	3,200,000
Public access road maintenance	328,703	---
Wood measurement	170,105	175,724
Operations planning	15,519	14,124
Area charges	---	39,882
	12,849,001	12,466,809
Operating income	1,536,974	1,259,650
Administrative and other		
Salaries and benefits	885,169	767,256
Depreciation and amortization	324,859	286,177
Consulting, legal and miscellaneous	70,620	67,130
Office supplies and expenses	59,719	76,574
Office rent	41,243	34,419
Staff travel and training	21,281	21,694
Directors' allowances and expenses	17,615	15,851
Insurance	13,939	13,758
Public relations	7,552	10,828
Interest	5,057	32,377
	1,447,054	1,326,064
Net income (loss) for the period	89,920	(66,414)

See accompanying schedule and notes to the financial statements.

Statement of Cash Flows
Year Ended March 31

		1998		1997
Cash derived from (applied to)				
Operating				
Net income (loss) for the year:				
Algonquin Forestry Authority	$	**89,920**	$	(66,414)
Forest Renewal Account		**65,095**		35,917
Add (deduct): non-cash items				
Depreciation and amortization		**371,058**		354,061
Gain on sale of property and equipment		**(20,252)**		(28,218)
		505,821		295,346
Change in non-cash operating working capital		**30,022**		699,383
		535,843		994,729
Financing				
Deferred contributions		**599,266**		677,315
Investing				
Acquisition of fixed assets		**(354,796)**		(548,804)
Proceeds on sale of property and equipment		**20,252**		28,218
		(334,544)		(520,586)
Increase in cash		**800,565**		1,151,458
Cash and restricted cash, beginning of year		**3,894,770**		2,743,312
Cash and restricted cash, end of year	$	**4,695,335**	$	3,894,770

See accompanying schedule and notes to the financial statements.

Forest Renewal Account
Year Ended March 31

		1998		1997
Revenue				
Forest renewal charges	$	1,098,931	$	1,301,117
Public access roads reimbursements		---		369,670
Consulting and other		65,095		35,916
		1,164,026		1,706,703
Expenditure				
Stand improvement		223,567		224,736
Wages and benefits		212,080		218,795
Subcontractors - tree marking and other		167,986		162,538
Equipment rentals		116,731		233,915
Materials		66,634		227,369
Vehicle costs		27,234		30,041
Paint		21,635		18,899
Board and provisions		9,229		6,981
Salt and calcium		---		47,508
		845,096		1,170,782
Operating income		318,930		535,921
Administrative and other				
Salaries and benefits		174,479		371,748
Depreciation		46,199		67,884
Office rent		11,820		17,526
Office expenses		7,599		10,585
Insurance		7,133		7,745
Staff training		3,400		9,535
Public relations		2,701		5,362
Staff travel and relocation		504		3,188
Consulting and miscellaneous		---		6,431
		253,835		500,004
Net income for the year	$	65,095	$	35,917

See accompanying notes to the financial statements.

Notes to the Financial Statements

March 31, 1998

1. **Purpose of the organization**

The Authority is responsible for forest management in Algonquin Provincial Park. 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 exempt from income taxes under the Income Tax Act.

2. **Significant accounting policies**

Revenue recognition

The Authority follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Revenue from product and standing timber sales and forest renewal charges are recognized when the wood is delivered. Consulting and other income is recognized as revenue when earned.

Inventories

Inventories are valued on the first in, first out basis at the lower of cost or net realizable value.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis, using rates of 10% per annum for furniture, fixtures, technical equipment, bridges, buildings and leasehold improvements, 20% per annum for data processing equipment, and 33⅓% per annum for automotive equipment. The cost of capital roads is amortized over the estimated number of operating seasons for which the roads are to be used, with a maximum amortization period of 10 years. Forest renewal assets are depreciated and amortized at the same rates as the assets mentioned above.

3. **Forest Renewal Account**

Effective April 1, 1997, the Authority entered into a 20-year agreement with the Ministry of Natural Resources to perform forest management activities, including silvicultural work. Funding, on a cost recovery basis for these activities, is derived from the Forest Renewal charge of the Crown Stumpage Matrix as prescribed under the Crown Forest Sustainability Act.

The agreement also provided for a transfer of $1,500,000 from unrestricted net assets to the Forest Renewal Account, which took place during 1998. The Authority is required to maintain, at a minimum, this amount in the Forest Renewal Account.

Notes to the Financial Statements

March 31, 1998

4. **Property and Equipment**

	Cost	Accumulated Depreciation	**1998 Net Book Value**	1997 Net Book Value
Furniture and fixtures	$ 73,300	$ 47,595	**$ 25,705**	$ 23,675
Data processing equipment	146,069	94,481	**51,588**	59,393
Bridges and buildings	38,679	19,400	**19,279**	21,317
Technical equipment	196,039	162,179	**33,860**	47,815
Automotive equipment	224,596	135,320	**89,276**	66,424
Capital roads	3,624,868	2,284,364	**1,340,504**	1,308,978
Leasehold improvements	38,326	28,815	**9,511**	13,346
Forest renewal assets	443,616	391,575	**52,041**	97,078
	$ 4,785,493	$ 3,163,729	**$ 1,621,764**	$1,638,026

5. **Deferred contributions**

Deferred contributions represent unspent resources externally restricted for public access road maintenance received in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	1998	1997
Beginning balance	**$ ---**	$ ---
Add: amount received in the year	**380,000**	---
Less: amount recognized as revenue in the year	**(7,264)**	---
Ending balance	**$ 372,736**	---

6. **Deferred contributions related to forest renewal activity**

Deferred contributions related to forest renewal activity represent unspent resources externally restricted for Forest Renewal Account activities received in the current period and which relate to expenses of future periods. Changes in the deferred contributions balance are as follows:

	1998	1997
Beginning balance	**$ 677,315**	$ ---
Add: amount received in the year	**1,325,461**	1,978,432
Less: amount recognized as revenue in the year	**(1,098,931)**	(1,301,117)
Ending balance	**$ 903,845**	$ 677,315

Notes to the Financial Statements

March 31, 1998

7. **Pension plan**

The Authority provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) established by the Province of Ontario.

The Authority's contributions related to the pension plan for the year were $ 174,420 (1997 - $78,700) and are included in salaries and benefits in the Statement of Operations and the Schedule.

8. **Remuneration of appointments**

Total remuneration of the Board members of the Authority was $ 7,500 during the 1998 fiscal year (1997 - $6,300).

9. **Comparative figures**

Certain of the prior year figures have been restated to conform with the current year presentation.

Actions Taken to Implement AFA Forest Policy

- An independent audit of forest management for the period 1990 - 1997 was completed.
- Actions to be taken in response to the audit recommendations are the subject of an action plan agreed to by Algonquin Forestry Authority and the Ministry of Natural Resources.
- AFA continues to support the development and refinement of computer-based, wildlife habitat modelling programs.
- Training of AFA staff included computer applications, auditing, compliance and the application of forest ecosystems classifications. Level one fire training was provided to 40 contract woodsworkers.

THE ALGONQUIN FORESTRY AUTHORITY

222 Main Street West
Huntsville, Ontario
P1H 1Y1
(705) 789-9647

84 Isabella Street
Pembroke, Ontario
K8A 5S5
(613) 735-0173