



	<b>REPORT NO.: 2018-20AGM</b>
<b>MEETING DATE: APRIL 19, 2018</b>	<b>DATE PREPARED: MARCH 23, 2018</b>
<b>SUBJECT: YEAR 2017 AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE DISTRICT OF THUNDER BAY SOCIAL SERVICES ADMINISTRATION BOARD</b>	

**RECOMMENDATION**

THAT with respect to Report No. 2018-20AGM (Corporate Services Division), we, The District of Thunder Bay Social Services Administration Board (TBDSSAB), approve the audited consolidated financial statements of TBDSSAB for the year ended December 31, 2017, as presented.

**REPORT SUMMARY**

To provide The District of Thunder Bay Social Services Administration Board (TBDSSAB or the Board) with the draft year 2017 audited consolidated financial statements of TBDSSAB for Board approval.

**BACKGROUND**

The consolidated financial statements of TBDSSAB, prepared by Administration, are audited by the Board's external auditors on an annual basis. The consolidated statements provide the financial position as at December 31, 2017, as well as the results of TBDSSAB's operations.

The consolidated financial statements have been prepared using generally accepted accounting principles (GAAP) for public sector organizations, as prescribed by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

The year 2017 draft audited consolidated financial statements were presented to the Audit Committee on March 22, 2018 for review and inquiry.

**COMMENTS**

The consolidated financial statements consist of a Consolidated Statement of Financial Position, Consolidated Statement of Re-measurement Gains and Losses, Consolidated Statement of Operations, Consolidated Statement of Changes in Net Debt, Consolidated Statement of Cash Flows, and Notes to the Consolidated Financial Statements. There are three schedules, providing additional detail, included after the Notes to the Consolidated Financial Statements.

The following discussion provides highlights of the most significant aspects of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

The Consolidated Statement of Financial Position presents the financial condition of the organization as at December 31, 2017, with comparatives at December 31, 2016. The total financial assets controlled by TBDSSAB as at December 31, 2017, were \$37.2 million, with the majority of that total being cash and cash equivalents (\$12.9 million), and marketable securities (\$20.6 million). The majority of the cash, cash equivalents and marketable securities is represented by reserve funds of \$23.2 million.

Explanations of significant year-over-year variances in asset and liability lines are provided below:

- Cash and cash equivalents – decrease of \$1.3 million is detailed in the Consolidated Statement of Cash Flows which presents the sources and uses of cash.
- Marketable securities – increase of \$2.7 million due to:
  - the overall value of the investment portfolio increasing by \$632,862 in the 2017 year; and
  - \$4.1 million held in the investment account was reclassified as ‘cash equivalents’ due to the short-term nature of certain investment, in the prior year. The amount reclassified in the current year is only \$2.0 million.
- Accounts payable and accrued liabilities – increase of \$631,317 due to larger Investment in Affordable Housing (IAH) and other capital projects that were completed at, or near, the end of the year, but invoiced and paid in 2018.
- Long-term debt – decrease of \$3.2 million representing principal repayments on housing portfolio mortgages, the loan for the TBDSSAB office headquarters, and the capital lease of computer equipment.
- Tangible capital assets – decrease of \$2.2 million representing annual amortization of capital assets (\$2.3 million), net disposals of capital assets (\$316,939), offset somewhat by capital asset additions of Demtro equipment (\$383,921) and other capital assets (\$54,030).

### **CONSOLIDATED STATEMENT OF RE-MEASUREMENT GAINS AND LOSSES**

The Consolidated Statement of Re-measurement Gains and Losses details changes in the fair market value of portfolio investments and derivatives. Beginning in 2017, Administration has enhanced the presentation of this statement.

This statement shows a net re-measurement loss for the 2017 year of \$341,043. It is important to note that this is not a “loss”, but, rather, a decrease in the unrealized gains previously reported. In this case, the “loss” is a result of previously unrealized gains being realized during the year. The statement now includes a line indicating any amounts reclassified to the Statement of Operations resulting from disposition of investments. This enhanced presentation format highlights the unrealized gain on portfolio investments of \$95,409 in 2017.

The statement shows an accumulated unrealized gain of \$199,592 for the year ending December 31, 2017. The 2016 comparative figures have also been reclassified to conform to this presentation.

Administration has prepared Report No. 2018-22, Year 2017 Investment Portfolio Performance, which provides further detail regarding the TBDSSAB investment portfolio.

### **CONSOLIDATED STATEMENT OF OPERATIONS**

The Consolidated Statement of Operations details revenues earned and expenses incurred during the year. Generally, revenues in the form of Federal and Provincial grants are determined by applying various cost-sharing formulae to actual expenses.

For the 2017 year, revenues exceeded expenses by \$2.8 million for the year. This amount includes income earned on unrestricted funds and reserve funds, expenses paid from reserve funds, and expenses accrued for future employee benefit obligations. Further detail regarding revenues and expenses is provided in the Schedule 1 section, below.

For both Municipal levy and Provincial funding purposes, employee benefit obligations are recognized in the year paid, rather than accrued; acquisition of tangible capital assets is expensed in the year of purchase, with annual amortization not recognized; and expenses paid from reserve funds are not factored into the reconciliation.

After factoring out transactions related to reserve funds, the accrual of employee benefit obligations, and adjusting for tangible capital asset transactions, there is a surplus, from operations, of \$1,708,260. Included in this surplus is income earned on reserve funds of \$1,151,506, and a net program levy operating surplus of \$556,754 (see Report No. 2018-21, TBDSSAB 2017 Fourth Quarter Financial Report and Program Levy Operating Surplus Disposition contained in the Regular Board Agenda package).

### CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows outlines the change in the cash position that occurred during the year, by sources and uses of cash and capital transactions. Overall, the cash balance decreased by \$1.3 million. The annual surplus generated in 2017 added \$2.8 million, and there was an increase in accounts payable and accrued liabilities (\$631,317) related to amounts owed to vendors, and amortization on tangible capital assets (\$2.3 million) was recorded. These additions to cash were somewhat offset by increases in various receivable amounts (\$366,682) and a decrease in deferred revenue (\$268,738). The result is additional cash provided by operating transactions, totaling \$5.2 million.

However, these increases were offset by cash used in capital transactions (\$121,012), the increase in marketable securities (\$2.7 million) discussed above, the repayment of long-term debt (\$3.2 million), and the net re-measurement of unrealized loss discussed above (\$341,043).

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Notes to the Consolidated Financial Statements provide additional and detailed information to support the financial statements. They are intended to provide clarification and explanations of specific items within the financial statements.

General – was expanded to identify the composition of the Board and the member municipalities within the TBDSSAB service area.

Note 1 – Significant Accounting Policies, was expanded to include disclosure concerning the accounting treatment of accounts receivable, specifically, the forgivable loans provided under certain Federal/Provincial programs. A forgivable loan is only recorded as receivable if the recipient fails to meet the conditions of the loan.

Note 3 – Payable to Participating Municipalities and Funded Agencies, was changed to provide a breakdown of the balances owed by municipalities and funded agencies.

Note 15 – Social and Affordable Housing, was expanded to include more detail for expenses related to direct-owned housing operations.

Note 19 – Comparative Figures, was expanded to explain the reclassification in the Consolidated Statement of Re-measurement Gains and Losses, as discussed above.

The remaining notes, although updated for 2017, are consistent with previous years' Notes.

## SCHEDULES

There are three schedules provided with the financial statements, all of which are presented to comply with PSAB requirements.

Schedule 1 details the TBDSSAB revenues and expenses, by program, with the expenses by classification. This additional information is intended to assist users of the financial statements to better understand the TBDSSAB's operations and to assist member municipalities with the completion of certain schedules of their Financial Information Returns.

- Corporate Management and Program Support revenues exceeded expenses by \$407,420 for the 2017 year. This amount consists of interest earned on unrestricted funds and reserve funds, as well as \$266,683 received from the City of Thunder Bay to reimburse the cost of the utility relocation during construction of the TBDSSAB office headquarters. Corporate Management and Program Support expenses are allocated to programs based on the method approved during the annual budget process.
- Ontario Works' revenues exceeded expenses by \$433,571 for the 2017 year. Program Delivery and Employment Services were under budget due, primarily, to temporarily-vacant staff positions throughout the year.
- Child Care Program expenses exceeded revenues by \$21,897 for the 2017 year due to various transactions recorded to comply with PSAB requirements.
- Housing Program revenues exceeded expenses by \$2,051,592 for the 2017 year. This includes income earned on reserve funds (\$1,031,671) held by TBDSSAB. The remaining variance is due to various transactions recorded to comply with PSAB requirements.
- Other (Community Social Reinvestment Program (CSRP)) expenses exceeded revenues by \$109,478, as part of this program was financed from the CSRP reserve fund.

Schedule 2 provides information regarding the Board's tangible capital assets (TCA). The historical cost amount for each TCA class is shown, along with additions for the year, and the amortization amounts by asset class.

In 2017, TBDSSAB sold its social housing properties located in Upsala and Savant Lake, and one house located in Thunder Bay. Schedule 2 reflects the accounting transactions related to the land and building disposals.

Schedule 3 identifies the components of the organization's accumulated surplus. Approximately half of the accumulated surplus is held in various reserve funds to finance future projects and obligations. A portion of the surplus, \$24.0 million, represents the amount that has been invested in tangible capital assets, the majority of which are buildings and land, net of associated debt.

There is a consolidated general deficit amount of \$1,444,991. A breakdown of the general deficit is as follows:

	Total (\$)
Accumulated general deficit as at December 31, 2016	(1,323,999)
2017 operating surplus	2,761,208
2017 change in reserve funds	(1,450,212)
2016 change in tangible capital assets invested	(1,090,945)
2017 change in unrealized re-measurement	(341,043)
<b>Accumulated general deficit as at December 31, 2017</b>	<b>(1,444,991)</b>

The TBDSSAB accumulated general deficit includes the 2017 program levy surplus of \$554,754, which is consistent with the budget and variance reporting format, and discussed in Report No. 2018-21, TBDSSAB 2017 Fourth Quarter Financial Report and Program Levy Operating Surplus Disposition, contained in the Regular Board Agenda package. The table, below, summarizes the difference between the consolidated financial statement surplus and the program levy operating surplus:

	Total (\$)
2017 Consolidated Audited Financial Statement Surplus	2,761,208
2017 change related to employee benefit obligation	(23,197)
2017 change related to tangible capital assets	(932,053)
2017 change related to reserve funds	(2,523,276)
2017 capital expenditures (financed from reserve fund)	2,425,578
2017 income earned on reserve funds	(1,151,506)
<b>2017 Program Levy Operating Surplus</b>	<b>556,754</b>

### **FINANCIAL IMPLICATIONS**



There are no financial implications to this report.

### **CONCLUSION**

It is concluded that the draft audited consolidated financial statements for the year ended December 31, 2017, were presented to the Audit Committee on March 22, 2018, and it was the consensus of that committee that the consolidated financial statements, as prepared by Administration, be presented to the Board for approval.

**REFERENCE MATERIALS ATTACHED**

Attachment 1: [Year 2017 Audited Consolidated Financial Statements of The District of Thunder Bay Social Services Administration Board](#) (draft)  
**(Distributed Separately – Not Included with Report)**

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