

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.

Susan Klein, CPA, CA, LPA
Assistant Auditor General

Toronto, Ontario
June 15, 2018

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123

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>

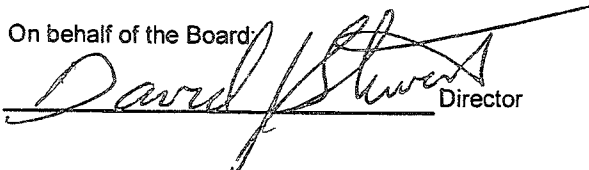
Obligation for employee future benefits (Note 6)

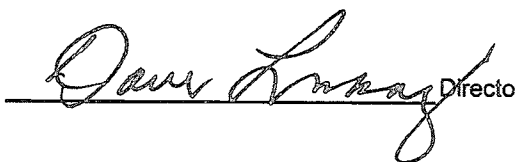
	<u>334,172</u>	<u>349,947</u>
	<u>2,976,956</u>	<u>2,145,068</u>

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

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

	Invested in Capital Assets	Restricted - Forest Renewal Fund	Unrestricted - General Fund	Total
2018				
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				
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.
