

KAWARTHA HALIBURTON CHILDREN'S AID SOCIETY

FINANCIAL STATEMENTS

MARCH 31, 2018

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TABLE OF CONTENTS

| | Page Number |
|------------------------------------------------------|----------------|
| INDEPENDENT AUDITORS' REPORT | |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position | 1 |
| Statement of Operations and Changes in Fund Balances | 2 |
| Statement of Cash Flows | 3 |
| Notes to the Financial Statements | 4 - 12 |



Collins Barrow Kawarthas LLP
272 Charlotte Street
Peterborough, Ontario K9J 2V4
T: 705.742.3418
F: 705.742.9775
www.collinsbarrow.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kawartha Haliburton Children's Aid Society

Report on the Financial Statements

We have audited the accompanying financial statements of Kawartha Haliburton Children's Aid Society, which comprise the statement of financial position as at March 31, 2018, the statements of operations and changes in fund balances 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 controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 controls 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 controls. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kawartha Haliburton Children's Aid Society as at March 31, 2018 and the results of its operations and cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Collins Barrow Kawarthas LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
June 13, 2018

**Kawartha-Haliburton Children's Aid Society
Statement of Financial Position**

| March 31 | General Fund | Capital Fund | Ontario Child Benefit | Total 2018 | Total 2017 |
|----------------------------------------|---------------------|---------------------|-----------------------|---------------------|---------------------|
| Assets | | | | | |
| Current | | | | | |
| Cash (Note 4) | \$ 2,391,443 | \$ - | \$ - | \$ 2,391,443 | \$ 1,452,415 |
| Accounts receivable | 358,838 | - | - | 358,838 | 354,943 |
| Due from the Province | 143,757 | - | - | 143,757 | 545,811 |
| Prepaid expenditures | 53,311 | - | - | 53,311 | 127,071 |
| Due from (to) other funds | (294,756) | - | 294,756 | - | - |
| | <u>2,652,593</u> | <u>-</u> | <u>294,756</u> | <u>2,947,349</u> | <u>2,480,240</u> |
| Tangible Capital Assets (Note 5) | - | 3,023,632 | - | 3,023,632 | 3,133,297 |
| | <u>\$ 2,652,593</u> | <u>\$ 3,023,632</u> | <u>\$ 294,756</u> | <u>\$ 5,970,981</u> | <u>\$ 5,613,537</u> |
| Liabilities and Funds Balances | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accruals | \$ 2,164,875 | \$ - | \$ - | \$ 2,164,875 | \$ 1,810,579 |
| Other liability | 167,760 | - | 174,521 | 342,281 | 319,632 |
| | <u>2,332,635</u> | <u>-</u> | <u>174,521</u> | <u>2,507,156</u> | <u>2,130,211</u> |
| Post Retirement Benefits (Note 7) | 542,400 | - | - | 542,400 | 486,200 |
| | <u>2,875,035</u> | <u>-</u> | <u>174,521</u> | <u>3,049,556</u> | <u>2,616,411</u> |
| Contingent Liabilities (Note 8) | | | | | |
| Commitments (Note 9) | | | | | |
| Fund Balances | | | | | |
| Invested in tangible capital assets | - | 3,023,632 | - | 3,023,632 | 3,133,297 |
| Externally restricted | - | - | 120,235 | 120,235 | 78,201 |
| Internally restricted (Note 10) | - | - | - | - | 161,249 |
| Unrestricted | (222,442) | - | - | (222,442) | (375,621) |
| | <u>(222,442)</u> | <u>3,023,632</u> | <u>120,235</u> | <u>2,921,425</u> | <u>2,997,126</u> |
| | <u>\$ 2,652,593</u> | <u>\$ 3,023,632</u> | <u>\$ 294,756</u> | <u>\$ 5,970,981</u> | <u>\$ 5,613,537</u> |

On behalf of the Board:
 Director

 Director

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

Kawartha-Haliburton Children's Aid Society Statement of Operations and Changes in Fund Balances

| For the year ended March 31 | General Fund | Capital Fund | Ontario Child Benefit | Total 2018 | Total 2017 |
|--------------------------------------------------|---------------------|---------------------|-----------------------------|---------------------|---------------------|
| Revenue (Note 11) | | | | | |
| Province of Ontario | \$ 23,879,685 | \$ - | \$ - | \$ 23,879,685 | \$ 23,995,834 |
| Expenses | | | | | |
| Administration | 62,574 | - | - | 62,574 | 67,497 |
| Amortization | - | 183,125 | - | 183,125 | 257,305 |
| Boarding rate payments | 5,613,063 | - | - | 5,613,063 | 6,741,277 |
| Building occupancy | 274,132 | - | - | 274,132 | 361,304 |
| Client's personal needs | 960,117 | - | 107,222 | 1,067,339 | 964,700 |
| Employee benefits | 3,537,809 | - | - | 3,537,809 | 3,600,456 |
| Fees and dues | 72,853 | - | - | 72,853 | 92,708 |
| Financial assistance | 785,378 | - | - | 785,378 | 782,182 |
| Interest and bank charges | 5,996 | - | - | 5,996 | 7,549 |
| Loss (gain) on disposal of capital assets | - | - | - | - | 8,128 |
| Liability insurance | 169,603 | - | - | 169,603 | 168,517 |
| Medical and related | 401,669 | - | - | 401,669 | 452,508 |
| Miscellaneous | 33,653 | - | - | 33,653 | 31,621 |
| Purchased services | | | | | |
| - client related | 382,051 | - | - | 382,051 | 313,334 |
| - non-client related | 202,498 | - | - | 202,498 | 226,931 |
| - program expense | 1,450 | - | - | 1,450 | 9,417 |
| Recruitment and training | 26,942 | - | - | 26,942 | 18,345 |
| Salaries and wages | 12,098,728 | - | - | 12,098,728 | 12,196,066 |
| Technology | 325,582 | - | - | 325,582 | 529,214 |
| Travel | 725,807 | - | 587 | 726,394 | 836,328 |
| Gross expenses | 25,679,905 | 183,125 | 107,809 | 25,970,839 | 27,665,387 |
| Expense recoveries and other income (Note 12) | (1,834,485) | (31,125) | (149,843) | (2,015,453) | (\$2,675,899) |
| Net expenses (revenues) | 23,845,420 | 152,000 | (42,034) | 23,955,386 | 24,989,488 |
| Excess (deficiency) of revenue over expenses | 34,265 | (152,000) | 42,034 | (75,701) | (993,654) |
| Transfers | | | | | |
| Purchase of tangible capital assets | (42,335) | 42,335 | - | - | - |
| Net change in fund balances | (8,070) | (109,665) | 42,034 | (75,701) | (993,654) |
| Fund balances, opening | (214,372) | 3,133,297 | 78,201 | 2,997,126 | 3,990,780 |
| Fund balances, closing | \$ (222,442) | \$ 3,023,632 | \$ 120,235 | \$ 2,921,425 | \$ 2,997,126 |

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

Kawartha-Haliburton Children's Aid Society Statement of Cash Flows

| For the year ended March 31 | General Fund | Capital Fund | Ontario Child Benefit | Total 2018 | Total 2017 |
|--------------------------------------------------------|---------------------|-----------------|-----------------------------|---------------------|---------------------|
| Cash provided by (used in) | | | | | |
| Operating activities | | | | | |
| Excess (deficiency) of revenue over expenses | \$ 34,265 | \$ (152,000) | \$ 42,034 | \$ (75,701) | \$ (993,654) |
| Items not involving cash | | | | | |
| Amortization | - | 183,125 | - | 183,125 | 257,305 |
| Loss on disposal of capital | - | - | - | - | 8,128 |
| | <u>34,265</u> | <u>31,125</u> | <u>42,034</u> | <u>107,424</u> | <u>(728,221)</u> |
| Changes in non-cash working capital items | | | | | |
| Accounts receivable | (3,895) | - | - | (3,895) | 398,175 |
| Due from the Province | 402,054 | - | - | 402,054 | 234,267 |
| Prepaid expenditures | 73,760 | - | - | 73,760 | 216,219 |
| Accounts payable | 354,296 | - | - | 354,296 | (141,273) |
| Other liability | 49,620 | - | (26,971) | 22,649 | (59,616) |
| Post Retirement Benefits | 56,200 | - | - | 56,200 | 69,300 |
| Due from (to) other funds | 15,063 | - | (15,063) | - | - |
| Interfund transfers | (42,335) | 42,335 | - | - | - |
| | <u>939,028</u> | <u>73,460</u> | <u>-</u> | <u>1,012,488</u> | <u>(11,149)</u> |
| Investing activities | | | | | |
| Acquisition of tangible capital assets | - | (73,460) | - | (73,460) | (104,920) |
| Increase (decrease) in cash during the year | | | | | |
| | <u>939,028</u> | <u>-</u> | <u>-</u> | <u>939,028</u> | <u>(116,069)</u> |
| Cash - beginning of year | <u>1,452,415</u> | <u>-</u> | <u>-</u> | <u>1,452,415</u> | <u>1,568,484</u> |
| Cash - end of year | <u>\$ 2,391,443</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,391,443</u> | <u>\$ 1,452,415</u> |

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

1. NATURE OF ORGANIZATION

The Kawartha Haliburton Children's Aid Society (the "Society") is responsible for the care and protection of children in the Cities of Peterborough and Kawartha Lakes and the Counties of Haliburton and Peterborough as mandated by the provisions of The Child and Family Services Act, R.S.O. 1990, Ch.C.11.

2. MANAGEMENT RESPONSIBILITY

These financial statements of the Society are the responsibility of Society management prepared in accordance with accounting policies and standards established by the Public-Sector Accounting Board ("PSAB") of the Canadian Institute of Chartered Accountants.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

The financial statements of the Society have been prepared in accordance with Canadian public-sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public-Sector Accounting Board ("PSAB for Government NPOs").

b) Revenue Recognition

The Society follows the restricted fund method of accounting for contributions whereby funds that have been externally restricted are segregated into separate funds in the financial statements.

Operating revenue, including grants and subsidies, are recorded as revenue in the period to which they relate. Revenue earned but not received at the end of an accounting period is accrued. Where a portion of revenue relates to a future period, it is deferred and recognized in that future period.

Contributions are recognized as revenue in the appropriate fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

c) Fund Accounting

The General fund includes general unrestricted revenues used to fund the normal operations and provide care and protection services.

The capital fund reflects the tangible capital assets under use by the Society, and their corresponding financing arrangements.

The Ontario Child Benefit fund includes funding received to provide for certain eligible expenditures. Note 6 provides more detail.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

d) Contributed Services

Volunteers contribute significant hours per year to assist the organization in carrying out its service delivery activities. Because of the difficulty of determining their fair value, contributed services are not recognized in the financial statements.

e) Tangible Capital Assets

Tangible capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Amortization is provided on a straight-line method over the estimated useful lives of the assets as follows:

| | |
|---------------------------|---------------|
| Buildings and parking lot | 15 - 40 years |
| Furniture and Equipment | 10 years |
| Vehicle | 5 years |
| Leasehold improvements | 5 years |
| Computers | 3 years |

Capital assets less than \$2,000 are expensed in the year of acquisition.

f) Pension Plan

The Society is part of a multi-employer defined benefit pension plan which is accounted for using defined contribution accounting. The Society is unable to apply defined benefit plan accounting since the information is controlled by an external source (Note 14). The Society records as pension expense the current service cost, amortization of past service costs and interest costs related to the future employer contributions to the Plan for past employee service.

g) Post-Retirement Benefits

The Society provides post-retirement medical and dental benefits to its employees who are employed on a full-time basis and recognizes these costs in the periods in which the employee provided services to the Society. The Society has adopted the following policies with respect to accounting for these employee benefits:

- i) The costs of post-retirement benefits are actuarially determined using management's best estimate of health care costs, disability recovery rates and discount rates. Adjustments to these costs arising from the changes in estimate and experience gains and losses are amortized to income over the estimated average remaining service life of the employee groups on a straight-line basis. Plan amendments, including past service costs are recognized as an expense in the period of the plan amendment.
- ii) The discount rate used in the determination of the associated liabilities is equal to the Society's internal rate of borrowing.

3. SIGNIFICANT ACCOUNTING POLICIES, continued

h) Management Estimates

The preparation of financial statements in accordance with the Canadian public-sector accounting standards 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 amounts of revenues and expenses during the reporting period. The principal estimates used in the preparation of these financial statements are the useful lives of capital assets and employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in the future.

i) Financial Instruments

The Society classifies its financial instruments as either fair value or amortized cost. The Society's accounting policy for each category is as follows:

Fair Value

This category includes cash.

They are initially recognized at cost and subsequently carried at fair value. Changes in fair value on restricted assets are recognized and recorded to their appropriate fund.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Amortized Cost

This category includes accounts receivable, due from province, accounts payable and accrued liabilities. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets.

4. CASH

The Society's bank accounts are held at a Canadian chartered bank. The bank accounts earn interest at a variable rate dependent on the monthly minimum balances.

The Society also has a line of credit with a Canadian chartered bank for a facility to provide funding up to \$1,200,000 at the bank's prime interest rate. The balance outstanding related to this credit facility as at March 31, 2018 is \$NIL (2017 - \$NIL).

The Society's credit facilities are secured by a first ranking security interest on all property of the Society.

5. TANGIBLE CAPITAL ASSETS

| | 2018 | | 2017 | |
|--------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Land | \$ 634,257 | \$ - | \$ 634,257 | \$ - |
| Building and parking lot | 2,990,411 | 1,072,704 | 2,990,411 | 997,596 |
| Furniture and Equipment | 1,144,537 | 858,065 | 1,134,686 | 810,561 |
| Vehicle | 31,125 | - | - | - |
| Leasehold Improvements | 102,207 | 44,171 | 102,207 | 24,510 |
| Computers | 939,209 | 843,174 | 906,725 | 802,322 |
| | \$ 5,841,746 | \$ 2,818,114 | \$ 5,768,286 | \$ 2,634,989 |
| Net book value | | \$ 3,023,632 | | \$ 3,133,297 |

6. ONTARIO CHILD BENEFIT EQUIVALENCY

Ontario Child Benefit Equivalency (OCBe) funding is received from the Ministry of Children and Youth Services and must be disbursed for the benefit of children in care. As directed by the Ministry, funding is allocated between a Savings Program to provide funds for youth to support their transition to independence as well as an Activity Program available to all children in care to support educational achievement, develop social resiliency and to aid in transitioning youth to adulthood.

Funding is allocated in priority to the Savings Program to ensure the Ministry requirements to provide funds for youth transitioning to independence have been met. Any remaining funds are available for disbursements related to the Activity Program.

7. POST-RETIREMENT BENEFITS

The Society records estimated liabilities for accrued employee benefits in the year they are earned.

The significant actuarial assumptions adopted in estimating the Society's accrued benefit obligation as per the actuarial valuation completed March 31, 2017 are as follows:

| | | |
|-------------------------|-------|---------------------------------------------------------------------|
| Discount rate | 3.30% | per annum |
| Average retirement age | 61 | years |
| Dental cost escalation | 2.75% | per annum |
| Medical cost escalation | 6.00% | decreasing by 0.25% per annum to an ultimate rate of 4.5% per annum |

The post-retirement benefit liability is calculated as follows:

| | 2018 | 2017 |
|-----------------------------------------------|-------------------|-------------------|
| Accrued benefit liability - beginning of year | \$ 486,200 | \$ 416,900 |
| Benefit Expense | 67,700 | 77,900 |
| Funding Contributions | (11,500) | (8,600) |
| | <hr/> | <hr/> |
| Accrued benefit liability - end of year | <u>\$ 542,400</u> | <u>\$ 486,200</u> |

Benefit expense for the year is calculated as follows:

| | 2018 | 2017 |
|---------------------------------------|------------------|------------------|
| Current period benefit cost | \$ 55,700 | \$ 45,800 |
| Interest on accrued benefits | 14,400 | 20,700 |
| Amortization of actuarial (gain) loss | (2,400) | 11,400 |
| | <hr/> | <hr/> |
| | <u>\$ 67,700</u> | <u>\$ 77,900</u> |

Post-retirement benefit liability

| | 2018 | 2017 |
|------------------------------|-------------------|-------------------|
| Accrued benefit obligation | \$ 475,400 | \$ 416,800 |
| Unamortized experience gains | 67,000 | 69,400 |
| | <hr/> | <hr/> |
| | <u>\$ 542,400</u> | <u>\$ 486,200</u> |

8. CONTINGENT LIABILITIES

The Society, as part of its operations, is subject to claims, lawsuits and contingencies. The Society records settlements as liabilities in the period they are reasonably determined. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the Society does not believe that such an outcome will significantly impair its operations or have a material adverse effect on its financial position. No accruals have been recorded in these financial statements.

The Society receives funding from the Ministry of Children and Youth Services. The amount of funding provided to the Society is subject to final review and approval by the Ministry. Any future adjustments required from this review will be accounted for at that time.

9. COMMITMENTS

Under the provisions of the Child and Family Services Act, the Society provides financial subsidies to individuals who adopt or assume legal custody of former Crown Wards who were previously cared for by the Society. The ability of the Society to fulfill these commitments is entirely dependent on the provision of adequate funding from the Ministry of Children and Youth Services. Typically, subsidy agreements are renewed on an annual basis. Payment of some subsidy amounts are contingent on future events as the children to whom the subsidy relates develop and mature. The estimated obligation of the Society in the 2019 fiscal year is approximately \$873,783. (2018 - \$929,060).

The Society participates with neighbouring children's aid societies to provide services where staffing and other resources are pooled to obtain access to expertise and to benefit from cost efficiencies. In 2018, the Society contributed \$489,263 toward the operating costs of these programs. The participating societies plan to continue to pool resources for the foreseeable future. Should the pooling arrangement discontinue, the Society would be obliged to provide sufficient notice of its intent to withdraw or contribute to the severance and discontinuance costs of the pooled programs.

In May 2017, the Society signed an agreement with OACAS and thirty-seven other societies to participate in the Shared Services Project (SSP) for a three-year period. The objective of the project is to improve the quality and access to service related data and data trends, to participate in group purchasing and contract management services and to realize financial benefits from initiating a vendor discount program among participating societies. The Society may choose to participate in optional programs such as after-hours answering and screening and staff training. SSP is operated on a cost recovery basis with costs determined annually based on a budget approved by OACAS. The Society's share of 2019 operating costs is \$56,098 (2018 - \$NIL). The cost for societies to participate in SSP is based on their Ministry approved funding allocation for the year relative to those of all participating societies.

During the year, the Society agreed to provide funding to meet the significant and highly special needs of a child receiving extended residential services. The amount to be funded is dependent on actual costs. At March 31, 2018, a maximum of \$205,202 may yet be advanced under this agreement.

The Society leases rent office space in Haliburton, Ontario. The Society is obligated to pay annual rent of \$21,696 until October 31, 2020. Upon expiration of the lease term, the Society has an option to renew the lease for an additional sixty months with the rent amount to be negotiated at that time.

The Society leases imaging equipment from Xerox Canada. The lease term for each piece of equipment is 60 months and all equipment is returned to the lessor upon expiry of each lease.

The financial commitment of the Society under its lease agreements is as follows:

| | |
|------|----------|
| 2019 | \$46,798 |
| 2020 | \$46,798 |
| 2021 | \$27,132 |
| 2022 | \$ 6,175 |
| 2023 | \$ 3,462 |

10. INTERNALLY RESTRICTED FUNDS

The Society was a recipient of incentive bonuses from the Ministry for successfully meeting goals in infrastructure savings and adoption targets. There are no Ministry restrictions on the use of this money. On April 12, 2017, the Board of Directors approved a motion to apply the balance of internally restricted funds to reduce the expected deficit for the 2018 fiscal year.

| | <u>2018</u> | <u>2017</u> |
|------------------------|-------------|-------------------|
| Adoption completion | \$ - | \$ 130,000 |
| Infrastructure savings | - | 31,249 |
| | <u>\$ -</u> | <u>\$ 161,249</u> |

11. ECONOMIC DEPENDENCE

The Society receives a significant amount of revenue from the Province of Ontario and as such, is economically dependent on this source of income.

12. EXPENSE RECOVERIES AND OTHER INCOME

This amount represents expenses incurred by the Society on behalf of programs which are administered by the Society. These expenditures are recoverable from the various government agencies which fund these programs.

| | <u>2018</u> | <u>2017</u> |
|----------------------------------------------------------|---------------------|---------------------|
| Family allowance and parental maintenance | \$ 777,277 | \$ 726,360 |
| Other Society Wards | 664,727 | 738,646 |
| Ministry of Children and Youth Services - CPIN related | - | 139,136 |
| Ministry of Children and Youth Services - infrastructure | - | 127,931 |
| Other recoveries and income | 423,606 | 816,553 |
| Ontario Child Benefit Revenue | 149,843 | 127,273 |
| | <u>\$ 2,015,453</u> | <u>\$ 2,675,899</u> |

13. REGISTERED EDUCATION SAVINGS PLAN

Under the direction of the Ministry of Children and Youth Services, the Society is obliged to purchase Registered Education Savings Plans (RESP's) using funds excluded from the operating funds of the Society and provided by the Government of Canada as the Universal Child Care Benefit ("UCCB"). The beneficiaries of the RESP's are Crown Wards and Society Wards meeting eligibility conditions. The Society is obliged to act as "Plan Subscriber" as defined by the Income Tax Act until conditions of permanency have been established. At the end of the fiscal year, the Society has made cumulative contributions of \$724,780 (2017 - \$606,860) to RESP's. The Society will never become beneficiary of these plan proceeds and accordingly, they have been excluded from any financial reporting of the Society.

14. PENSION PLAN

Certain employees of the Society are eligible members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan. According to the 2017 OMERS Annual Report, OMERS provides pension services to 482,000 active, inactive and retired members from almost 1000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date.

The Actuarial Opinion contained in the December 31, 2017 Annual Report disclosed total actuarial liabilities of \$94,431 million in respect of benefits accrued for service with actuarial assets of \$89,028 million indicating an actuarial deficit of \$5,403 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Society does not recognize any share of the OMERS pension surplus or deficit.

Contributions made by the Society to OMERS for 2018 were \$2,348,157 (2017 - \$2,483,984).

15. FINANCIAL INSTRUMENT CLASSIFICATION

Under Canadian public-sector accounting standards, financial instruments are required to be categorized into Levels 1 to 3 based on the degree to which the fair value is observable:

- a. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- b. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data

The Society's financial instruments which would be classified under this requirement consists only of cash which would be categorized as Level 1 as these amounts are stated at their fair value.

16. FINANCIAL INSTRUMENTS

a) Credit Risk

Credit risk is the risk of financial loss to the Society if a debtor fails to make payments of interest and principal when due. The Society is exposed to this risk relating to its cash and accounts receivable. The Society holds its cash accounts with a federally regulated chartered bank who is insured by the Canadian Deposit Insurance Corporation. In the event of default, the Society's cash accounts are insured up to \$200,000 (2017 - \$200,000).

Accounts receivable are primarily due from other Children's Aid Societies and the Province of Ontario. Credit risk is mitigated by the financial solvency of the provincial government.

The Society measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Society's historical experience regarding collections. The amounts outstanding at year end were as follows:

| | Total | Current | Past Due | | |
|------------------------------|------------|------------|------------|------------|-------------|
| | | | 31-60 days | 61-90 days | 91-120 days |
| Government sources including | | | | | |
| Due from Ministry | \$ 322,192 | \$ 309,942 | - \$ | - \$ | 12,250 |
| Children's Aid Societies | 163,959 | 110,149 | 37,836 | | 15,974 |
| Other | 16,444 | 10,289 | 1,826 | 251 | 4,078 |
| Total receivables | \$ 502,595 | \$ 430,380 | \$ 39,662 | \$ 251 | \$ 32,302 |

b) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: interest rate risk, currency risk and equity risk. The Society is not exposed to significant currency or equity risk as it does not transact materially in foreign currency or hold equity financial instruments.

c) Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Society is not exposed to significant interest rate risk as it does not pay or receive significant amounts of interest.

d) Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet all cash outflow obligations as they come due. The Society mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and maintaining an available line of credit if unexpected cash outflows arise. The contractual maturities (representing undiscounted contractual cash-flows of financial liabilities) of these obligations are due within six months.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.