



REPORT FOR ACTION

Financial Statements for Fiscal Year 2016

Date: June 14, 2017
To: TAF Board of Directors
From: Director of Finance

SUMMARY

The draft audited financial statements for fiscal year 2016 were presented by TAF's auditors, Welch LLP, and approved by the Board at the April 21, 2017 meeting. Subsequently, Welch's internal quality control review process flagged one \$395K transaction for further examination. Since TAF and Welch had differing views on the accounting treatment of this item, both have agreed to seek advice from another accounting firm and a resolution is expected by end of June. Board approval of the anticipated accounting adjustment due to this item in the 2016 Financial Statements is recommended on a prospective basis.

RECOMMENDATION

The Director of Finance recommends that the Board of Directors accept the anticipated accounting adjustment related to the \$395K item which was included in the 2016 Audited Financial Statements and approved on April 21, 2017 using the original accounting treatment; and thus re-approve TAF's 2016 Audited Financial Statements, as adjusted.

FINANCIAL IMPACT

None.

COMMENTS

TAF's Board approved the Audited Financial Statements presented by Welch LLP on April 21, 2017. Subsequently, Welch's internal quality control review process flagged one \$395K transaction for further review.

The item under review is a sale transaction where TAF received \$395K from a third party by undertaking to share a portion of future energy savings for the duration of two multi-year Energy Savings Performance Agreement (ESPA) contracts which resulted from energy retrofits completed by TAF.

The accounting treatment of this large cash receipt needs to recognize that this is not all income nor is it all TAF's obligation in fiscal year 2016, since TAF's ongoing revenue sharing obligations to the third party are totally contingent on ongoing realization of energy savings by the building owners across several years. In the unlikely event of the energy savings stopping during the two ESPA contracts, TAF would have no further obligation to the third party under the terms of this sale agreement.

Thus TAF and Welch have agreed to seek and currently are awaiting further analysis and advice from another accounting firm. It is expected that this matter will be resolved by the end of June 2017 with the expected adjustment likely being material to TAF's financial results for 2016. We expect that a sound accounting approach will emerge from further examination of these types of transactions which enable TAF to make more GHG reducing impact by better use of its capital.

Welch has informed the City's Audit Committee that they have substantially completed the 2016 audit and that this one matter is being currently examined with input from another accounting firm. Overall, TAF's impact on the City's 2016 Financial Statements is immaterial (approximately zero).

TAF's next Board meeting is scheduled for September 27, 2017, and it would be imprudent for TAF not to have its 2016 Audited Financial Statements finalized as soon as this matter is finalized. Consequently, prospective approval of adjusted Financial Statements for 2016 is recommended for expediency.

CONTACT

Richard Rysak, Director of Finance, rrysak@taf.ca, 416-338-8103

SIGNATURE

Richard Rysak
Director of Finance