

**AUDIT COMMITTEE  
Report No. 22-076**

**28 November 2022**

**Draft 2021-2022 Consolidated Financial Statements**

**Key Contact: Randall Gerrior, Associate Director, Business  
Operations**

**PURPOSE:**

1. To seek approval of the draft 2021-2022 Consolidated Financial Statements.

**STRATEGIC LINKS:**

2. Aligned with the 2019-2023 Strategic Plan's pillar of developing a culture of social responsibility, an effectively functioning Audit Committee and approach to risk management is a key component of the focus on sustainably allocating resources, in particular by enhancing operational practices to effectively and responsibly manage human and financial resources in support of students. The external audit contributes to ensuring effective financial management practices have been established by the District and supports the information presented in the draft consolidated financial statements.

**CONTEXT:**

3. The *Education Act* requires that school boards prepare audited financial statements annually and to make the statements available to the public. Pursuant to Ontario Regulation 361/10, *Audit Committees*, it is the duty of the Audit Committee:
  - a) to review the board's annual financial statements and consider whether they are complete, are consistent with any information known to the audit committee members and reflect accounting principles applicable to the board;
  - b) to recommend, if the audit committee considers it appropriate to do so, that the board approve the annual audited financial statements.
  - c) to review with the director of education, a senior business official and the external auditor all matters that the external auditor is required to communicate to the audit committee under generally accepted auditing standards;

- d) to review with the external auditor material written communications between the external auditor and the director of education or a senior business official;
- e) to ask the external auditor about whether the financial statements of the board's reporting entities, if any, have been consolidated with the board's financial statements;
- f) to ask the external auditor about any other relevant issues.

As a result of the above, annually, the audited financial statements are presented to the Audit Committee to review and make a recommendation to the Board of Trustees that they be approved.

In reviewing the financial results for the previous year, it is important to note that the Ministry of Education requires school districts to budget and report on a slightly different basis of accounting than that presented in the consolidated financial statements. Specifically, the Ministry reporting is referred to as "compliance" reporting, which means it is in accordance with the applicable regulations that govern how certain funding must be spent and that limit the use of accumulated surplus to support a budgeted and actual deficit.

The compliance results are summarized in paragraph 6 of this report, and are expanded upon further in Report 22-077, Analysis of the District's 2021-2022 Financial Results.

## **KEY CONSIDERATIONS:**

4. The draft 2021-2022 Consolidated Financial Statements are attached as Appendix A. They have been prepared in accordance with requirements and standards established for school boards, which include standards established by the Public Sector Accounting Board (PSAB). The statements are referred to as draft until they are approved by the Board.

In compliance with these accounting standards, the financial activity and balances of the Ottawa-Carleton Education Network (OCENET), school generated funds (SGF), which are held by individual schools and school councils, and the Ottawa Student Transportation Authority (OSTA), have been consolidated with the District's financial information. With regard to OSTA, the amounts have been proportionally consolidated recognizing that OSTA also serves the Ottawa Catholic School Board's transportation needs. The District's share of OSTA expenses is 59.6%.

On a consolidated basis, the 2021-2022 actual results showed expenses of \$1.043 billion, revenues totaling \$1.055 billion and a surplus of \$12 million. Table 1 compares the consolidated results and the consolidated budget. As can be seen in the table, there was a net increase in the accumulated surplus relative to the consolidated budget.

Table 1 – Comparison of Actual Results and Consolidated Budget

	Actual	Consolidated Budget	Change	Change
	\$	\$	\$	%
Revenues	1,055,179,851	1,022,842,858	32,336,993	3.1
Expenses	1,043,553,700	1,027,605,614	15,948,086	1.6
Surplus (Deficit)	11,626,151	(4,762,756)	16,388,907	

#### 5. **Accumulated Surplus**

Note 8 to the draft consolidated financial statements provides additional detail regarding the accumulated surplus and segregates amounts that are available for compliance from amounts that are restricted and not available for compliance. Amounts available for compliance can be used by the Board to balance future budgets within limits established by the Ministry; however, the Board cannot direct the use of restricted amounts. Table 2 summarizes the information presented in Note 8 and shows the total accumulated surplus of \$141.9 million.

Table 2 – Summary of Note 8 – Consolidated Accumulated Surplus

	Actual as at 31 Aug 2022	Actual as at 31 Aug 2021	Change increase (decrease)
	\$	\$	\$
<u>Available for compliance</u>			
Restricted-committed capital	11,837,900	10,891,4766	946,4244
Committed Capital Projects adj		(195,440)	195,440
Internally appropriated			
Extended Day Program	(1,471,265)	(708,079)	(763,186)
Budgets carried forward	2,387,089	3,773,611	(1,386,522)
Business systems	1,000,000	1,000,000	-
Contingencies	14,000,000	16,200,000	(2,200,000)
Unappropriated	1,926,714	14,294,727	(12,368,013)
	29,680,438	45,256,295	(15,575,857)
<u>Unavailable for compliance</u>			
OCENET	4,900,203	4,534,991	365,212
School generated funds	9,069,353	9,272,794	(203,441)
Employee future benefits	(15,821,271)	(23,815,609)	7,994,338
Committed Capital Projects Adj		195,440	(195,440)
Revenue recognized for land	114,093,762	94,852,423	19,241,339
	112,242,047	85,040,0399	27,202,0088
Total accumulated surplus	141,922,485	130,296,334	11,626,151

Of the total surplus, \$29.7 million represents the accumulated surplus available for compliance as at the end of 2021-2022. Of this amount, \$11.8 million is restricted by Ministry directive to offset the amortization expense relating to capital assets acquired using the accumulated surplus.

Amounts have also been internally appropriated as follows:

- \$2.4 million has been identified as a budget carryforward and will be used to support school, department and trustee costs to be incurred in 2022-2023. These are itemized in paragraph 6 below;
- \$1.0 million has been set aside for the renewal of the District's business management systems which includes the finance and human resources/payroll systems;
- \$14.0 million has been identified for contingencies relating to revenue shortfalls or increased expenses relative to the budget. The amount is aligned with the Ministry recommendation that a provision of approximately 2% of the annual operating allocation be established to respond to unanticipated budget variances; and
- \$1.9 million of the District's accumulated surplus available for compliance remains unappropriated.

A \$1.5 million accumulated deficit is shown for the Extended Day and the Infant, Toddler and Preschool Child Care programs. This amount will be eliminated once participation in the programs normalize to pre-pandemic levels.

Amounts reported in the summary as unavailable for compliance relate to the accumulated surplus of OCENET, SGF fund balances and revenue recognized for the purchase of land. These amounts total \$128.0 million. The District's unfunded liability relating to employee future benefits (EFB) is \$15.8 million. When combined, these amounts result in an externally appropriated (or restricted) net accumulated surplus of \$112.2 million. Additional detail on each component is provided in the sections that follow.

## 6. Year End Results Relative to Budget

The District's 2021-2022 actual results on a non-consolidated (compliance) basis showed expenses of \$1.046 billion, revenues of \$1.029 billion and a deficit of \$15.6 million. Table 3 compares the surplus with the amount originally budgeted.

Table 3 – Comparison of Actual Results and Budget (Compliance Results)

	Actual	Budget	Change increase (decrease)	Change
	\$	\$	\$	%
Revenues	1,029,946,889	995,997,569	33,949,320	3.4
Expenses	1,045,522,748	1,010,885,958	34,636,790	3.4
Surplus (Deficit)	(15,575,859)	(14,888,389)	(687,470)	

Changes in revenues and expenses since the approval of the District's 2021-2022 Budget are expanded upon in Report 22-077, Analysis of the District's 2021-2022 Financial Results.

The approval of the draft 2021-2022 Consolidated Financial Statements includes the provision that certain unspent budgets be carried forward for use in 2022-2023. The amounts carried forward act as a draw on the accumulated surplus and are available to the respective budget holders to purchase supplies and services in the subsequent year. Table 4 summarizes the amounts carried forward from each of the years 2021-2022 and 2020-2021.

Table 4 – Budgets Carried Forward

	2021-2022	2020-2021	Increase (Decrease)
	\$	\$	\$
Arts programs	63,213	100,068	(36,855)
Music repairs and consumables	136,006	130,785	5,221
Net school operating budgets	2,177,870	3,291,583	(1,113,713)
Department operating budgets	-	235,617	(235,617)
Trustees	10,000	15,558	(5,558)
	2,387,089	3,773,611	(1,386,522)

7. **OCENET**

OCENET is an arm's length not-for-profit organization whose principal activity is to market products, programs, services and expertise to international students and to generate tuition revenue for the District. OCENET's activities are overseen by a Board of Directors, which includes two (2) trustees, the Director of Education and the Associate Director, Business Operations. The Board of Directors makes decisions regarding the use of OCENET's accumulated surplus.

OCENET's activities in 2021-2022 resulted in an operating annual surplus of \$365,212. The accumulated surplus at the end of the year was \$4.9 million.

OCENET is consolidated into the OCDSB financial statements based on the degree of control the Board exercises over OCENET. The accounting standards require the District to consolidate OCENET's financial position in the Board's financial statements

8. **School Generated Funds (SGF)**

SGF are funds that are collected by school communities, for example, through fundraising activities, and are used for the benefit of students and the school. Uses vary by school and may include activities such as yearbook publications, student excursions that are not part of the curriculum, graduation events, lunch programs and charitable fundraising. Individual school principals are responsible for overseeing the management of SGF for their respective school. School Councils, in collaboration with school principals, are responsible for the management of school council funds.

The balances shown in the draft consolidated financial statements reflect the activities and fund balances of all schools in the District and include funds raised and administered by school councils.

In 2021-2022, SGF activities resulted in a small operating deficit of \$203,441. The deficit reduced the related accumulated surplus to \$9.1 million.

9. **Employee Future Benefits (EFB)**

The District provides retirement and other EFB to certain groups of employees hired prior to specified dates.

Up until 2012, District employees were entitled on retirement to a payout that was calculated based on unused accumulated sick days, years of service and salary.

In 2012, the provincial government passed legislation that eliminated gratuities on a go forward basis and froze the value of gratuities payable to all eligible employees at retirement based on their August 31, 2012 value. The Board provides these benefits through an unfunded defined benefit plan and the liability as of the plan change date is being amortized over 12 years. The amortization period is based on the estimated average remaining service life (EARSL) of eligible employees. The annual amortization of the unfunded liability is \$7.9 million and the unamortized balance of the unfunded liability as at 31 August 2022 is \$15.8 million. The remaining amortization period is two years.

In addition to retirement gratuities, the District, based on a grandparented commitment, continues to make life insurance, dental and health care benefits available to certain employee groups post retirement until the age of 65. This entitlement was also frozen effective 31 August 2012. The plan change imposed by the provincial government as at 31 August 2012 also established an unfunded liability for these post retirement expenses. The liability is being funded over 10 years and it, too, is based on the EARSL of eligible employees. The annual amortization is \$83,703 and the unamortized balance as at 31 August 2022 is \$Nil. The amortization for this benefit ended in 2021-2022.

Although the EFB liability is reported as unfunded, the Board provides for the annual costs as part of the District's annual operating budget and the amortized amounts discussed above are reported as an expense in the District's non-consolidated (compliance) financial results; however, for accounting purposes, they are adjusted upon consolidation and are shown as a reduction in the unfunded liability.

**10. Revenue Recognized for Land**

The District collects Education Development Charges (EDC) at rates approved by the Board. The use of EDC revenue is restricted to land acquisition costs. Amounts collected are reported as deferred revenue until used.

In 2021-2022, EDC revenue of \$9.2 million was collected bringing total EDC deferred revenue available during the year to \$26.3 million. Of the deferred revenue, \$19.2 million was used to acquire land for three new schools and to pay site development costs related to schools currently under construction. The balance in the deferred revenue account as of August 31 2022 is \$7.1 million.

**11. Summary**

KPMG LLP, the District's external auditors, has conducted the audit in accordance with Canadian generally accepted auditing standards and has provided an opinion which is shown in the draft 2021-2022 Consolidated Financial Statements.

The opinion expressed in the Independent Auditors' Report is without qualification. It states "In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of August 31, 2022, its consolidated results of operations, its consolidated changes in net debt and its consolidated cash flows for the year then ended in accordance with the basis of accounting described in note 1(a) to the financial statements."

Changes to the draft consolidated financial statements resulting from Audit Committee or Board discussions are subject to further audit.

## **RESOURCE IMPLICATIONS:**

12. The review and approval of the year-end financial statements is an important milestone in the District's financial cycle, and an important aspect of the Audit Committee's mandate. It provides an opportunity to review and discuss the previous year's financial results, including material or significant variances from the budget and revised estimates.

The cost of the year-end audit in terms of the financial outlay for the audit services was provided for in the annual budget.

## **COMMUNICATION/CONSULTATION ISSUES:**

13. The draft consolidated financial statements were prepared by Finance staff in consultation with other departments.

The external auditor met with members of the senior management team including the Director of Education, Superintendent of People, Culture and Leadership, Chief Financial Officer and various staff from the Finance, People, Culture and Leadership, and Business and Learning Technologies departments when conducting the audit. The external auditor's attendance at this meeting provides the opportunity for members of the Audit Committee to ask questions and discuss any issues or areas of concern that may have been identified during the audit.

## **RECOMMENDATION:**

THAT the draft 2021-2022 Consolidated Financial Statements attached as Appendix A to Report 22-076 be approved.

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Randall Gerrior  
Associate Director, Business Operations

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Camille Williams-Taylor  
Director of Education and Secretary of  
the Board

## **Appendices:**

Appendix A - Consolidated Financial Statements of the Ottawa-Carleton District School Board for the Year Ended August 31, 2022 (Draft)