



AUDIT COMMITTEE
Report No. 23-087

27 November 2023

Draft 2022-2023 Consolidated Financial Statements

Key Contact: Randall Gerrior, Associate Director, Business Operations

PURPOSE:

1. To seek approval of the draft 2022-2023 Consolidated Financial Statements.

STRATEGIC LINKS:

2. Aligned with the 2023-2027 Strategic Plan's pillar of learning, well-being and 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 which 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; and
- 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.

KEY CONSIDERATIONS:

4. The draft 2022-2023 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.

On a consolidated basis, the 2022-2023 actual results showed expenses of \$1.146 billion, revenues totaling \$1.144 billion and a deficit of \$2.8 million. Table 1 compares the consolidated results and the consolidated budget. As can be seen in the table, there was a net decrease in the accumulated surplus relative to the consolidated budget.

Table 1 – Comparison of Actual Results and Consolidated Budget

	Actual	Consolidated Budget (Restated)	Change
	\$	\$	\$
Revenues	1,143,625,624	1,076,473,354	67,152,270
Expenses	1,146,441,015	1,065,793,449	80,647,602
Surplus (Deficit)	(2,815,391)	10,679,905	(13,495,332)

5. **Accumulated Deficit**

Note 9 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 9 and shows the total accumulated deficit of \$29.8 million.

Table 2 – Summary of Note 9 – Consolidated Accumulated Surplus

	Actual as at 31 Aug 2023	Actual as at 31 Aug 2022 (Restated)	Change increase (decrease)
<u>Available for compliance</u>	\$	\$	\$
Restricted-committed capital	14,609,424	11,837,900	2,771,524
Committed Capital Projects adj			
Internally appropriated			
Extended Day Program	(1,770,383)	(1,471,265)	(299,118)
Budgets carried forward	1,887,089	2,387,089	(500,000)
Business systems	2,000,000	1,000,000	1,000,000
Contingencies	3,500,000	14,000,000	(10,500,000)
Unappropriated	142,979	1,926,714	(1,783,735)
	20,369,109	29,680,438	(9,311,329)
<u>Unavailable for compliance</u>			
OCENET	4,850,410	4,900,203	(49,793)
School generated funds	10,170,317	9,069,353	1,100,964
Employee future benefits	(7,910,635)	(15,821,271)	7,910,636
Committed Capital Projects Adj			
Asset Retirement Obligation	(174,960,985)	(168,916,343)	(6,044,642)
Revenue recognized for land	117,672,535	114,093,762	6,495,938
	(50,178,358)	(56,674,296)	3,578,773
Total accumulated surplus	(29,809,249)	(26,993,858)	(2,815,391)

Of the total surplus, \$20.4 million represents the accumulated surplus available for compliance as at the end of 2022-2023. Of this amount, \$14.6 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:

- \$1.9 million has been identified as a budget carryforward and will be used to support school, department and trustee costs to be incurred in 2023-2024;
- \$2.0 million has been set aside for the renewal of the District's business management systems which includes the finance and human resources/payroll systems;
- \$3.5 million has been identified for contingencies relating to revenue shortfalls or increased expenses relative to the budget. The amount is

below the Ministry recommendation that a provision of approximately 2% of the annual operating allocation be established to respond to unanticipated budget variances; and

- \$142,979 of the District's accumulated surplus available for compliance remains unappropriated.

A \$1.8 million accumulated deficit is shown for the Extended Day and the Infant, Toddler and Preschool Child Care programs. This amount will be eliminated as participation in the programs continue to increase to pre-pandemic levels.

Amounts reported in the summary as unavailable for compliance relate to the accumulated surplus of OCENET, SGF fund balances, the newly implemented Asset Retirement Obligation (ARO) and revenue recognized for the purchase of land. These amounts total (\$42 million). The District's unfunded liability relating to employee future benefits (EFB) is \$7.9 million. When combined, these amounts result in an externally appropriated (or restricted) net accumulated deficit of (\$50.2 million).

6. **Year End Results Relative to Budget**

The District's 2022-2023 actual results on a non-consolidated (compliance) basis showed expenses of \$1.131 billion, revenues of \$1.122 billion and a deficit of \$9.1 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)
	\$	\$	\$
Revenues	1,122,540,522	1,046,678,295	75,862,257
Expenses	1,131,656,444	1,055,839,712	75,816,732
Surplus (Deficit)	(9,115,892)	(9,161,417)	45,525

Changes in revenues and expenses since the approval of the District's 2022-2023 Budget are expanded upon in Report 23-087, Analysis of the District's 2022-2023 Financial Results.

The approval of the draft 2022-2023 Consolidated Financial Statements includes the provision that certain unspent budgets be carried forward for use in 2023-2024. 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.

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 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.

9. Employee Future Benefits (EFB)

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

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. The final amortization will be expensed in 2023-2024.

10. Asset Retirement Obligations

Public sector entities in Canada, which includes the education sector, have a legal obligation to retire certain tangible capital assets at the end of their lives. Effective in 2022, under PS 2380 Asset Retirement Obligations (ARO), school districts must have a liability reflected in their financial statements. See Note 8 to the draft consolidated financial Statements for a breakdown of the ARO for the District.

11. 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.

12. 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 2022-2023 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 August 31, 2023, and 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:

13. 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.

COMMUNICATION/CONSULTATION ISSUES:

14. 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, Associate Director of Business 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 2022-2023 Consolidated Financial Statements attached as Appendix A to Report 23-087 be approved.

Randall Gerrior
Associate Director, Business Operations

Pino Buffone
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, 2023 (Draft)