



AUDIT COMMITTEE
Report No. 19-101

25 November 2019

Draft 2018-2019 Consolidated Financial Statements

Key Contact: Mike Carson, Chief Financial Officer, 613-596-8211 ext. 8881

PURPOSE:

1. To seek approval of the draft 2018-2019 Consolidated Financial Statements.

CONTEXT:

2. The *Education Act* requires that school boards prepare audited financial statements annually and to make the statements available to the public.

KEY CONSIDERATIONS:

3. The draft 2018-2019 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. The statements are referred to as draft until they are approved by the Board.

In compliance with the standards, the financial activity and balances of the Ottawa-Carleton Education Network (OCENET), school generated funds (SGF) 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 representing the District's pro rata interest in the Authority. The District's share of OSTA costs is 65%.

On a consolidated basis, the 2018-2019 actual results showed expenses of close to \$982.2 million, revenues totaling more than \$1,012.1 million and a surplus approaching \$29.9 million. Table 1 compares the consolidated results and the consolidated budget.

Table 1 – Comparison of Consolidated Results and Consolidated Budget

	Actual	Consolidated Budget	Change	Change increase (decrease)
		\$	\$	%
Revenues	1,012,081,100	1,005,069,600	7,011,500	0.7
Expenses	982,205,500	989,347,200	(7,141,700)	0.7
Surplus	29,875,600	15,722,400	14,153,200	

4. **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 of Education; 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 \$107.6 million.

Table 2 – Summary of Note 8 – Consolidated Accumulated Surplus

	Actual as at 31 Aug 2019	Actual as at 31 Aug 2018	Change increase (decrease)
	\$	\$	\$
<u>Available for compliance</u>			
Restricted-committed capital	2,742,400	471,600	2,270,800
Internally appropriated			
Extended Day Program	2,073,400	886,300	1,187,100
Budgets carried forward	1,656,100	2,148,900	(492,800)
Business systems	2,000,000	2,000,000	-
Contingencies	17,200,000	15,000,000	2,200,000
Unappropriated	16,709,900	14,362,300	2,347,600
	42,381,800	34,869,100	7,512,700
<u>Unavailable for compliance</u>			
OCENET	4,255,000	3,861,300	393,700
School generated funds	9,555,600	8,894,300	661,300
Employee future benefits	(39,804,300)	(47,798,600)	7,994,300
Revenue recognized for land	91,191,200	77,877,600	13,313,600
	65,197,500	42,834,600	22,362,900
Total accumulated surplus	107,579,300	77,703,700	29,875,600

As shown in the summary, the accumulated surplus available for compliance at the end of 2019 was \$42.4 million. Of this amount, \$2.7 million is restricted by Ministry directive and is used to offset the amortization expense relating to capital assets acquired using the accumulated surplus.

Amounts have also been internally appropriated as follows:

- \$2.1 million is the accumulated surplus established through the activities of the Extended Day and the Infant, Toddler and Preschool Child Care programs. A portion of this amount has been identified to support the acquisition of computer software to manage participant registration and billing. The remainder will be used to offset future budget variances;
- \$1.7 million has been identified as a budget carryforward and will be used to support school, department and trustee costs to be incurred in 2018-2019. These are itemized in Section 5;
- \$2.0 million has been set aside for the renewal of the District's business management systems which includes the student management, finance and human resources/payroll systems; and
- \$17.2 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 equal to 2% of the annual operating allocation be established to respond to unanticipated budget variances.

The remaining \$16.7 million of the District's accumulated surplus available for compliance has not been appropriated.

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 \$105.0 million. The District's unfunded liability relating to employee future benefits (EFB) was \$39.8 million. When combined, these amounts result in an externally appropriated (or restricted) net deficit of \$65.2 million. Additional detail on each component is provided in the sections that follow.

5. Ottawa-Carleton District Results

The District's 2018-2019 actual results on a non-consolidated (compliance) basis showed expenses of \$966.9 million, revenues of \$974.4 million and a surplus of \$7.5 million.

The approval of the draft 2018-2019 Consolidated Financial Statements includes the provision that certain unspent budgets be carried forward for use in 2018-2019. The amounts carried forward act as a draw on the accumulated surplus and are used to acquire supplies and services in the subsequent year. Table 3 summarizes the amounts carried forward from each of years 2018-2019 and 2017-2018.

Table 3 – Budgets Carried Forward

	2018-2019	2017-2018	Increase (Decrease)
	\$	\$	\$
French immersion arts programs	165,300	143,200	22,100
Music repairs and consumables	167,900	125,100	42,800
Net school operating budgets	1,293,700	1,602,400	(308,700)
Department operating budgets	17,000	238,400	(221,400)
Trustees and Committees	12,200	39,800	(27,600)
	1,656,100	2,148,900	(492,800)

Changes in revenues and expenses since the approval of the District's 2018-2019 Budget are expanded upon in Report 19-102, Analysis of the District's 2018-2019 Financial Results.

6. **OCENET**

OCENET is a 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 (BOD). The BOD makes decisions regarding the use of OCENET's accumulated surplus.

OCENET's activities in 2018-2019 resulted in an operating surplus of \$393,700. The accumulated surplus at the end of the year is close to 4.3 million.

7. **School Generated Funds**

SGF are monies collected by school communities 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 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 2018-2019, SGF activities resulted in an operating surplus of \$661,300. The surplus increased the related accumulated surplus to close to \$9.6 million.

8. **Employee Future Benefits**

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

As a result of a plan change imposed by the provincial government, the amount of the gratuities payable to eligible employees at retirement is now based on their salary, accumulated sick days and years of service as at 31 August 2012. 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 2019 is close to \$39.6 million. The remaining amortization period is five years.

In addition to retirement gratuities, the District provides life insurance, dental and health care benefits to certain employee groups after retirement until the age of 65. The plan change imposed by the provincial government as at 31 August 2012 also established an unfunded liability for these payments. The liability is being funded over 10 years and is also based on the EARSL of eligible employees. The annual amortization is \$83,700 and the unamortized balance as at 31 August 2019 is \$251,100. The remaining amortization period is three years.

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, they are adjusted upon consolidation and are shown as a reduction in the unfunded liability.

The total unfunded liability for EFB is \$39.8 million.

9. 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 the acquisition of land and amounts collected are reported as deferred revenue until used.

In 2018-2019, EDC revenue of \$6.4 million was collected bringing total EDC deferred revenue available during the year to \$16.3 million. Of the deferred revenue, \$13.3 million was used to acquire land during the year and \$196,600 was used to offset EDC related operating costs. The balance in the deferred revenue account is \$2.8 million.

As at 31 August 2019, EDC revenue of \$91.2 million has been used to acquire land.

10. 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 2018-2019 Consolidated Financial Statements.

The opinion expressed in the Independent Auditors Report is without qualification and states "the consolidated financial statements of the Ottawa-Carleton District School Board as at and for the year ended August 31, 2019, are prepared, in all material respects, in accordance with the basis of accounting described in note 1(a) to the consolidated financial statements."

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

RESOURCE IMPLICATIONS:

11. The cost of the year-end audit has been provided for in the annual budget.

COMMUNICATION/CONSULTATION ISSUES:

12. 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 Human Resources, Chief Financial Officer and various staff from the Finance 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 discuss any issues or areas of concern that may have been identified during the audit.

STRATEGIC LINKS:

13. 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.

RECOMMENDATION:

THAT the Draft 2018-2019 Consolidated Financial Statements attached as Appendix A to Report 19-101 be approved.

Mike Carson
Chief Financial Officer

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, 2019 (Draft)