**AUDIT COMMITTEE** **25 November 2019**
**Report No. 19-102**

## Analysis of the District's 2018-2019 Financial Results

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## PURPOSE:

1. To provide the Audit Committee with information regarding the District's financial results for the year ended 31 August 2019.

## CONTEXT:

2. The District's financial results significantly contribute to those reported in the draft 2018-2019 Consolidated Financial Statements. An analysis of the District's results provides insight into relevant changes that occurred during the year. The narrative reflects areas discussed in forecasts presented during the year and amounts have been updated based on actual results.

## KEY CONSIDERATIONS:

3. In June 2018, the Board approved the 2018-2019 Budget authorizing expenses totaling $974.3 million. Funding of the expenses was provided through grants and other revenues totaling $974.3 million. This resulted in a balanced budget.

   The District's 2018-2019 financial results show expenses of $974.4 million, revenues of $966.9 million and a surplus of $7.5 million. Table 1 compares the surplus reflected in the updated forecast with the amount originally budgeted.

Table 1 – Comparison of Actual Results and Approved Budget

| | Actual | Approved Budget | Change | Change |
|---|---|---|---|---|
| | $ | $ | $ | % |
| Revenues | 974,458,200 | 974,300,600 | 157,600 | - |
| Expenses | 966,945,500 | 974,300,600 | (7,355,100) | 0.8 |
| Surplus | 7,512,700 | - | 7,512,700 | |

Changes to revenues and expenses since the approval of the 2018-2019 Budget are expanded upon in Appendix A - Analysis of Changes in Revenues and Expenses. Costs by program area for the current and prior year are presented in Appendix B - Comparative Summary of Expenses. Additional detail regarding grants is provided in Appendix C - Grants for Student Needs and a list of special purpose grants is provided in Appendix D - Priorities and Partnerships Fund Grants.

4. **Enrolment Estimates and Grants**

The 2018-2019 Budget was developed using enrolment estimates established in early 2018. Average daily enrolment (ADE) levels have a direct impact on funding and also affect related instructional expenses. The approved budget reflected ADE of 49,295 for elementary and 22,954 for secondary (excluding high credit and adult day school enrolment).

Actual elementary ADE for 2018-2019 was 49,723 students which is an increase of 428 students (0.9%) over the approved budget. Secondary day school enrolment ADE was 22,866 students which is a decrease of 88 students (0.4%) over the approved budget.

As previously mentioned, enrolment has a direct impact on various grants and in particular the Pupil Foundation Grant (PFG). This grant applies to students of the District under 21 years of age and excludes high credit and adult day school ADE. Table 2 shows that the District's PFG is $1.8 million more than budgeted.

Table 2 – Effect of Increased Average Daily Enrolment on Pupil Foundation Grant

| | Enrolment (Pupils of the Board) | | | Pupil Foundation Grant | | |
|---|---|---|---|---|---|---|
| | Actual | Approved Budget | Change | Actual | Approved Budget | Change |
| | | | | $ | $ | $ |
| Elementary | 49,723 | 49,295 | 428 | 270,833,500 | 268,558,600 | 2,274,900 |
| Secondary | 22,866 | 22,954 | (88) | 136,157,100 | 136,678,200 | (521,100) |
| Total | 72,589 | 72,249 | 340 | 406,990,600 | 405,236,800 | 1,753,800 |

Other allocations that comprise the Grants for Student Needs (GSNs) are affected by changes in enrolment and student demographics. One grant that had significant growth was the Language grant which increased by $3.2 million beyond the budgeted amount. This grant has two components: The first part relates to enrolment in French as a Second Language (FSL) studies which provides funding based on the grade level and duration of French instruction. The second component is the English as a Second Language (ESL) amount which provides funding based on confirmed enrolment of students whose first language is not English and who have arrived in Canada since September 2014. FSL funding accounted for $595,900 of the increase while the remaining balance of $2.6 million resulted from ESL funding.

Special mention must be made regarding the Indigenous Education grant. The District's grant is comprised of a base amount to support the Board's action plan on indigenous education, a per pupil amount reflective of the enrolment of indigenous students and an indigenous studies amount which provides funding based on student enrolment in qualifying secondary panel courses. Almost all of the $1.5 million increase relates to indigenous studies where 1,631 pupil credits are anticipated as compared to the 375 pupil credits assumed during budget development. The increase is generally attributable to enrolment in compulsory English credit courses which qualify for increased funding.

A number of other grants also had significant changes. The Special Education grant increased (net of revenue deferrals) by $1.6 million, the Adult Education grant increased by $863,200, the Teacher Qualifications and Experience grant decreased by $897,900 and the Transportation grant increased by $377,700.

Appendix C - Grants for Student Needs compares the GSNs with the approved budget and reflects the effect of revenue deferrals.

5. **Instruction-Related Compensation Costs**

Instruction-related compensation costs are those incurred in meeting the needs of students in the classroom. Examples of staff whose costs are reported in the Instruction category include classroom teachers, school-based administrators, learning consultants and professional and support staff such as psychologists, educational assistants (EAs) and early childhood educators (ECEs).

As discussed in forecasts presented during the year, the District expected significant savings in instruction-related compensation costs. A review was conducted which confirmed an anomaly related to the compensation of new teaching staff. Teachers that leave the District normally have significant qualifications and experience and, accordingly, are compensated at the high end of the salary scale. Teachers filling the vacated positions are generally compensated at lower rates of pay which reflect their more recent entry into the teaching profession. Actual results showed that the qualifications and experience levels and, consequently, the rates of pay were less than originally provisioned in the budget.

The net savings, exclusive of occasional teacher (OT) costs, totaled $12.8 million. As expected, the majority of savings were for classroom teachers given the budget anomaly. Revenue provided by the Qualifications and Experience grant has also decreased by $897,900 because the teachers are starting at lower rates of pay as compared to the salary benchmark.

The assumptions underlying compensation were reviewed as part of the District’s 2019-2020 budget development process.

6. **Enrolment-Related Compensation Adjustments**

As previously mentioned, the financial results reflect increased enrolment in both the elementary and secondary panels. There has also been increased enrolment of international students. The additional enrolment, as influenced by site-specific enrolment needs, resulted in changes in the number of teaching staff required by the District.

The revised estimates reflected the addition of 9.5 FTE elementary teachers beyond the approved complement to meet enrolment-driven needs. The increase was offset by savings of 9.0 FTE secondary teaching assignments. Although enrolment at the secondary level increased, teaching assignments were accommodated within approved staffing levels. The cost adjustments associated with the positions result in a modest increase of $29,900. Although the amount is small, it has been identified in this report to ensure that initial changes resulting from enrolment growth are reported. Additional information on the academic staffing changes is available in Memo 19-006, 2018-2019 Staffing Update.

7. **Special Education**

During the year, the Special Education program's net revenues increased by close to $1.4 million. The amount is analyzed as a net increase in the Special Education grant in excess of $1.6 million. This amount is offset by other revenue reductions attributable to the Special Education program totaling $280,600. The change in the grant is separately identified on Appendix A, while the latter amount is included in the Other Net Revenue Adjustments.

The increase in the Special Education grant is comprised of $1.0 million that resulted from in-year increases to the per pupil amount funding benchmarks, $443,300 related to enrolment growth and the balance of $104,100 was attributed to specialized equipment and student specific funding.

Costs also increased by close to $1.2 million. Almost all of this increase relates to compensation for teachers, EAs and professional support staff.

8. **Teacher Absences**

OTs provide coverage when teachers are absent due to illness or to attend medical appointments. In addition, OTs provide coverage when teachers are attending certain professional development and student support activities on a school day.

The District incurred costs of $19.9 million, which is $3.1 million more than budgeted. The increased costs reflect current experience and reporting. It is important to note that OTs are also used to staff vacant contract teaching positions, but that such costs are reported in the Instruction category.

Although the use of OTs has a financial impact, the effect on student learning is also a primary consideration. Accordingly, OT use will continue to be monitored as will the continued promotion of a healthy workplace that fosters employee well-being.

9. **International Students**

The Ottawa-Carleton Education Network (OCENET) is a not-for-profit organization that offers international students the opportunity to learn alongside the District's students. OCENET helps prospective students to submit their applications and fees and also supports their transition into the school and community. Fees collected cover OCENET's administrative costs and approximately 60% of the fee is remitted to the District. The percentage is an estimate of the amount of tuition fees necessary to support instruction-related costs.

The District's 2018-2019 Budget reflected revenue of over $10.6 million based on 817 students. The financial results reflect revenue of just over $11.0 million based on 852 students. Increased enrolment of 35 students accounts for the $406,700 revenue increase.

Administrative fees paid to OCENET by the District are reported as a fee in the Instruction category. Actual costs reported were more than $4.3 million, which is an increase of $159,900 relative to the budget.

10. **Other Instruction-Related Costs**

Other instruction-related costs are those that are not specifically identified elsewhere in the report, but which form part of the overall spending classified as Instruction. It is common practice to combine the spending reported under the Staff Development, Supplies and Services category with the Fees, Contractual and Rentals category. Combining the categories recognizes that the budget traditionally does not align with the ultimate reporting of costs. On a combined basis, the costs represent an overall decrease relative to the budget of $4.4 million.

The combined amount can be analyzed in the two categories. A $6.7 million saving within the Staff Development, Supplies and Services category was observed. The decrease is the result of the required reporting of the acquisition of minor tangible capital assets. For reporting purposes, the District is required to transfer the costs to a capital fund meaning that the costs are no longer reported as an operating expense. The cost of the asset is amortized into expense over multiple years. Other operating cost variances were fully offset within the category.

A number of factors contributed to the $2.4 million overspending in the Fees, Contractual and Rentals category. These included $1.4 million on information technology maintenance agreements, $544,500 on communications software licensing and the balance of $309,300 is a variety of spending including $84,000 for French as a Second Language testing.

A review will be conducted during 2019-2020 to improve the alignment of budget allocations and cost reporting.

11. **Student Transportation**

Transportation of the District's students is provided by the Ottawa Student Transportation Authority (OSTA). Amounts reflected in the 2018-2019 Budget were based on information received from OSTA. The year-end results show that costs were $407,200 more than budgeted, of which $53,700 is attributable to compensation. The balance of $353,500 relates to supplies and services and is generally attributable to driver retention costs.

Transportation expenses of $41.9 million are reported which are supported by the $41.8 million Transportation grant.

12. **Facility Operations**

Spending on school facilities represents the largest operating cost category outside of the instruction envelope. An increased need for casual staff resulted in a modest overspend of $213,500. Non-compensation costs exceeded the budget provision by close to $6.5 million. The significant contributors to the latter amount include:

- $1.0 million to address property lease costs retroactive to the 2014-2015 school year and inclusive of a potential retroactive rate increase;
- $2.6 million for additional costs to relocate portables during the year;
- $1.3 million for additional costs for snow clearing and property maintenance;
- $1.3 million in additional costs for natural gas and electricity;
- $907,000 for additional school renewal maintenance needs such as roof and floor repairs, masonry work and supporting consulting services; and
- Other net cost savings of $657,700 on supplies and services.

13. **Priorities and Partnerships Fund Grants and Other Deferred Revenues**

In addition to GSN funding, the District receives special funding which targets Ministry priorities. The grants are termed Priorities and Partnerships Fund (PPF) grants and the funding received must be used for the specified purpose. Amounts not spent are recovered by the Ministry or, if the funding agreements permit, are carried forward for use in the subsequent year. In recent years, the Ministry has announced the majority of PPF grants in March at the same time as the GSNs; however, it is common practice to receive additional funding during the school year.

The District reports PPF grants as deferred revenue. Revenue from these grants is recognized in an amount equal to the associated expense. Certain grants from other ministries and non-government organizations are treated in a similar manner and, for this analysis, are also referred to as PPF grants.

It is important to highlight that PPF grants are temporary, and often project-based, meaning that the funding may not be received in subsequent years. Although some grants may require the creation of a position, most often the funds are used to purchase goods and services or to pay for casual staff to backfill established positions while employees participate in identified priorities.

The actual results reflect adjustments to PPFs including those announced by the Ministry in December 2018. In addition, remedy payment funding has been updated to correspond with associated costs. The net adjustment relative to the budget is $613,900. Most of the expenses relating to PPF funding are shown in the Instruction category in Appendix B - Comparative Summary of Expenses, but remedy payment costs totaling $705,600 are reported in the Other category based on Ministry directive.

The District's 2018-2019 Budget reflected PPF grants totaling $10.5 million. Appendix D – Priorities and Partnerships Fund Grants shows that anticipated funding for the year is expected to be $11.1 million.

14. **Remedy Payments and Legal Provisions**
New costs totaling $2.9 million relating to remedy payments and legal provisions have been reported for the year.

Costs totaling $705,600 relating to a settlement that was reached between the Ontario Secondary School Teachers' Federation (OSSTF) and the Province as a remedy for the Ontario Superior Court ruling in April 2016 on the *Putting Students First Act, 2012* (PSFA) are expected. The ruling determined that the PSFA was a violation of the Canadian Charter of Rights and Freedoms. The costs are fully supported by Ministry PPF grants.

A provision of $2.0 million was identified during the year in response to anticipated costs relating to legal claims filed by former students in regards to sexual assault allegations. The provision is in addition to the $2.5 million established in 2017-2018. The provision will be monitored on a continuing basis and adjusted as needed.

During the year, additional costs of $228,800 have been incurred on other legal matters, including arbitration.

15. **Other Non-Instruction Costs**
Other non-instruction costs relate to the activities of the Continuing Education department, central administrative departments and staff secondments.

On a combined basis, the compensation costs exceeded the budget by a modest $77,300.

Savings of $431,100 were observed for supplies and services. The largest contributor to the savings relates to deferred asbestos consulting work.

16. **Deferred Capital Contributions and Amortization Expenses**
Funding received for the purpose of acquiring or developing a depreciable tangible capital asset is termed a deferred capital contribution (DCC). Such contributions are recognized as revenue at the same rate as the related tangible capital asset is amortized into expense. Straight-line amortization is based on the remaining service life (RSL) of the asset.

In addition to the contributions discussed above, certain capital projects are supported internally through the use of the District's accumulated surplus.

Internally supported tangible capital assets are amortized into expense in the same manner as those supported by contributions from others, but there is no related revenue.

Various capital projects were completed and a variety of capital assets acquired during the year. In addition, adjustments to incorporate prior year actual results are reflected. These items increase the net value of the tangible capital assets managed by the District. In accordance with accounting requirements, the amortization of an asset's value commences immediately upon completion of the capital project. This has a direct impact on both revenues and expenses.

During the year, the Ministry directed all school boards to review the RSL of major capital assets using a prescribed methodology. As previously noted, the RSL is used in determining the revenues and expenses reported in a year based on straight-line amortization rules. The objective of the review was to update the RSL to reflect the significant infrastructure investments that had been made since 2013-2014. The review resulted in increased RSLs for various investments (e.g., the 2014-2015 addition at Longfields-Davidson Heights Secondary School). The effect of the change is being accounted for prospectively and it has resulted in a significant decrease in both expenses and related revenues.

The approved budget projected amortization expenses and related revenues of $53.4 million. The actual amount reported is close to $49.8 million in expenses which is supported by $49.7 million in revenues. Expenses and revenues decreased by $3.6 million and $3.7 million, respectively.

17. **Minor Tangible Capital Assets**

A portion of the annual GSN is budgeted for the acquisition of minor tangible capital assets (MTCA) such as furniture, equipment and computers. If the funds are not required for capital purposes, they are reported as operating revenue and support overall operating costs.

The financial results reflect capital spending to advance specific initiatives relating to information technology and student furniture renewal. In total, $5.7 million previously identified as operating revenue was instead used to support MTCA acquisitions. Requests to proceed with significant acquisitions were approved by the Board in January 2019 in accordance with policy.

18. **Extended Day Program**

The Extended Day Program (EDP) commenced operations in 2010. Significant growth in the program ensued and it now operates District-run programs in 65 schools and serves close to 5,500 children. The program, which is an integral part of the Early Learning strategy, is closely tied to the operations of the District's kindergarten programs. In fact, ECEs who staff the EDP, before and after school, also partner with teachers during the core day to provide the kindergarten program.

Increased program participation has been observed this year which has resulted in additional revenue of $1.2 million being reported relative to the budget.

Costs of the program have also changed. A decrease of $481,800 in compensation costs was observed for the year. The savings are attributable to temporarily vacant positions that occur during the year and the use of casual staff who are compensated at a lower rate of pay. In addition, it appears that increased participation rates did not result in a proportional increase in compensation costs.

Spending on supplies, services and computer equipment was $8,600 less than budgeted and is summarized in three cost categories. A review of spending on program supplies and services resulted in the identification of a $148,600 cost overrun which is generally attributable to snacks for program participants. The overrun is offset by savings of $190,000 relating to the purchase of computer software and hardware used to manage participant registration, billing and attendance monitoring. A $32,800 increase in Facilities department transfers reflects increased participation rates.

Table 3 shows the original budget and actual results by category. The program had a significant surplus of over $1.7 million for the year. A portion of the surplus will be used to offset the $152,600 deficit incurred by the Child Care Program.

Table 3 – Extended Day Program Comparative Amounts

| | Actual | Budget | Change |
|---|---|---|---|
| | $ | $ | $ |
| Revenues | 17,888,700 | 16,646,000 | 1,242,700 |
| Expenses | | | |
| Compensation | 14,911,000 | 15,392,800 | (481,800) |
| Administrative Transfers (Comp) | 576,400 | 576,400 | - |
| Supplies and Services | 588,600 | 440,000 | 148,600 |
| Computer Equipment | 110,000 | 300,000 | (190,000) |
| Facility Transfers (Supplies) | 363,100 | 330,300 | 32,800 |
| | 16,549,100 | 17,039,500 | (490,400) |
| Surplus (Deficit) | 1,339,600 | (393,500) | 1,733,100 |

A comprehensive analysis of the costing methodology and participation rates will be completed in preparation for the 2020-2021 budget development process. The analysis will result in a better alignment of revenues and expenses.

19. **Child Care Program**

In September 2013 the District assumed the operations of four child care centres that had previously been run by the Ottawa School Day Nursery. The Infant, Toddler and Preschool (ITP) program operated at four sites and was intended to operate on a cost recovery basis. Changes to cost structures in relation to revenues resulted in the program operating at a deficit for a period of time. As part of the 2017-2018 Budget, the Board approved the closure of two underutilized sites and increased user fees in an effort to stabilize the program’s financial performance.

The ITP program is eligible for general operating (GO) funding. GO funding is the grant provided to licensed not-for-profit child care programs by the City of Ottawa and covers direct operating, pay equity, and wage enhancement grants. Projected GO funding of $200,000 was reflected in the budget, but the City of Ottawa provided $435,600 for the year, which is an increase of $235,600. Service-based fees accounted for an additional $43,900 of revenue.

Costs have also been updated. Compensation costs are $71,000 less than budgeted which is generally attributable to net savings that result from temporarily vacant positions and the use of casual staff who are compensated at a lower rate of pay relative to permanent staff. The costs of supplies are $3,100 more than budgeted.

Table 4 shows the original budget and actual results by category.

Table 4 – Child Care Program Comparative Amounts

| | Actual | Budget | Change increase (decrease) |
|---|---|---|---|
| | $ | $ | $ |
| Revenues | 1,876,500 | 1,597,000 | 279,500 |
| Expenses | | | |
| Compensation | 1,916,000 | 1,987,000 | (71,000) |
| Supplies and Services | 113,100 | 110,000 | 3,100 |
| | 2,029,100 | 2,097,000 | (67,900) |
| Deficit | (152,600) | (500,000) | (347,400) |

The deficit is fully supported using the EDP surplus.

20. **Accumulated Surplus**

An accumulated surplus is the excess of revenues over expenses that has resulted over time.

The *Education Act* allows the Board to use its accumulated surplus to balance its operating budget, but it also restricts the use in any school year to 1% of the operating grants provided by the Ministry. For the 2018-2019 Consolidated Financial Statements, this amount is $8.6 million. Approval to use accumulated surplus in excess of this amount must be obtained from the Ministry. That said, the District's 2018-2019 Budget was balanced meaning that no reliance was placed on the use of the accumulated surplus.

Table 5 presents the components of accumulated surplus and shows the alignment of the 2018-2019 net operating surplus of $7.5 million.

Table 5 – Accumulated Surplus Available for Compliance

| | Actual as at 31 Aug 2019 | Actual as at 31 Aug 2018 | Change increase (decrease) |
|---|---|---|---|
| | $ | $ | $ |
| Available for compliance | | | |
| 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 |

It is important to highlight that with the approval of the 2017-2018 Consolidated Financial Statements, the Board appropriated $17.0 million to be used to respond to revenue shortfalls or increased expenses relative to the budget. This appropriation was categorized as “Contingencies” and included $2.0 million for use in modernizing business systems used to manage student, financial and human resources needs. Since 31 August 2018, the $2.0 million is shown separately under the Business Systems category. A portion of the 2018-2019 surplus has been used to increase the contingency provision.

21. **Summary**
The District’s 2018-2019 financial results show expenses of $966.9 million, revenues of $974.4 million and a surplus of just over $7.5 million. The amount increases the District’s accumulated surplus to $42.4 million which places the District in an excellent position to respond to the financial challenges expected over the coming years.

## RESOURCE IMPLICATIONS:

22. The net operating surplus of just over $7.5 million represents a variance of 0.8% in relation to planned expenses approved in the 2018-2019 Budget. The District’s accumulated surplus has increased to $42.4 million.

## COMMUNICATION/CONSULTATION ISSUES:

23. The analysis of the District’s financial results was prepared by Finance department staff in consultation with other departments.

## STRATEGIC LINKS:

24. 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. Monitoring actual performance in relation to the Board's approved budget allows staff to identify opportunities to reallocate resources to address emerging needs and to respond to changes in revenue streams and expense patterns.

## GUIDING QUESTIONS:

25. The following questions are provided to support the discussion of this item by the committee:
    - Does the analysis explain the significant changes in revenues and expenses?
    - Is staff taking steps to mitigate any adverse financial impacts and to leverage opportunities that were identified during the preparation of the analysis?

| | |
|---|---|
| _____________________________ | _____________________________ |
| Mike Carson<br>Chief Financial Officer | Camille Williams-Taylor<br>Director of Education and Secretary of the Board |

## Appendices:

Appendix A – Analysis of Changes in Revenues and Expenses
Appendix B – Comparative Summary of Expenses
Appendix C – Grants for Student Needs
Appendix D – Priorities and Partnerships Fund Grants