



AUDIT COMMITTEE
Report No. 20-092

23 November 2020

Draft 2019-2020 Consolidated Financial Statements

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

PURPOSE:

1. To seek approval of the draft 2019-2020 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. 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. This basis is referred to as “compliance” meaning in accordance with regulations which govern how certain funding must be used and that limit the use of accumulated surplus to support a deficit.

The compliance results are summarized in Section 5 and are expanded upon in Report 20-093, Analysis of the District’s 2019-2020 Financial Results.

KEY CONSIDERATIONS:

3. The draft 2019-2020 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 2019-2020 actual results showed expenses of \$959.6 million, revenues totaling \$970.8 million and a surplus of \$11.2 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 surplus relative to the consolidated budget.

Table 1 – Comparison of Consolidated Results and Consolidated Budget

	Actual	Consolidated Budget	Change Increase (decrease)	Change (decrease)
		\$	\$	%
Revenues	970,788,300	996,204,900	(25,416,600)	(2.6)
Expenses	959,600,300	995,292,600	(35,692,300)	(3.6)
Surplus	11,188,000	912,300	10,275,700	

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; 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 \$118.8 million.

Table 2 – Summary of Note 8 – Consolidated Accumulated Surplus

	Actual as at 31 Aug 2020	Actual as at 31 Aug 2019	Change increase (decrease)
	\$	\$	\$
<u>Available for compliance</u>			
Restricted-committed capital	7,950,700	2,742,400	5,208,300
Internally appropriated			
Extended Day Program	677,700	2,073,400	(1,395,700)
Budgets carried forward	3,938,100	1,656,100	2,282,000
Business systems	2,000,000	2,000,000	-
Contingencies	17,200,000	17,200,000	-
Unappropriated	8,005,800	16,709,900	(8,704,100)
	39,772,300	42,381,800	(2,609,500)
<u>Unavailable for compliance</u>			
OCENET	5,422,800	4,255,000	1,167,800
School generated funds	10,839,400	9,555,600	1,283,800
Employee future benefits	(31,809,900)	(39,804,300)	7,994,400
Revenue recognized for land	94,542,700	91,191,200	3,351,500
	78,995,000	65,197,500	13,797,500
Total accumulated surplus	118,767,300	107,579,300	11,188,000

As shown in the summary, the accumulated surplus available for compliance at the end of 2019-2020 was \$39.8 million. Of this amount, \$8.0 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:

- \$677,700 is the accumulated surplus established through the activities of the Extended Day and the Infant, Toddler and Preschool Child Care programs to be used to offset adverse budget shortfalls incurred by the programs;
- \$3.9 million has been identified as a budget carryforward and will be used to support school, department and trustee costs to be incurred in 2020-2021. 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 \$8.0 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 \$110.8 million. The District's unfunded liability relating to employee future benefits (EFB) was \$31.8 million. When combined, these amounts result in an externally appropriated (or restricted) net deficit of \$79.0 million. Additional detail on each component is provided in the sections that follow.

5. **Ottawa-Carleton District Results**

The District's 2019-2020 actual results on a non-consolidated (compliance) basis showed expenses of \$954.0 million, revenues of \$951.4 million and a deficit of \$2.6 million.

The approval of the draft 2019-2020 Consolidated Financial Statements includes the provision that certain unspent budgets be carried forward for use in 2020-2021. 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 2019-2020 and 2018-2019.

Table 3 – Budgets Carried Forward

	2019-2020	2018-2019	Increase (Decrease)
	\$	\$	\$
French immersion arts programs	290,800	165,300	125,500
Music repairs and consumables	283,400	167,900	115,500
Net school operating budgets	3,211,100	1,293,700	1,917,400
Department operating budgets	145,000	17,000	128,000
Trustees	7,800	12,200	(4,400)
	3,938,100	1,656,100	2,282,000

Changes in revenues and expenses since the approval of the District's 2019-2020 Budget are expanded upon in Report 20-093, Analysis of the District's 2019-2020 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 2019-2020 resulted in an operating surplus of \$1.2 million. The accumulated surplus at the end of the year is \$5.4 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 2019-2020, SGF activities resulted in an operating surplus of \$1.3 million. The surplus increased the related accumulated surplus to \$10.8 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 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

(EARS�) 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 2020 is \$31.6 million. The remaining amortization period is four 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 EARS� of eligible employees. The annual amortization is \$83,700 and the unamortized balance as at 31 August 2020 is \$167,400. The remaining amortization period is two 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 \$31.8 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 2019-2020, EDC revenue of \$9.2 million was collected bringing total EDC deferred revenue available during the year to \$12.1 million. Of the deferred revenue, \$3.4 million was used to acquire land during the year. The balance in the deferred revenue account is \$8.7 million.

As at 31 August 2020, EDC revenue of \$94.5 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 2019-2020 Consolidated Financial Statements.

The opinion expressed in the Independent Auditors' Report is without qualification and 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, 2020, 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 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:

11. The cost of the year-end audit was 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 2019-2020 Consolidated Financial Statements attached as Appendix A to Report 20-092 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, 2020 (Draft)