



REPORT TO

CORPORATE SERVICES, STRATEGIC PLANNING AND PROPERTY COMMITTEE

2017-18 DRAFT AUDITED FINANCIAL STATEMENTS

Lack of money is no obstacle. Lack of an idea is an obstacle.
- Ken Hakula

Created, Draft	First Tabling	Review
October 30, 2018	November 6, 2018	November 13, 2018

D. Bilenduke, Senior Coordinator of Finance
P. De Cock, Comptroller of Business Services & Finance

RECOMMENDATION REPORT

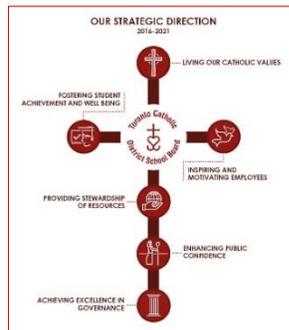
Vision:

At Toronto Catholic we transform the world through witness, faith, innovation and action.

Mission:

The Toronto Catholic District School Board is an inclusive learning community uniting home, parish and school and rooted in the love of Christ.

We educate students to grow in grace and knowledge to lead lives of faith, hope and charity.



Rory McGuckin
Director of Education

D. Koenig
Associate Director
of Academic Affairs

T. Robins
Acting Associate Director
of Planning and Facilities

L. Noronha
Executive Superintendent
of Business Services and
Chief Financial Officer

A. EXECUTIVE SUMMARY

This report provides the Board of Trustees with the 2017-18 Draft Audited Financial Statements for approval. The audit was performed by Deloitte LLP, Toronto Catholic District School Board's (TCDSB) external auditors which are issuing an unqualified audit report for the TCDSB as at August 31, 2018. The Financial Administration Act requires that the financial statements be prepared in accordance with the accounting principles determined by the relevant Ministry within the Province of Ontario.

The final unappropriated in-year surplus is \$25.3 million with an accumulated surplus of \$39.7 million at the end of fiscal year 2017/18. The actual financial results for 2017-18 are \$14.7 million higher than the budgeted surplus of \$10.6 million forecasted in December 2017. The increased surplus is largely driven by a few different types of increased revenues as well as savings in benefits and operational efficiencies both administratively and at schools.

This report provides recommendations on the allocation of the \$25.3 million surplus. Contributions to 2018-19 School Block Budgets (\$2.0M), funding of 2018-19 shortfall for International Languages (\$5.2M) and an IT Infrastructure Reserve contribution (\$2.0M) will be recommended to the Board. The remaining amount will be distributed according to the reserve formula approved by the Board during the 2018-19 budget process as follows: Operating Contingency Reserve (\$8.1M), IT Strategic Systems Reserve (\$6.5M), Student Equity Reserve (\$0.8M) and Administrative Facilities Reserve (\$0.8M).

The TCDSB has fulfilled the Multi-Year Recovery Plan mandate to maintain a 2% Accumulated Surplus of at least \$22M. The 2018/19 Budget Estimates Workbook has provided a strategic framework for addressing surpluses and staff anticipate that a formal Reserve Policy will be presented to the Audit Committee, Governance and Policy Committee and the Board within the first quarter of 2019.

The 2017/18 Draft Audited Financial Statements report was presented to the Audit Committee on November 6, 2018. The committee was given the opportunity to question the external auditors both with and without staff present. The Audit Committee endorses the approval of the 2017/18 Financial statements by the Corporate Services, Strategic Planning and Property Committee.

The cumulative staff time required to prepare this report was 30 hours.

B. PURPOSE

1. Deloitte LLP have audited the attached draft financial statements for the fiscal year 2017-18 following their Audit Plan presented to and approved by the Audit Committee during the meeting held on September 12th 2018.
2. The Auditors gave an in-depth presentation of their findings to the Audit Committee and took questions from the Committee members in a private setting.
3. Committee members were also provided with the opportunity to question the Auditors without staff present.

C. BACKGROUND

As per Section 9 of Ontario Regulation 361(10), the Audit Committee reviews the draft annual financial statements prior to tabling before the Board of Trustees for final approval.

D. EVIDENCE/RESEARCH/ANALYSIS

1. *The in-year operating surplus for Ministry reporting purposes is \$25.3 million resulting in an accumulated surplus of \$39.7 million.* The operating surplus for 2017-18 is \$14.7 million more than the budgeted forecast of \$10.6 million. The year over year reconciliation of the in-year surplus/(deficit) follows in the table below:

In-Year Unappropriated Surplus/Deficit ('000's)

	2016/17	2017/18	2017/18
	Actual	Budget	Actual
In-Year Surplus/(Deficit)	27,234	10,521	26,798
Current Year Changes to Appropriations	<u>(1,515)</u>	<u>33</u>	<u>(1,465)</u>
Unappropriated In-Year Surplus/(Deficit)	25,719	10,554	25,333

2. ***All documents have been provided for, in the appendices, in accordance with the Education Act, Ministry guidelines and TCDSB Policies.*** The 2017-18 Draft Audited Financial Statements for the TCDSB are attached to this

report in Appendix A. It is important to note that the external auditors use the 2017/18 budget produced in June 2017 while, for purposes of variance analysis, the Board uses the Revised Estimates produced in December 2017. The corresponding Education Finance Information System (EFIS) submission, Schedule 5, is attached as Appendix B and an analysis of the Public Sector Accounting Board (PSAB) surplus and the calculated Operating Surplus appears in Appendix C. The final 4th Quarter Financial Status Report appears as Appendix D.

3. ***The Financial Statements are calculated using two different accounting methodologies.*** The 2017-18 Draft Financial Statements report an in-year PSAB surplus of \$52.4M and an accumulated surplus of \$317.9M. PSAB accounting principles provide accounting treatments for land, buildings, fixed assets and deferred revenues through the Statement of Financial Position and the general accounting standards for the public sector do not. This explains why the accumulated surplus for PSAB purposes is \$317.9M and the accumulated surplus on a generally accepted accounting principle basis is \$39.7M.
4. ***Variations in both revenue and expenses produced a \$25.3M in-year surplus.*** A high level analysis of the 2017-18 Operating Surplus Variance from budget follows in the table below followed by explanations corresponding to the numbering of each component on the next page.

i)	Increased GSN & Grant Revenue	\$13.7M
ii)	Increased Other Fees & Revenue	3.1M
iii)	Unrealized Prior Period Benefits Recovery	(6.0)M
iv)	Increased Remedy Payment Revenue (One time)	8.8M
NET REVENUE INCREASE		19.6M
v)	Increased spending on Salaries & Wages	(8.5)M
vi)	Decreased spending on Benefit Expenses	8.5M
vii)	Decreased spending on Information Technology	5.5M
viii)	Decreased spending on Central Administration	1.7M
ix)	Decreased spending on Classroom Related (Non-school block)	2.1M

x)	Increased spending on “Other Remedy Payments”	(4.5)M
	NET EXPENSE DECREASE	4.8M
xi)	One-time Prior Period Land Gain	2.4M
	NET OTHER REVENUE INCREASE	2.4M
	SURPLUS AVAILABLE FOR COMPLIANCE	26.8M
	BUDGETED SURPLUS	10.6M
	Total Variance of Forecast to Actual	16.2M
xii)	Internally Appropriated Amounts	(1.5M)
	Net Surplus Explained	\$14.7M

- i. The significant increases in Ministry Grants were \$9.4M for the Teacher Qualification & Experience Grant with 68 more teachers receiving upgrades compared to 2016-17. Also, \$2.8M for English as a Second Language (ESL) Grant is a result of an unexpected 670 weighted ESL eligible students arriving from Non-English speaking countries in the last 4 years registering in TCDSB schools in 2017-18. Total Enrolment was relatively stable in the year with a net increase of 11 students in total.
- ii. In addition to the one-time gain, the Board also realized favourable revenue in Permits (\$0.5M) and International Visa Student fees (\$0.9M), Interest Income (\$2.0M) and unfavourable variance in outside agency revenue of (-\$0.3M) totalling \$3.1M.
- iii. The Board has been in a protracted negotiation with OECTA and the Ministry of Education over ownership of the prior year’s “Administrative Services Only” (ASO) surpluses in the Great West Life benefits account. The Board was authorized to bring \$4.5M into its operating revenue this past year relating to OECTA only. The Board had expected to recover \$10.5M, which makes up almost the entirety of the “Budgeted Surplus” line item. Negotiations for the remaining \$6M balance are ongoing.
- iv. The Province was required to reimburse the teacher unions for previously imposed salary freezes. A settlement was reached to

reimburse all wage types for a total of \$8.8M. These payments are referred to as “Remedy Payments.”

- v. The Salary and Wage deficit consists of \$4.9M in unfavourable Occasional Teacher costs and \$4.3M in Remedy Payments to Teachers. After factoring the increased revenue for teacher qualification and experience noted in (i) against the associated salary expense, salaries and wages were in fact favourable by approximately \$5.2M spread over all categories.
- vi. The Board used a benefit budget rate that proved to be conservative when compared to the year to date actuals. Many temporary staff were used to replace full time positions and the anticipated move to benefit trusts had been delayed. All of these factors had a considerable impact on benefit costs over the year generating a cost savings of \$8.5M. All TCDSB employees are moved to their respective Benefit Trusts and benefit expenses can be predicted with greater certainty for fiscal 2018/19.
- vii. The Board experienced delays in implementing Information Technology programs while a detailed needs analysis was completed and staffing issues were addressed. \$2.7M of the \$5.5M saved will be held in the Appropriated Reserve and released in the following year following a detailed Board report addressing the organizational priorities. The balance will be held in the IT Infrastructure Reserve.
- viii. Central Administration had many smaller favourable variances across numerous departments. Trustee Services, IT, Print Shop, Collective Bargaining and Legal all had significant contributions to the surplus.
- ix. Several one –time budgeted expenditures on the Para-professional line were not completed and \$0.84M of Staff Development expense Budget was utilized for salaries. Principals, School Office and Co-ordinators & Consultants were all significantly favourable.
- x. The Province asked all Boards to record non-teacher remedy payments as “Other Expense.” This \$4.5M expense is offset by the remedy payment revenue explained in iv) above.

- xii. Internally Appropriated Amounts – please refer to Appendix C for a complete breakdown.
5. As per previous Audit Committee reports and in consultation with Legal Counsel’s reports to the Audit Committee, the Board has maintained a total accrual of \$6.475 million as an estimate for potential legal claims and grievance settlements.

E. IMPLEMENTATION, STRATEGIC COMMUNICATIONS AND STAKEHOLDER ENGAGEMENT PLAN

1. During the 2018-19 budget process the Board of Trustees approved a structured plan for allocating the Board’s surplus including the 2017 surplus of \$14.4M and any future surpluses. As a reminder of this strategy attached as Appendix E, is Volume “V” from the Budget Book presented to the Board of Trustees in the spring of 2018.
2. A Trustee motion at the June 6, 2018 Corporate Services Committee instructed staff to increase the 2018-19 school block budget by up to \$2.0M on the first \$2.0M of surplus realized on the 2017-18 actuals.
3. Due to an arbitrated settlement with TECT the International Languages program was put into a structural deficit due to a modified extended day program. The ministry has provided transitional funding, but the program still requires additional funding of \$5.2M for the 2018-19 year.
4. Information technology asset management has been identified as a risk over the next number of years. An asset management and financial strategy is being developed and \$2.0M has been put into a strategic reserve as a starting point to address these needs in the future.
5. The Board now has an Accumulated Surplus “Available for Compliance” of \$50.8M which is proposed to be allocated as follows:

Appropriations	2017 Accumulated Surplus	2018 In- Year Surplus	Reserve Balance
Internally Appropriated	9,667,213	1,464,960	11,132,173
<i>2018-19 Operating Reservations</i>			
2018-19 International Languages		5,179,571	5,179,571
2018-19 School Block Budgets		2,000,000	2,000,000
2018-19 Recruitment Initiatives	340,000		340,000
<i>Strategic Reserves</i>			
Operating Contingency	11,200,000	8,064,057	19,264,057
IT Strategic Systems Reserve	1,500,000	6,463,782	7,963,782
IT Infrastructure Reserve	1,338,766	2,000,000	3,338,766
Student Equity Reserve		812,973	812,973
Administrative Facilities Reserve		812,973	812,973
TOTAL APPROPRIATIONS	24,045,979	26,798,316	50,844,295

F. STAFF RECOMMENDATION

That the Board of Trustees approve the attached 2017/18 Draft Audited Financial Statements and the recommended appropriation of the accumulated surplus appearing in Section E.5.