



REPORT TO

CORPORATE SERVICES, STRATEGIC PLANNING AND PROPERTY COMMITTEE

2018-19 DRAFT AUDITED FINANCIAL STATEMENTS

“I urge, then, first of all, that petitions, prayers, intercession and thanksgiving be made for all people—for kings and all those in authority, that we may live peaceful and quiet lives in all godliness and holiness.”

1 Timothy 2:1-2

Created, Draft	First Tabling	Review
October 25, 2019	November 13, 2019	November 14, 2019

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

RECOMMENDATION REPORT

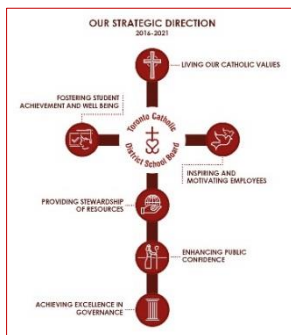
Vision:

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

L. Noronha
 Associate Director of Facilities,
 Business and Community
 Development, and
 Chief Financial Officer

A. EXECUTIVE SUMMARY

This report provides the Board of Trustees with the 2018-19 Draft Audited Financial Statements for approval. Deloitte LLP, Toronto Catholic District School Board's (TCDSB) external auditors, performed the audit and issued an unqualified audit report for the TCDSB as at August 31, 2019. 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 \$25.8 million with an accumulated surplus of \$65.5 million at the end of fiscal year 2018/19. The actual financial results for 2018-19 are \$25.4 million higher than the budgeted surplus of \$.4 million forecast in December 2018. Increased revenues as well as savings in salaries, benefits and operational efficiencies all contributed to the increased surplus.

This report provides recommendations on the allocation of the \$25.8M in-year surplus. One-time contributions to 2019-20 School Block Budgets (\$2.0M), Human Resource Strategy funding (\$0.34M) and 2019-20 projected revenue shortfalls of \$7.9M for transportation, parking, international students and religious materials is recommended to the Board of Trustees for approval. The remaining amount after accounting for the one-time investments is allocated to strategic reserves. In addition, there are two new strategic reserves, playground improvements (\$1.2M) and Trustee strategic initiatives (\$0.06M). The remainder is distributed according to the reserve formula approved by the Board of Trustees during the 2018-19 budget process as follows: Operating Contingency Reserve (\$3.8M), IT Strategic Investment System Reserve (\$12.7M), IT Infrastructure Reserve (\$1.8M), Administrative Facilities Reserve (\$1.8M) and Student Equity Strategic Reserve (\$1.8M).

The TCDSB has fulfilled the Multi-Year Recovery Plan mandate to maintain a 2% Accumulated Surplus of at least \$22M. The 2019-20 Budget Estimates Workbook has provided a strategic framework for addressing surpluses and staff anticipate that a formal Reserve Policy will be presented to the Governance and Policy Committee and the Board in December 2019.

The 2018/19 Draft Audited Financial Statements report was presented to the Audit Committee on November 13, 2019. 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 2018/19 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 2018-19 following their Audit Plan presented to and approved by the Audit Committee during the meeting held on September 17th 2019.
2. The Auditors gave an in-depth presentation of their findings to the Audit Committee and took questions from Committee members in a private setting.
3. Committee members were provided 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 \$25.8 million resulting in an accumulated surplus of \$65.5 million.* The operating surplus for 2018-19 is \$25.4 million more than the budgeted forecast of \$0.4 million. The year over year reconciliation of the in-year surplus/(deficit) follows in the table below:

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

	2017/18 Actual	2018/19 Budget	2018/19 Actual
Revenue Variance to Budget	23,200	275	6,400
Expense Variance to Budget	3,598	0	19,013
In-Year Surplus/(Deficit)	26,798	275	25,413
C/Y Changes to Appropriations	(1,465)	91	339
Unappropriated In-Year Surplus/(Deficit)	25,333	366	25,752

2. ***All documents have been provided for, in the appendices, in accordance with the Education Act, Ministry guidelines and TCDSB Policies.*** The 2018-19 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 2018-19 budget produced in June 2018 while, for purposes of variance analysis, the Board uses the Revised Estimates approved by the Board of Trustees in December 2018. 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 2018-19 Draft Financial Statements report an in-year PSAB surplus of \$115.8M and an accumulated surplus of \$433.7M. 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 \$433.7M and the accumulated surplus on a generally accepted accounting principle basis is \$76.3M.

4. ***Variations in both revenue and expenses produced a \$25.4M in-year surplus.*** A high-level analysis of the 2018-19 Operating Surplus Variance from budget follows in the table below, followed by explanations corresponding to the line number for each component on the next page.

i)	Increased GSN & Grant Revenue	\$12.5M
ii)	Decreased Miscellaneous Recoveries	(0.8)M
iii)	Unrealized Prior Period Benefits Recovery	(5.3)M
	NET REVENUE INCREASE	6.4M
iv)	Decreased spending on Salaries & Wages	12.8M
v)	Decreased spending on Benefit Expenses	2.8M
vi)	Decreased spending on Information Technology	3.4M
	NET EXPENSE DECREASE	19.0M
	SURPLUS AVAILABLE FOR COMPLIANCE	25.4M
vii)	Internally Appropriated Amounts	.4M

Total Variance of Forecast to Actual	25.8M
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- i. The significant increases in Ministry Grants were \$13.9M for the Teacher Qualification & Experience Grant changes (see agenda item “Teacher Qualification and Experience Grant Process Change 2018-19”) and \$4M for English as a Second Language (ESL) funding. Some Ministry Grants declined as actual student enrolment was 275 students less than the Revised Estimates; and \$3.2M in “Other EDU Grants was either deferred or not received.
- ii. The decrease in recovery income affected the corresponding salary & benefits costs by creating a favourable variance.
- 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 expected to receive a one-time recovery of \$5.3M during the year. The delay is due to the outstanding approval by the Ministry of Education (EDU) to release the funds until the 2019-20 fiscal year.
- iv. At the beginning of fiscal 2018-19, the Board delayed filling many teacher, educational assistants (EA’s), library technicians, and child and youth workers (CYW’s) positions due to an outstanding grievance by the teachers union. The Human Resources department staff endeavoured throughout the school year to find qualified EA’s and library technicians.
- v. All TCDSB employees transitioned to their respective Benefit Trusts, and benefit expenses can be forecast with greater certainty for the 2018-19 fiscal year. As expected, the favourable benefits savings corresponds to favourable salaries and wages savings on a percentage basis.
- vi. The variance in Information Technology expense was a strategic variance, for which a carry forward of these funds to the following year will enable procurements of goods and services as soon as organizational priorities are determined.
- vii. Internally Appropriated Amounts – please refer to Appendix C for a complete breakdown.

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 as well as any future surpluses.
2. Last minute changes to the 2019-20 budget created challenges to maintain a balanced budget. Reserve amounts have been set aside for 2019-20 to fund parking revenue shortfalls (\$3.2M), increased transportation costs (\$1.6M) and international students revenue shortfall (\$1.7M). One-time funds have also been set aside for religious materials and playgrounds.
3. The Board now has an Accumulated Surplus “Available for Compliance” of \$76.3M which is proposed to be allocated as follows:

Appropriations	2018 Accumulated Surplus	2019 In- Year Surplus	Reserve Balance
Internally Appropriated	11,132,173	(338,869)	10,793,304
<i>19-20 Operating Reserves</i>			
19-20 International Languages	5,179,571	(5,179,571)	0
19-20 School Block Budgets	2,000,000		2,000,000
19-20 Recruitment Initiatives	340,000		340,000
19-20 Transportation		1,600,000	1,600,000
19-20 Parking		3,200,000	3,200,000
19-20 International Students		1,700,000	1,700,000
19-20 Religious Materials		1,400,000	1,400,000
<i>Strategic Reserves</i>			
Playground Improvements		1,200,000	1,200,000
Trustee Strategic Initiatives		54,800	54,800
Operating Contingency	19,264,057	3,776,943	23,041,000

IT Strategic Systems Reserve	7,963,782	12,662,933	20,626,715
IT Infrastructure Reserve	3,338,766	1,781,031	5,119,797
Student Equity Reserve	812,973	1,778,058	2,591,031
Administrative Facilities Reserve	812,973	1,778,060	2,591,033
TOTAL APPROPRIATIONS	50,844,295	25,413,385	76,257,680

4. Following discussion at Audit Committee an amendment was approved directing staff to focus on specific, high importance initiatives when bringing forward a revised Reserve Policy to the Board in the near future. These initiatives are as follows:

- Information Technology (IT)
- Personnel (HR Systems)
- Legal with respect to investigators

F. STAFF RECOMMENDATION

That the Board of Trustees approve the attached 2018/19 Draft Audited Financial Statements and the recommended appropriation of the accumulated surplus appearing in Section E.3, and

That staff consider focusing on the following three key areas in the Reserve guidelines and set aside funding:

- Information Technology (IT)
- Personnel (HR Systems)
- Legal with respect to investigators