



RAINY RIVER DISTRICT SCHOOL BOARD

2014-2015 Financial Statements Executive Summary

Finance: 2015-51
File Code: F06

Date: November 11, 2015
To: Audit Committee
From: Meghan Cox
Manager of Financial Services

Recommendation: **That the Audit Committee recommend the approval of the draft 2014-2015 Financial Statements as presented to the Rainy River District School Board.**

That the Audit Committee recommend the approval of the details of the Unappropriated, Internally Appropriated and Unavailable for Compliance components of Accumulated Surplus in the draft 2014-2015 Financial Statements as presented, to the Rainy River District School Board.

STRATEGIC DIRECTION

Through responsible and transparent allocation of resources, the Rainy River District School Board will continue to enhance opportunities for student learning consistent with the mission of, "Together, we empower all students to believe in themselves, to achieve and to dream."

RATIONALE

Under Ontario Regulation 361/10, Section 9 (3), the Audit Committee will review the Board's annual financial statements and consider whether they are complete, are consistent with any information known to the Audit Committee members and reflect accounting principles applicable to the Board. And under Section 9 (4), to recommend, if the Audit Committee considers it appropriate to do so, that the Board approve the annual audited financial statements.

BACKGROUND

The Rainy River District School Board ended the August 31, 2015 year in a positive position overall. The Board enjoyed a year of student achievement supported by budget management and many special targeted grants received throughout the year.

Below please find a description of some of the major areas of the financial statements and explanations of variances from budget to actual amounts.



STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position is a snapshot of the Board's financial assets and liabilities at August 31, 2015. Please find a description of significant variances, balances, and changes below.

Financial Assets

Cash

- The cash balance has increased over the prior year. This increase is mainly due to routine fluctuations in operational cash needs.

Investments

- The temporary investment amount is made up of the GIC that the Town of Fort Frances required be purchased as security that the old Robert Moore School would be demolished upon completion of the Education Centre renovation project in the amount of \$464,076 and School Generated Funds temporary investments in the amount of \$123,154.

Accounts Receivable

- The Accounts Receivable balance has decreased by \$552,665. Significant changes in the receivable line due to our year end reconciliation of the Ministry of Education legislative grant receivable (decreased by \$491,167 over the prior year) and the Board's HST receivable (increased by \$241,964 over the prior year). The increase in the HST receivable amount is related to rebates related to the major capital projects that were ongoing at year end (Atikokan High and Rainy River High School renovations).
- First Nations receivables have also decreased considerably over the prior year with an overall reduction of \$397,901. During the 2015 fiscal year repayment plans were developed with a number of First Nations and beginning in the 2016 school year the First Nations are going on monthly payment plans which will help to ensure payments are made consistently.
- The remaining changes in the receivable line can be attributed to normal timing fluctuations.

Accounts Receivable – Government of Ontario – Approved Capital

- This is a receivable amount that Province of Ontario instituted in the 2009-10. It recognizes all the capital funding that has been approved for long-term financing by the Ministry of Education in one revenue amount. The decrease in the receivable over the 2014 year end is due to the regular principal payments on our existing outstanding debt related to significant capital projects that were Ministry funded in prior years.
 - This receivable amount includes:
 - Good Places to Learn Phases 1 to 4
 - Primary Class Size buildings at JW Walker School
 - New Pupil Places JW Walker major renovation
 - Prohibitive to Repair build of the new Robert Moore School
 - Capital Priorities build of the new Mine Centre School
 - Full Day Kindergarten capital expenditures at JW Walker School (related to the major renovation)
 - Minor Full Day Kindergarten capital expenditures related to furniture and equipment purchases at other Full Day Kindergarten sites
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- The Board will continue to receive annual principal and interest funding to cover our debt repayments going forward. This receivable amount will be increased by expenditures related to newly approved long-term capital projects and reduced by the amount of principal repaid on long-term financed projects on an annual basis going forward.
- Subsequent to year end, the Ministry funded the repayment of the loan related to the New Pupil Places JW Walker major renovation. As such, there will be a significant decrease in this receivable in the 2016 statements.

Financial Liabilities

Other Liabilities

- This amount has remained consistent over the prior year and includes the teacher deferred leave plans and non-grant deferred revenues.

Net Debenture Debt, Capital Loans and Leases

- This amount includes the outstanding principal on our long term financed capital projects (Good Places to Learn Phase 1-4, Primary Class Size, JW Walker New Pupil Places renovation, Robert Moore School Prohibitive to Repair build and Mine Centre School Capital Priorities build).
- A detailed breakdown of the principal long-term debt balances can be found on Note #8 of the Financial Statements.
- Subsequent to year end, the Ministry of Education funded the full repayment of the JW Walker New Pupil Places major renovation loan.

Deferred Revenue

- This amount is made up of revenues received that have been set aside for specific purposes (by legislation, regulation or agreement).
- This amount has decreased by approximately \$115,000 in the current year. The details of the transactions throughout the year can be found in Note 5 to the financial statements. There was significant spending related to externally restricted capital projects in the current year (i.e. School Renewal, School Condition Improvement funding, Retrofitting School Space for Childcare) however, this current year spending of prior year deferred funds was offset by the current year funding received.

Employee Benefits Payable

- Employee benefits payable have been reduced by approximately \$150,000 in the current year due to the current year retirement gratuity and sick leave expense as determined through our annual actuarial report performed by the School Board's Cooperative Inc. (SBCI).

- **Sick Leave Benefits**

The accrued benefit obligation for the sick leave top-up is based on an actuarial valuation for accounting purposes as of August 31, 2015. The Board's sick leave carryover benefit liability in the amount of \$16,179 as at August 31, 2015, has been recognized in the Board's employee benefits plan liability in the consolidated statement of financial position.



Non-Financial Assets

Prepaid Expenses

- The majority of this prepaid amount represents teacher pay that was paid out on August 31, 2015. The first teacher pay for the 2015-16 school year is paid on the first day of school (August 31/15) and represents 8% of annual salary. This percentage relates to the equivalent of 15.52 instructional days. The expenditure recognized in the 2014-15 school year is only 1 day (August 31st), therefore, the value of the 14.52 days is set up as a prepaid in the financial statements.
- Also included in the prepaid amount are amounts paid related to the implementation of our new Altus Accounting and HR Information System, a payment flowed to the Christian Parents Association related to their bussing agreement for the 2015-16 school year and the payment of the Board's 2015-16 OPSBA membership.

Tangible Capital Assets

- The Board has implemented Public Sector Accounting Board (PSAB) section 3150 Tangible Capital Assets which requires governments to record and amortize their tangible capital assets in their financial statements.
- Further details as to what makes up the balance on tangible capital assets in the financial statements can be found in Note #8 of the Financial Statements. Major capital projects in the current year include the renovations at Atikokan High School and Rainy River High School, and a significant investment in information technology devices and infrastructure.

STATEMENT OF OPERATIONS

The Consolidated Statement of Operations shows the Board's revenues and expenditures for the entire year (September 1, 2014 – August 31, 2015). Please find a description of significant variances, balances, and changes below.

Revenues

Provincial Grants – Grants for Student Needs (GSNs)

- This represents a decrease in grants of \$326,918 over estimates due to the reallocation of the Minor Tangible Capital Asset grant and a shift in local taxation revenues.

Minor Tangible Capital Asset (TCA) Grant

- There was a reallocation of grant revenues from estimates as they related to capital spending. The Board receives an annual Minor Tangible Capital Asset (TCA) grant amount from the Ministry of Education which is based on 2.5% of the Board's annual operating allocation.
 - At the time Estimates were prepared it was not anticipated that our full allocation of approximately \$955,000 would be spent on Minor Capital (i.e. computer hardware, software, devices, vehicles, furniture and equipment, etc.). The difference between the Minor TCA grant and what is actually spent supported TCA is flowed to operating revenues.
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- As the year progressed, it was determined that in the 2014-15 year it was necessary to spend the full Minor TCA grant allocation on capital for the Board (the majority of which related to costs for technology accessibility and the device refresh throughout the Board).
 - Revenues related to capital are not recognized in the period received but deferred and recognized over the life of the assets acquired with that revenue. As such, approximately \$600,000 that was recognized as revenue in Estimates was reallocated to Deferred Capital Contributions.

Local Taxation

- The significant reduction in revenue is offset by the relationship between the Grants for Student Needs (GSN) revenues and Local Taxation revenues. As discussed below, local taxation impacts GSN revenues in that revenue that is not received from municipalities is picked up by the Ministry of Education. The reduction in Local Taxation revenues from estimates was offset by an increase in the GSN revenues for the 2014-15 school year.

Provincial Grants – Other

- These amounts are Education Program Other (EPO) grants or Ministry grants for specific initiatives outside the Grants for Student Needs. Boards commonly refer to EPO grants as “money bombs”.
- These amounts are distributed periodically throughout the year and all grant amounts are largely unknown at budget time, which is why there is a significant increase in revenue from budget.

Local Taxation

- There is a decrease in local taxation revenue from budget due to write offs and rebates that are largely unknown at budget time.
- The amount of taxation revenues received does not have an impact on the total grant amount the Board receives. Any revenue that is not received from municipalities is matched by the Ministry of Education (the Ministry calculates the Grants for Student Needs that the Board is due and then subtracts the actual taxation revenues from that total).

Federal Grants & Fees

- The enrolment of Other Pupils living on reserve was very close to budget and as such this revenue item came in very close to the budgeted value.

Other Revenues – School Boards

- The budgeted amount was related to the recovery of administrative costs related to the Rainy River Transportation Consortium. However, due to the new structure of the consortium, these recoveries are now netted against the associated expenditures on the transportation expense line (can see the corresponding reduction in expenses as compared to budget).

Other Fees & Revenues

- These are items such as Ministry reimbursements for meetings/conferences attended, benefit and insurance refunds/surpluses, and other items for which a budget cannot be estimated.
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Deferred Capital Contributions

- This expense mirrors the amortization of supported capital projects undertaken by the Board. Due to increased spending on capital expenses (as discussed above), this grant amount has increased since estimates.

Expenses

Variance from Estimates

Instruction

- Overall instruction costs were very close to budget with a Board wide minor variance of \$40,146.

Administration

- There was general underspending of supplies and services and other contracted services/fees related to the administrative area in the 2014-15 school year which resulted in the overall reduction in administrative expenses.
- The Administration envelope is targeted by the Ministry for compliance (i.e. our total net expenses in this area cannot exceed the Administration and Governance grant amount). The Board is in compliance with this requirement.

Transportation

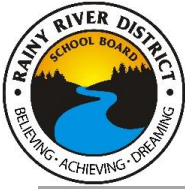
- The transportation consortium expenses were budgeted at their gross amount, but recorded for financial statement purposes net of the recoveries from the Northwest Catholic District School Board.

Pupil Accommodation

- There were increased utility costs in the 2014-15 over budget which resulted in increased expenses of approximately \$120,000.
- Capital spending increased considerably from budget. This is related to the Minor TCA as was discussed earlier as well as the timing of budget preparation. The budget is prepared prior to summer works projects for the previous year. As this is where the majority of capital spending takes place, it is only after this spending is fully reconciled during the year end process that we have our true opening balances for capital. As the opening TCA balances as well as the minor TCA spending increased for the 2014-15 school year, there was a corresponding increase in our amortization expense of approximately \$300,000.
- In order to meet Board maintenance and custodial needs throughout the year there was additional casual maintenance and custodial/summer student support required. This amounted to approximately \$50,000.

Surplus

There is an overall accumulated surplus in the current year of \$246,764. Please see below for a discussion of the various components of the surplus.



Available for Compliance Component

- The available for compliance component of the accumulated surplus includes current and prior year surpluses experienced by the Board. These amounts can be used for the Board to achieve budget compliance and can be internally appropriated for specific Board-supported initiatives.
- Per Note 10 of the Consolidated Financial Statements, there is a decrease in the Available for Budget Compliance portion of the accumulated surplus of \$70,179.
- This minor deficit is related to the amortization of unsupported capital spending. In 2014-15 the following capital projects were funded by accumulated surplus: IT reinvestment in computer hardware/fibre originally approved in the 2011-12 year that was completed in the current year, the finance and human resource information system implementation approved in 2014-15, and the first projects of the playground project approved in 2014-15 (more to come in 2015-16).
- The amortization related to these projects is funded by the Board and as such shows up as use of amounts available for compliance or a deficit although funds have been allocated to cover these costs. The projects are funded under Unsupported Capital and the draws on this fund will continue throughout the useful lives of these amounts (5 years for technology and 15 years for land improvements).

Unavailable for Compliance Component

- The unavailable for compliance accumulated surplus components cannot be used by the Board to fund any Board initiatives (i.e. reinvestment projects) or to offset any operating deficits. Per Note 10 of the Financial Statements, in the current year, the surplus in this area amounted to \$316,943.

Employee Future Benefits

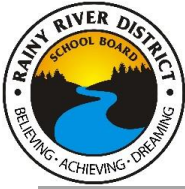
- Beginning in the 2012-13 fiscal year, the Ministry of Education required Board's to begin to recognize the amortization of the retirement gratuity plan liability. As such, this liability is reduced annually generating a surplus or approximately \$450,000 in the current year.

Interest to be Accrued

- As a PSAB requirement, Board's must accrue interest on their long-term debt until the end of the year. As the increase/reduction of this liability is fully funded by the Ministry, the Ministry tracks these amounts in the Unavailable for Compliance area of the accumulated. In the current year, due the overall reduction in our Board's long-term debt, the interest accrual was reduced by approximately \$15,000 contributing to the unavailable for compliance surplus.

Revenues Recognized for Land

- This is the area where the Ministry captures funding that has been provided to the Board to acquire land. Normally when the Ministry provides the Board with capital funding it is allocated to Deferred Capital Contributions and recognized over the useful life of the asset. In the case of land, there is not amortization therefore the revenue would be perpetually be deferred. As such, the Ministry segregated any supported land additions to the Unavailable for Compliance area of the accumulated surplus.
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- In 2014-15 there is an increase to the surplus for this line item in the amount of approximately \$35,000. This is related to demolition of the Alternative Education building on Walker Avenue in Fort Frances. The cost of the clearing was capitalized to land as it is preparing the land to be used for another purpose.

School Generated Funds

- The accumulated surplus includes a deficit related entirely to School Generated Funds in the amount of approximately \$183,000. This amount varies from year to year based on the school funded activities at the school level.
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ROUTING

Audit Committee	November 11, 2015
Board	December 1, 2015

APPENDICES

Appendix A: Draft Audited 2014-15 Financial Statements