



## MEMORANDUM

Date: December 3, 2013

Finance: 2013-54

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**To:** Trustees

**From:** Meghan Cox, Manager of Financial Services

**Subject:** **August 31, 2013 Financial Statements - Executive Summary**

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The Rainy River District School Board ended the August 31, 2013 year in a positive position. 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, 2013. Please find a description of significant variances, balances, and changes below.

#### Financial Assets

##### **Cash**

- The cash balance has increased over prior year largely due to the maturity of the Board GIC that was deposited into the general account (approximately \$1.14M). There was also a significant inflow related to completion of the long-term financing related to the Robert Moore School and Mine Centre School builds. The remaining increase is 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 \$453,135 and School Generated Funds temporary investments in the amount of \$98,400.

##### **Accounts Receivable**

- The Accounts Receivable balance has increased by \$2.3m over the prior year. This increase is mostly due to an approximately \$1.6M increase in First Nation receivables. In addition, the receivables related to municipal levies have increased over the prior year (in addition to the regular taxation receivable, some second quarter levies were not received until after August 31, 2013).

### **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.
- 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
- 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.

### **Financial Liabilities**

#### **Other Liabilities**

- This amount has been reduced by approximately \$100k over the prior year. This amount is related to the teacher deferred leave plan. The reduction is attributable to two teachers being paid out for their leave year in 2012-13 and an additional teacher choosing to withdraw from the plan.

#### **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 #7 of the Financial Statements.

#### **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 increased by approximately \$360k in the current year due to the advanced receipt of a number of Ministry of Education Program Other (EPO) grants (“money bombs”). In the current year a number of grants were received in August 2013 that were not to be spent until the 2013-14 school year resulting in the deferral of the grant revenue.

### **Employee Benefits Payable**

- Employee benefits payable have been reduced by \$245k in the current year due to the current year retirement gratuity expense as determined through our annual actuarial report performed by the School Board's Cooperative Inc. (SBCI).
  
- **Retirement Gratuities**
  - On retirement board employees are entitled to a retirement gratuity (provided certain criteria are met with respect to accumulated sick days, years of service, etc.).
  - As a result of the plan change, employees eligible for retirement gratuity (i.e. who meet the above criteria) will receive payout upon retirement based on their accumulated vested sick days under the plan, years of service and salary as of August 31, 2012.
  - This payment is provided through a defined benefit plan the majority of which is funded through an internally restricted allocation of surplus (approved in the 2012-13 budget).
  
- **Sick Leave Benefits**
  - Prior to August 31, 2012 regular full-time employees were allocated a specified number of sick days each year for use as paid absences due to sickness or injury (prorated allotment for part-time employees).
  - Employees were allowed to accumulate their unused allocation each year, up to the allowable maximum provided in their employment agreements.
  - Accumulated credits were available to be used in future years to the extent that the duration of the employee's illness or injury exceeded the current year allocation of credits (paid out at the salary in effect at the time of usage).
  - As a result of the new changes made in 2013 to the short-term sick leave and disability plan, a maximum of 11 unused sick leave days from the current year may be carried forward into the following year only, to be used to top up salary for illnesses paid through the short-term leave and disability plan in that year.
  - The accrued benefit obligation for the sick leave top-up is based on an actuarial valuation for accounting purposes as of August 31, 2013. The Board's sick leave carryover benefit liability in the amount of \$13,636 as at August 31, 2013, has been recognized in the Board's accounts payable and accrued liabilities in the consolidated statement of financial position.

### **Non-financial Assets**

#### **Prepaid Expenses**

- The majority of this prepaid amount represents teacher pay that is paid out on August 26, 2013. The first teacher pay for the 2013-14 school year is paid on the first day of school (August 26/13) and represents 8% of annual salary. This percentage relates to the equivalent of 15.52 instructional days. The expenditure recognized in the 2012-13 school year is only 5 days (August 26 to 30); therefore, the value of the 10.52 days is set up as a prepaid in the financial statements.
  
- Also included in the prepaid amount are amounts paid relating professional development taking place in the fall of 2013.

### **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.

### **STATEMENT OF OPERATIONS**

The Consolidated Statement of Operations shows the Board's revenues and expenditures for the entire year (September 1, 2012 – August 31, 2013). Please find a description of significant variances, balances, and changes below.

#### **Revenues**

##### **Provincial Grants – Grants for Student Needs (GSNs)**

- Increase represents the increase in grants of \$1.18M over estimates.
- There was a significant increase in pupil of the board enrolment over budget which resulted in a significant increase of base GSNs over budget.
- In addition to the increase in enrolment of regular day school students, the enrolment of students 21 years of age and over at budget time is largely unknown. As such, there was a significant increase of grants related to these students over budget.
- Due to changes in 2013, those Board employees who did not meet the criteria for a retirement gratuity were provided a one-time pay-out of non-vested sick leave as at August 31, 2012 by Ministry regulation. The establishment of this pay-out was unknown at budget time. The pay-out which was fully funded by the Ministry through a GSN grant enhancement was approximately \$220k.
- As a result of the Rainy River District Transportation Consortium's efficiency and effectiveness review by the Ministry an additional GSN grant of \$131,670 was flowed to our Board. The efficiency and effectiveness review was completed during the 2012-13 school year and therefore the resulting grant increase was unknown at budget time.

##### **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 actual enrolment for students living on reserve was less than what was budgeted and therefore the revenue received in the 2012-13 school year was lower than originally budgeted.

#### **Other Revenues – School Boards**

- The majority of this amount is related to revenues received from the Lakehead District School Board for programs for which they operated as the Banker Board.
- The budgeted amount was related to the recovery of administrative costs related 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.

#### **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.

#### **Deferred Capital Contributions**

- This revenue mirrors the amortization of supported capital projects undertaken by the Board. Due to timing of major capital expenses, this grant amount has increased since budget.

#### **Expenses**

#### **Variance from Budget**

#### **Instruction**

- At budget there are estimates made with respect to expenses that will meet tangible capital asset criteria. It is difficult to determine with respect to minor capital purchases whether or not the specific criteria will be met at budget time. As such, there were approximately \$280,000 in purchases that were capitalized as opposed to expensed and therefore are not reflected in expenses on the Statement of Operations but are reflected as expenditures in the budget line.
- Some classroom costs are reflected in the Other envelope area by virtue of the type of grant under which they are funded (i.e. Ontario Youth Apprenticeship Program (OYAP), Ministry of Community and Social Services (ISN)). These funds account for approximately \$122,000.
- There was not a significant amount of professional development that was scheduled during the first half of the year. As such, the professional development budget was significantly underspent for the year by approximately \$350,000.

### **Administration**

- The expenses for staff who attend Ministry meetings are recorded through this area and are not reflected in the budget as they are unknown at budget time.
- There were approximately \$27,000 in costs that were related to the labour sanctions and allocated to the administration envelope. In addition, there were additional costs associated with staff and resources utilized to assist in managing the sick leave plan changes that occurred during the year.
- 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**

- Since the inception of the Rainy River District Transportation Consortium, the transportation expenses are both budgeted and reported factoring in the recoveries that will be received from the Northwest Catholic District School Board.

### **Pupil Accommodation**

- There were efficiencies realized in plant and operations with respect to utilities and supplies/services (outlined below in surplus note).
- Amortization was budgeted solely on the basis of being allocated to the Pupil Accommodation area, but for the purposes of the financial statements, a portion is allocated to other areas. This reduces the overall amortization allocated to the Pupil Accommodation area of the financial statements.

### **Surplus**

There is an accumulated surplus in the current year of \$1,938,232. Please see below for a discussion of the details of the surplus calculation.

#### **School Generated Funds**

- The accumulated surplus includes a surplus related entirely to School Generated Funds in the amount of \$37,804.

#### **Government of Ontario – Approved Capital**

- In the 2008-09 school year, there were some expenditures related to the Robert Moore School build that were Board funded as we had funds with which to do so and the projected project costs exceed the Ministry's commitment to the project. In subsequent years (2009-10 to 2011-12), as the project proceeded, the overall project costs did not match the full extent of the original budget (although the project costs did exceed that of the Ministry's commitment). In determining the final value for financing, it was determined that \$206,784 in expenses that were originally funded by the Board could be funded by Ministry's commitment.
- This results in an increase to the surplus of \$206,784.

#### **GSN Grant Increase – Transportation**

- As discussed earlier, the efficiency and effectiveness audit of the Rainy River District Transportation Consortium resulted in an additional grant of \$131,670. This grant was received after year end thus purely offset the 2012-13 costs/increased our surplus.

#### **Investment Income and Other Revenue**

- There were other revenue and interest income amounts that were not known at the time of budget preparation.
- These increases account for approximately \$500,000 in surplus.
- These revenue amounts include items such as benefit and insurance premium refunds, additional interest revenue earned, hydro rebates, etc.
- These amounts typically do not have any matching expenses (strictly revenue).

#### **EPO Grant Efficiencies**

- There were also efficiencies experienced from budget related to certain Provincial Grants – Other than were received.
- In some instances the Board plans to implement certain initiatives notwithstanding whether there are specific grants available to support them as they are deemed critical for improving student achievement.
- After the Board has committed to these programs, there are funds allocated by the Ministry and/or other organizations that fit the Board's existing programming.
- Some programs where this has taken place with respect to Full Day Kindergarten, Schools in the Middle (SIM), CODE Technology Project, and ELearning.
- These efficiencies make up for approximately \$555,000 of the realized surplus.
- Professional Development – There were limited professional development opportunities during the first half of the year. When professional development was reinstated, there was a push to spend the EPO funding related to professional development. As such, there were professional development funds within the Board budget that were not spent.

#### **Savings**

- Plant and Operations – There were utility savings realized of \$95,000; and in addition plant supplies/services/casual savings of \$120,000.
- Supplies and Services – Approximately \$300,000 of the contingency fund that was established through the budget process, was not required to be accessed throughout the year. As such, this amount positively impacted our surplus.
- Each of these amounts contributed to the overall surplus experienced by the Board.

**Recommendation:**

***That the Rainy River District School Board approve the 2012-13 Financial Statements as presented.***

***That the Rainy River District School Board approve the details of the Unappropriated, Internally Appropriated and Unavailable for Compliance components of Accumulated Surplus in the 2012-13 Financial Statements as presented.***