AVON MAITLAND DISTRICT SCHOOL BOARD

REPORT OF THE AUDIT COMMITTEE

TO

REGULAR BOARD MEETING – TUESDAY, NOVEMBER 13, 2012

SUBJECT: Approval of the Consolidated Financial Statements for the Period September 1, 2011 to August 31, 2012

1.0 Background

1.1 In accordance with Board Policy 10 re *Committees of the Board*, the Audit Committee met on November 13, 2012 to review the draft audited Consolidated Financial Statements with the external auditor.

2.0 Presentation and Reporting Framework

2.1 John Leitch, Partner and Blaine Mendola, Senior Accountant, both of the firm KPMG, and Cheri Carter, Financial Services Administrator, presented to Audit Committee the draft Consolidated Financial Statements for the full year September 1, 2011 to August 31, 2012.

2.2 The Consolidated Financial Statements present the financial position of the board as at August 31, 2012.

2.3 Prior to 2011/12, the Consolidated Financial Statements were prepared under a special purpose framework as directed by the Ministry of Education (Ministry) as per Ontario Regulation 196/10. This special purpose framework required that school boards comply with all regulations, policies, guidelines, directives and similar instruments. The regulations and directives included the following:

- school boards were to comply with Public Sector Accounting Board (PSAB) Standards
- school boards were to comply with the PSAB Standard PS 3410 "Government Transfers", which detailed the requirement to record a liability (deferred capital contribution) equal to the amount of the net book value of the depreciable assets at September 1, 2010

2.4 During 2011, the Ontario Government released Ontario Regulation 395/11 of the Financial Administration Act entitled "Accounting Policies and Practices Public Entities". This regulation requires that contributions received for the purpose of purchase or construction of tangible capital assets be recorded as deferred capital contributions, and be recognized as revenue at the same rate that amortization is recognized in respect of the related asset. The accounting policy requirements under Regulation 395/11 in relation to government transfers, taxation revenues and externally restricted contributions are significantly different from the Public Sector Accounting Standards. As such, school boards were required to adopt a new financial reporting framework which is to follow Public Sector Accounting Standards with the exception of

revenue recognition for capital contributions, where boards are required to adopt Regulation 395/11. A detailed explanation of this change is outlined in *Note 1 (a) Significant Accounting Policies: Basis of accounting* of the Consolidated Financial Statements.

2.5 The 2011/12 Consolidated Financial Statements were prepared in accordance with the new financial reporting framework retrospectively. This adoption resulted in no changes to the board's financial position or the annual surplus as of August 31, 2011; therefore there was no restatement of prior year comparative figures required. This change is discussed within the statements in the *Independent Auditors' Report* and also requires an updated Engagement letter.

3.0 Consolidated Financial Statements Changes

3.1 Besides the new financial reporting framework, there were two items that impacted the preparation of the financial statements for the 2011/12 year. The impact of these items can be seen throughout the statements and are detailed in the Notes to the Consolidated Financial Statements. These items include:

- The impact on the board's future liabilities resulting from the amendments to the benefits plans for employees due to the passing of Bill 115, the *Putting Students First Act.* This act included significant changes to retirement gratuity plans, sick leave plans and access to post-retirement benefit plans. A detailed explanation and accounting of the changes to the Employee Future Benefits liabilities are detailed in Note 1(h) *Significant Accounting Policies: Retirement and other employee future benefits* and in *Note 6 Retirement and Other Employee Future Benefits Payable.*
- The treatment of the board's properties which will be disposed of in the upcoming fiscal year. The board is required to determine if any properties should be transferred from the long-term tangible capital asset to a new financial asset type entitled "Assets held for sale" as of August 31, 2012. This evaluation was completed and it was determined that six properties should be reclassified; as such the reclassification was made and the applicable disclosure included in the Consolidated Financial Statements. The impact of this can be seen throughout the statements and is also discussed in detail in *Note 3 Assets Held for Sale.*

3.2 *Consolidated Statement of Financial Position*: This statement presentation has not changed from the prior year, although it has been expanded to include assets that were not previously segregated or are new for the 2011/12 year.

- The "Investments" financial asset has been segregated from the "Cash and cash equivalents" asset for both the 2011/12 and 2010/11 years. These values represent the school generated funds invested in approved investments at the school level as of August 31st of each year.

- A new financial asset type entitled "Assets held for sale" discloses the value of assets that have been removed from the long-term asset line "tangible capital assets" as noted above. *Note 3 Assets Held for Sale* details the transactions that make up this value.
- While not a change in the presentation, it is also worthwhile to point out the change in the "Accumulated deficit" value following the 2011/12 fiscal year. This material change has been brought about primarily by the change in reporting of Employee Future Benefits, which was discussed above and will be addressed in detail below.

3.3 *Consolidated Statement of Operations*: There are virtually no changes to the presentation of this statement from the prior year, although the impact of the Employee Future Benefits changes is apparent when comparing the expenses to the prior year in each of the "Instruction", "Administration", "Transportation" and "Pupil accommodation" expense amounts. The total impact of the changes on the reported expenses for 2011/12 is $26,268,867, as disclosed in *Note 6 Retirement and Other Employee Future Benefits Payable.*

3.4 *Consolidated Statement of Cash Flow:* The Cash Flow statement presentation has been updated again for 2011/12 to further segregate Capital, Investing and Financing Transactions from Operating Transactions. Both the "Operating Transactions" and "Financing Transactions" sections provide more detail by segregating the individuals items relating to changes in the tangible capital asset values and the contributions for those tangible capital assets. An example is the segregation of "Amortization of tangible capital assets" and "Write-downs of tangible capital assets" which were reported as one combined figure in the statements presented last fiscal year.

3.5 *Consolidated Statement of Change in Net Debt*: The Net Debt statement presentation has not changed from the prior year, although there are some new lines included for the first time in 2011/12. These include "Loss on sale of tangible capital assets" and "Proceeds on sale of tangible capital assets" in relation to the disposal of three properties in the 2011/12 year. As well, "Transfer to assets held for sale" is included to reflect the amounts for six properties transferred out of tangible capital assets and included as a more 'liquid' financial assets. It should be noted that while the board recognized a loss on sale on three properties of $484,465 (calculated as the net proceeds on sale less the net book value of the properties originally established by the Ministry), the same amount was brought into income from the deferred capital contribution balance in order to offset this loss. The net impact to the board's annual surplus due to this transaction was nil.

4.0 Consolidated Financial Statement Notes

The notes are an integral part of the Consolidated Financial Statements and include information to provide more detail, clarify or explain the financial schedules. In addition to renumbering some notes to align with the Ministry template, the modifications made to the notes for the current year include the following items:

4.1 *Note 1 Significant Accounting Polices* was updated to remove the reference to the restatement made in 2010/11 as well as to add information about the new financial reporting framework adopted, the changes to accounting for employee future benefits and to detail the accounting policies over the accounting of deferred capital contributions.

4.2 *Note 2 Change in Accounting Policies* included in the 2010/11 statements was removed as it does not apply for the 2011/12 fiscal period.

4.3 *Note 3 Assets Held for Sale* details the treatment of the board's properties which will be disposed of in the upcoming fiscal year. As noted above, the board is required to determine if any properties should be transferred from the long-term tangible capital asset to a new, more 'liquid' financial asset type entitled "Assets held for sale" as of August 31, 2012. This evaluation was completed and six properties were reclassified: Arthur Meighen, Blyth, East Wawanosh, Portia, Usborne and Zurich. This note also details the treatment of the three properties that were disposed of during the 2011/12 year: Brussels, Mitchell PS and St. Marys Central.

4.4 *Note 6 Retirement and Other Employee Future Benefits:* Changes were made throughout this note to communicate the impact of the August 27th, 2012 introduction of Bill 115, the *Putting Students First Act*. This act included significant changes to retirement gratuity plans, sick leave plans and access to post-retirement benefit plans. Due to the magnitude of the changes on the Employee Future Benefits liability reported, boards were required by the Ministry to complete a full actuarial valuation as of August 31st, 2012. As would be expected, the Ministry provided clear expectations to the actuary firms and to school boards on the valuation methods to be undertaken and the impact of Bill 115.

The plan amendments and the resulting impact are as follows:

- The elimination of non-vested accumulated sick days for future use effective September 1, 2012. This elimination is considered a plan "termination" and the impact of this change is a termination gain of $7,841,669.
- The requirement to implement a new non-accumulating short-term sick leave plan effective September 1, 2012. This amendment does not impact the annual valuation of future benefits as there is not an accumulating component; however the impact on future in-year operating costs remains to be seen.
- The Grandparenting or freezing of gratuity benefits for those who are eligible as of August 31, 2012. This change is considered a plan "curtailment". The final amount reported as a plan curtailment for this benefit includes both the plan curtailment gain of $1,940,285 and an amortized loss of $2,937,264 due to the extensive review and update of employee data governing eligibility as of August 31st, 2012. The two figures combined make up the reported curtailment loss of $996,979.

- The grandparenting of access to post retirement health, dental and life insurance benefits for existing retires and retirees in the 2012/13 year only, and removal of access to subsidized plans for retirees with retirement date of September 1, 2013 or later. This change is considered a plan "curtailment" and the impact of this change is a curtailment gain of $19,424,177.

4.5 *Note 7 Bank Indebtedness*: The sentence that discusses the leasing facility available to the board has been moved to *Note 8 Long-Term Financing* to be included in the disclosure regarding capital leases.

4.6 *Note 8 Long-Term Financing*: Besides the change noted in 4.5 above, additional disclosure regarding the loan and lease payments made in the 2011/12 year has been included.

4.7 *Note 9 Expenses by Object:* the schedule in this note has been expanded to segregate the various components of the employee benefits expense: the operating amount, the employee future benefits plan curtailment gain and the employee future benefits plan termination gain.

4.8 *Note 10 Tangible Capital Assets:* The continuity schedules on page 17 of the notes have been updated, via a new column, to show the transfer from tangible capital assets to the financial assets category "Assets held for sale".

4.9 *Note 15 Budget Data* from the 2010/11 note presentation has been removed as it does not apply for the 2011/12 fiscal period.

4.10 *Note 16 Subsequent Event*: This note was added at the direction of the Ministry to provide additional disclosure regarding the passing of Bill 115, the *Putting Students First Act* on September 11, 2012.

5.0 Recommendation

5.1 The Audit Committee recommends that

the Avon Maitland District School Board approve the draft Consolidated Financial Statements for the period September 1, 2011 to August 31, 2012, as presented.

Respectfully submitted:

Trustee Members:	Lynette Geddes, Alyson Kent, Colleen Schenk (Audit Chair)
Trustee Reps:	Randy Wagler (Vice Chair), Jenny Versteeg (Chair)
Community:	Ron Burt, Bob Pike
Admin. Liaison:	Ted Doherty (Director of Education), Janet Baird-Jackson (Superintendent of Business), Cheri Carter (Financial Services Administrator), Sandra Hunt (Finance Manager-Reporting)