

2.5 Monitoring School Boards

Introduction

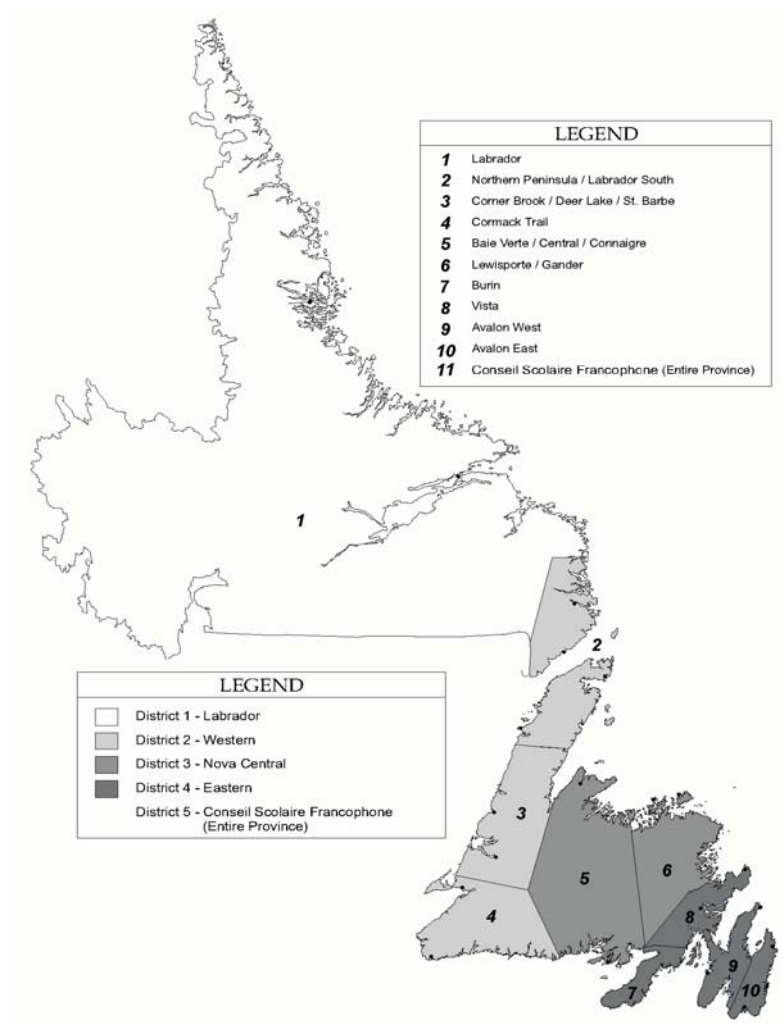
Overview

Effective 1 September 2004, 9 of the 11 school boards in the Province were dissolved and 3 new boards were created resulting in four English language school boards and one French language school board.

For the 2004-05 school year there were approximately 303 schools in the Province with a total enrolment of 79,439 students. At 31 December 1996 when the 11 former school boards were created, there were approximately 445 schools in the Province with a total enrolment of 110,450 students. Figure 1 shows the newly established board boundaries and the former 11 board boundaries.

Figure 1

Department of Education School Board Boundaries



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As part of our work we continue to monitor the financial position and annual operating results of the school boards

Conclusions

Financial position

All five school boards had accumulated deficits as at 30 June 2005. The combined financial position of the five boards at 30 June 2005 shows total accumulated deficits of \$110.0 million, a 5% increase from the \$104.4 million reported in 2004. Included in the accumulated deficit is an amount of \$103.6 million related to severance pay and leave accruals. The accumulated deficits will eventually have to be funded by Government.

The Eastern Board accounted for \$53.2 million or 48% of the total \$110.0 million in accumulated deficits.

Operating results

All 5 boards reported operating surpluses for the year ended 30 June 2005 totalling \$6.8 million. Operating surpluses ranged from \$295,000 to \$2.7 million.

Because of inconsistent reporting periods resulting from the restructuring of school boards, comparisons with prior years' financial results would not currently be meaningful. It will take a couple of years of consistent reporting of financial information before effective and meaningful comparisons can be performed.

Non-compliance with the *Schools Act, 1997*

Contrary to the *Schools Act, 1997*, two school boards did not submit their 2005-06 annual budgets to the Minister for approval by 4 March 2005 as required by the Minister. The budget for the Western Board was not submitted until 4 May 2005 and the budget for the Eastern Board was not submitted until 17 May 2005.

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Observations

Background

Our review of the school boards' financial position in 2005 included an assessment of the annual operating results and the financial position of the 5 boards for two years to 30 June 2005. As a result of the reorganization on 1 September 2004, 3 of the 5 new school boards representing 9 of the 11 restructured school boards were directed by the Department of Education to prepare financial statements for the 14 month period ending 31 August 2004 rather than the 12 month period ending 30 June 2004. The other 2 new school boards (Labrador and Conseil Scolaire Francophone), which were not restructured, were directed to prepare financial statements for the 12 month period ending 30 June 2004.

As a result of having to prepare a 14 month financial statement to 31 August 2004, 3 of the 5 new school boards had to prepare financial statements for the 10 month period ending 30 June 2005. The other 2 new school boards prepared financial statements for the 12 month period ending 30 June 2005.

Therefore, because of the inconsistent reporting periods, comparisons with prior years' financial results would not currently be meaningful for either 3 of the 5 new school boards or for the system in total. It will take a couple of years of consistent reporting of financial information before effective and meaningful comparisons can be performed.

1. Financial Position

Summary

Figure 2 outlines information on the financial position of the 5 boards.

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Figure 2

**Department of Education
School Boards
Summary of Financial Position
Years Ended
(\$ 000's)**

	Board					Total	
	Labrador	Western	Nova Central	Eastern	Conseil Scolaire Francophone	30 June 2005	2004 Note 1
Current Assets							
Cash and investments	441	-	106	2,746	156	3,449	3,337
Accounts receivable	1,775	1,468	2,211	5,258	83	10,795	11,005
Summer pay receivable	3,450	10,953	-	28,541	264	43,208	3,806
Other assets	159	194	226	482	8	1,069	1,399
Total current assets	5,825	12,615	2,543	37,027	511	58,521	19,547
Trust funds	-	-	390	-	-	390	336
Other Assets	-	-	-	2,262	-	2,262	2,509
Capital assets	42,546	161,846	166,285	294,695	8,268	673,640	666,552
Total assets	48,371	174,461	169,218	333,984	8,779	734,813	688,944
Current Liabilities							
Bank indebtedness	-	316	-	-	-	316	1,180
Accounts payable	575	478	1,375	4,297	112	6,837	8,056
Summer pay liability	3,450	10,953	10,086	28,541	264	53,294	3,806
Deferred revenue	859	309	269	1,171	83	2,691	3,116
Current maturities	204	280	735	1,595	-	2,814	2,597
Total current liabilities	5,088	12,336	12,465	35,604	459	65,952	18,755
Trust funds liability	-	-	390	-	-	390	339
Long-term debt	1,327	1,984	4,957	9,098	-	17,366	18,865
Severance pay and leave	6,144	21,181	20,362	55,729	222	103,638	106,394
Total liabilities	12,559	35,501	38,174	100,431	681	187,346	144,353
Equity							
Investment in capital	42,179	159,634	160,736	286,744	8,243	657,536	648,950
Deficit	(6,367)	(20,674)	(29,692)	(53,191)	(145)	(110,069)	(104,359)
Total equity	35,812	138,960	131,044	233,553	8,098	547,467	544,591
Total liabilities and equity	48,371	174,461	169,218	333,984	8,779	734,813	688,944

Source: Audited financial statements

Note 1: The nine former boards which were restructured into Western, Nova Central and Eastern Boards reported 31 August 2004 year ends and the Labrador and Conseil Scolaire Francophone Boards reported 30 June 2004 year ends.

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As the figure shows, the total accumulated deficit for the school boards increased from \$104.4 million in 2004 to \$110.0 million in 2005. The \$110.0 million in combined accumulated deficits will eventually have to be funded by Government.

Non-compliance with Department directive

In 2005, the Department directed each board to record a liability for teachers' salaries earned during the school year but not fully paid to teachers until after the fiscal year end. The Department also directed school boards to not record an accounts receivable for the liability.

Our review identified that all 5 boards recorded a liability; however, 4 of the 5 boards also recorded an offsetting accounts receivable as shown in Figure 2. As such, only one board complied with the Department's directive (Nova Central).

Accumulated deficits

At 30 June 2005, the 5 school boards had accumulated deficits totalling \$110.0 million. This was comprised of \$103.6 million in severance pay and leave accruals and \$10.1 million in net summer pay liability, less a net accumulated operating surplus of \$3.7 million. A summary of these amounts is provided in Figure 3.

Figure 3

Department of Education School Boards Accumulated Surplus (Deficit) Years Ended (\$ 000's)

Board	2005				2004		
	Total	Leave/ Severance	Net Summer Pay Liability	Operating	Total	Leave/ Severance	Operating
Labrador	(6,367)	(6,144)	-	(223)	(6,485)	(6,258)	(227)
Western	(20,674)	(21,181)	-	507	(21,671)	(22,181)	510
Nova Central	(29,692)	(20,362)	(10,086)	756	(21,983)	(21,717)	(266)
Eastern	(53,191)	(55,729)	-	2,538	(54,068)	(56,047)	1,979
Conseil Scolaire Francophone	(145)	(222)	-	77	(152)	(191)	39
Total	(110,069)	(103,638)	(10,086)	3,655	(104,359)	(106,394)	2,035

Source: Audited financial statements

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2. Operating Results

Summary

Figure 4 outlines the annual operating results of the 5 school boards.

Figure 4

**Department of Education
School Boards
Operating Results
Years Ended
(\$ 000's)**

	Board					Total	
	Labrador	Western	Nova Central	Eastern	Conseil Scolaire Francophone	2005	2004
Revenue							
Provincial grants							
Teachers	27,542	87,616	74,765	236,483	2,195	428,601	503,587
Regular operating	5,497	15,539	15,658	37,250	1,564	75,508	94,659
Pupil transportation	1,921	5,812	7,447	17,510	200	32,890	34,917
Other Provincial grants	-	1,821	450	-	51	2,322	3,389
Total Provincial grants	34,960	110,788	98,320	291,243	4,010	539,321	636,552
Federal grants	2,589	-	88	21	750	3,448	4,919
Ancillary services	180	75	65	27	98	445	561
Miscellaneous revenue	745	403	1,205	697	17	3,067	6,018
Total revenue	38,474	111,266	99,678	291,988	4,875	546,281	648,050
Expenditure							
Administration	1,450	2,761	2,645	4,302	471	11,629	17,750
Instructional	30,861	90,251	76,642	243,461	3,241	444,456	520,265
Operations and maintenance	3,782	10,990	9,915	23,451	488	48,626	60,099
Pupil transportation	1,961	6,211	7,900	17,475	209	33,756	34,906
Ancillary services	120	52	-	121	84	377	441
Miscellaneous	-	43	-	203	-	246	644
Debt repayment	5	77	6	312	-	400	640
Total expenditure	38,179	110,385	97,108	289,325	4,493	539,490	634,745
Excess of revenue over expenditure	295	881	2,570	2,663	382	6,791	13,305
Equity adjustments	(22)	-	(10,106)	(110)	-	(10,238)	16,228
Net transfer to capital	(155)	116	(173)	(1,676)	(375)	(2,263)	(1,521)
Increase (decrease) in deficit	118	997	(7,709)	877	7	(5,710)	28,012

Source: Audited financial statements.

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As the figure shows, all 5 boards reported annual operating surpluses for 2005 totalling \$6.8 million. Operating surpluses ranged from \$295,000 for the Labrador Board to \$2.7 million for the Eastern Board.

Non-compliance with the Schools Act, 1997

The *Schools Act, 1997* requires each school board to submit its annual budget to the Minister at a date determined by the Minister. For 2005-06, the Minister set 4 March 2005 as the date for submitting annual budgets. However, the Western Board and the Eastern Board did not submit their annual budgets by 4 March 2005. The Western Board submitted its budget on 4 May 2005 and the Eastern Board submitted its budget on 17 May 2005.

Department's Response

Financial Position

The five school boards have accumulated deficits of \$110M as at 30 June 2005 offset by a commitment from Government to fund these deficits. The deficit relates to severance pay and leave accruals which are not funded through normal budgetary allocations. The Department notes that this is consistent accounting treatment for these non-cash items.

Operating Results

The Department is pleased that the Boards recorded operating surpluses of \$6.8M as of June 30, 2005.

The Department did receive financial information from all of the Boards for the 12 month period ending June 30, 2005 which facilitated consistent and meaningful comparisons of financial results.

Non-Compliance with the Schools Act, 1997.

The Department concurs with the Auditor General's comments that school boards did not submit their budget by the date set by the Minister. However, the Department acknowledges that this was a significant year of change for the new school boards and the delays were not unexpected.

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Non-Compliance with the Departmental Directive

The Department notes that it has been a long standing practice to direct boards to record a liability for teacher salaries earned during the school year but not fully paid until after year-end and not to record an accounts receivable for the liability. All boards complied with recording the liability, however, four of the five auditors believed it appropriate to record the offsetting accounts receivable. Therefore, the Department will be discussing this issue further with the boards auditors to determine how compliance may be achieved in future.