

Financial Statement Discussion and Analysis



Year ended June 30, 2018

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Introduction

This is a discussion and analysis of the financial performance of School District 22 (Vernon) (the ‘District’) for the fiscal year ended June 30, 2018. It is based on currently known facts, decisions, and conditions. This should be read in conjunction with the District’s consolidated financial statements.

The preparation of this financial statement discussion and analysis is management’s responsibility.

Located in the Okanagan Valley of British Columbia, the District serves the communities of Vernon, Coldstream, Lavington, Lumby, and Cherryville. The District provides educational services to approximately 8,300 students. These services include an international program, a French immersion program, a Montessori program, distributed learning courses, an Aboriginal focus, opportunities for trades training and secondary apprenticeships, numerous sports, and specialty academies.

The District’s mission is:

To inspire and develop lifelong learners who can communicate, think creatively, problem-solve, collaborate, and understand their personal and social responsibilities.

The financial statements illustrate, in financial terms, how resources have been allocated and consumed during the year to June 30, 2018.

Composition of the Financial Statements

The two key audited statements are:

- A **statement of financial position** (page 4), which summarises the assets and liabilities at June 30th. This provides an indication of the financial health of the school district.
- A **statement of operations** (page 5), which summarises the revenues received and expenses incurred during the twelve months between July 1 and June 30. This provides an indication of the funding received by the school district and how that funding was spent.

The Statement of Changes in Net Financial Assets (Debt), the Statement of Cash Flows and the notes to the financial statements are also audited, and provide further analysis of the District's finances.

The District manages its financial activities in three distinct areas, being the

- Operating fund;
- Special purpose funds; and the
- Capital fund.

The schedules at the end of the notes to the financial statements are in a format prescribed by the Ministry of Education. These schedules provide more detail specific to each of these funds. The balances in these schedules are consistent, when combined together, with the financial statements.

Schedule 1 (page 27) illustrates the sum of the funds.

Schedule 2 (page 28) provides detail on the **Operating Fund**.

The Operating Fund accounts for the District's operating grants and other operating revenues. Legislation requires that the District present a balanced budget for the Operating Fund, whereby budgeted expenditure does not exceed the total of budgeted revenue and any surplus in the operating fund carried forward from previous years.

Schedule 3 (page 33) provides detail on the **Special Purpose Funds**.

The Special Purpose Funds account for grants and contributions that are directed by agreement with a third party towards specific activities. As these are targeted grants, any unspent funding is typically accounted for as deferred revenue, not as accumulated surplus.

Schedule 4 (page 36) provides detail on the **Capital Fund**.

The capital fund accounts for:

- The capital assets of the District, including buildings, furniture, computers and equipment.
- Grants directed by agreement with a third party for the purchase of capital assets.
- Funds restricted by the Board for future capital asset purchases (local capital).

Statement of Financial Position

Cash and cash equivalents

At June 30, 2018, the District held \$24m in cash, deposited in financial institutions and the Province's central deposit system. This cash balance offsets the liabilities of the District and unspent funds restricted for use on specific projects.

Accounts payable and accrued liabilities

The District's accounts payable and accrued liabilities represent expenses which have been incurred but not yet paid. They comprise the following amounts:

	June 30, 2017	June 30, 2018
Trade and other amounts payable	\$ 1,794,957	\$ 3,009,910
Wages payable – teachers' 12 month instalment plan	1,150,417	1,219,864
Pension contributions payable	1,256,442	1,297,795
Payroll taxes payable	1,003,893	1,009,240
Accrued vacation pay	866,089	809,951
Accrued wages and benefits	650,919	-
Other accrued liabilities	183,102	323,075
Total accounts payable and accrued liabilities	\$ 6,905,819	\$ 7,669,835

Unearned revenue

The District receives payment of tuition fees for international students in advance of the student commencing their studies at the District. These fees are recognised as earned revenue when the program is provided to the student. The unearned revenue of \$2.4m represents international student fees received prior to June 30, 2018 for tuition in the 2018/19 school year.

Deferred revenue

Deferred revenue represents the unspent portion of grants which are targeted for a specific purpose.

	June 30, 2017	June 30, 2018
Scholarships and bursaries – balances administered by the District and amounts awarded but not yet claimed	\$ 343,775	\$ 348,108
School generated funds – amounts raised by schools for specific projects, such as class trips and PAC financial contributions	\$745,684	782,052
Other unspent targeted funds	81,176	43,144
Total deferred revenue	\$ 1,170,635	\$ 1,173,304

Deferred capital revenue and tangible capital assets

The deferred capital revenue balance is closely linked to the tangible capital asset balance. Tangible capital assets are things owned by the District which have a lifespan of more than one year. This includes school buildings and sites, furniture, and most computer equipment.

The majority of the District's capital expenditure, such as the construction of new schools, is funded through specific grants provided by the Ministry of Education. Once an asset is built or acquired and is in

use, the cost of that asset is amortized over the expected life of that asset. Any grants targeted towards the acquisition of that asset are also amortized over the expected life of that asset.

After allowing for amortization, the District has \$110,847,457 of tangible capital assets. \$90,970,682 (being the deferred capital revenue balance) was funded through targeted grants. The remainder was funded through operating grants and other non-targeted funding.

This inclusion of deferred capital revenue is not consistent with generally accepted accounting principles. The inclusion of this balance is a requirement of the Provincial Government. This is explained in more detail in note 2 to the financial statements.

The capital fund section, included later in this document, provides a more detailed explanation of the accounting for capital assets and associated grants.

Employee future benefits

The employee future benefits liability of \$3,406,985 accounts for amounts or benefits owed to current employees as a result of past service. The liability amount is calculated by actuaries based on the District's number of employees, age, length of service, contract terms, and established actuarial assumptions.

About \$2.8m of this amount accounts for retirement benefits earned by current employees. Support staff and certain members of school and district administration are entitled to a one-time payment from the District on their retirement. The amount of payment depends on years of service and final salary.

The District sets aside a liability each year to reflect expected future payments on retirement. The amount set aside during the year is reflected as an expense, and is based on the service to date of employees. The liability is reduced when employees retire and payments are disbursed.

The remainder of the employee future benefits liability is associated with teachers' sick leave and death benefits earned but not yet paid.

Net financial assets (debt)

This is the total of the District's financial assets and liabilities. It implies that the District has a net debt of \$80.7m. This is heavily skewed by the deferred capital revenue liability of \$91.0m. As there is no future cash flow associated with the deferred capital revenue balance, a more meaningful measure of net financial assets or debt excludes that balance, giving a revised figure of net financial assets of \$10.2m.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$2.4m and local capital fund balance of \$7.4m. The use of these amounts is restricted, as outlined below.

Accumulated surplus

Broken down by fund, the accumulated surplus comprises the following amounts:

	June 30, 2017	June 30, 2018
Operating fund	\$ 1,602,957	\$ 2,463,425
Special purpose funds	143,274	58,891
Capital fund – local capital (amounts available to spend on future capital asset purchases)	7,247,996	7,430,645
Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants)	18,937,847	20,237,859
Total accumulated surplus	\$ 27,932,074	\$ 30,190,820

These surpluses are discussed in more detail later in this document.

Statement of Operations

The statement of operations is the sum of the revenues and expenses of the District's various funds.

Year to	June 30, 2017	June 30, 2018	Increase
Total revenue	\$ 94,100,597	\$ 99,462,808	\$ 5,362,211
Total expense	94,286,954	97,204,062	2,907,106
Surplus / (deficit) for the year	\$ (186,357)	\$ 2,258,746	\$ 2,445,105

Ministry of Education grant funding increased from 2017 by \$6.0m. This is a consequence of increased enrolment, new grants received during the year to offset the costs of the restored teachers' collective agreement language, and increased funding to offset wage increases.

Expenses increased from 2017 by \$2.9m as wage increases were implemented and additional educational resources were allocated.

Overall, the District's revenues exceeded its expenses by \$2,258,746. Broken down by fund, this variance arises as follows (after transfers between funds):

Fund	Surplus or deficit for the year	Commentary
Operating fund	\$860,468 surplus	The Board set aside \$400,000 of operating surplus to balance the 2018/19 school year budget. Another \$400,000 of surplus was required to replenish the contingency reserve.
Special purpose funds	\$84,383 deficit	The District's woodlot incurred expenditure associated with planning for harvesting timber in future years. It did not generate revenues in the current year to cover that expense.
Capital fund	\$1,482,661 surplus	The cost of capital assets purchased during the year was about \$1.3m greater than the net balance of asset amortization and amortization of deferred capital revenue. This essentially means that the District invested more in purchasing tangible capital assets during the year than it consumed through the wear-and-tear of existing capital assets. The primary project driving this investment is the commencement of the Board Office renovation and replacement project.
Total	\$2,258,746 surplus	

Revenues, expenses and surpluses of the individual funds are discussed in more detail below.

Operating Fund

Overview

Operating fund transactions are reported in the following schedules in the financial statements. Columns with figures for the amended budget, year to June 30, 2018 and year to June 30, 2017 are shown.

Schedule	Page	Overview
2	28	Summarises the revenues and expenses of the operating fund. Also indicates the amounts spent on capital assets and transferred to the Local Capital fund.
2A	29	Outlines in more detail the operating revenues earned by the District.
2B	30	Summarises salaries by employee group and other operating costs.
2C	31-32	Provides the same information as in 2B, broken down in more detail to show each program the funds were spent on.

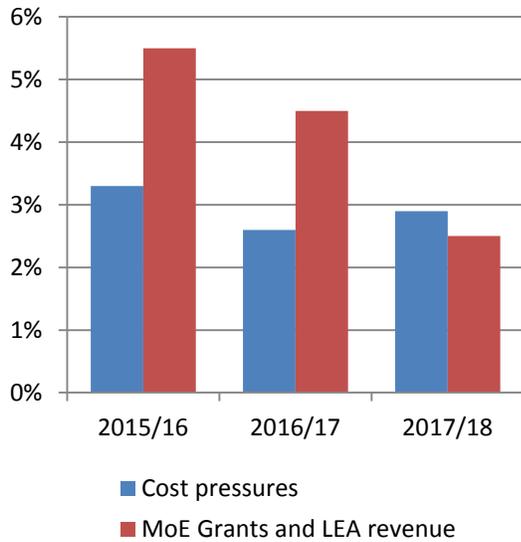
Grant funding and enrolment

92% of the District's operating funding is from Provincial Ministry of Education ('MoE') and direct funding from the Okanagan Indian Band through a Local Education Agreement ('LEA').

The Provincial Government is undertaking a review of the funding formula used to calculate this funding. The results of that review are expected to be announced in March 2019. This may result in substantial changes to the District's funding for the 2019/20 school year and beyond.

The majority of this funding is calculated based on student enrolment. The chart and table below show historical trends for this funding and enrolment.

Chart: Year-on-year increase in funding and cost pressures



Increase from previous year	2015/16	2016/17	2017/18
Funded student FTE	1.8%	1.1%	1.3%
Negotiated wage increases and inflation growth	1.5%	1.5%	1.6%
Total cost pressures	3.3%	2.6%	2.9%
MoE Grants and LEA revenue	5.5%	4.5%	2.5%
Variance	2.2%	1.9%	-0.4%

Funding in 2015/16 and 2016/17 increased faster than enrolment and wage growth. This was driven by two factors: a number of additional grants were received in 2016/17, and the number of students identified by the District as being eligible for additional special needs funding increased.

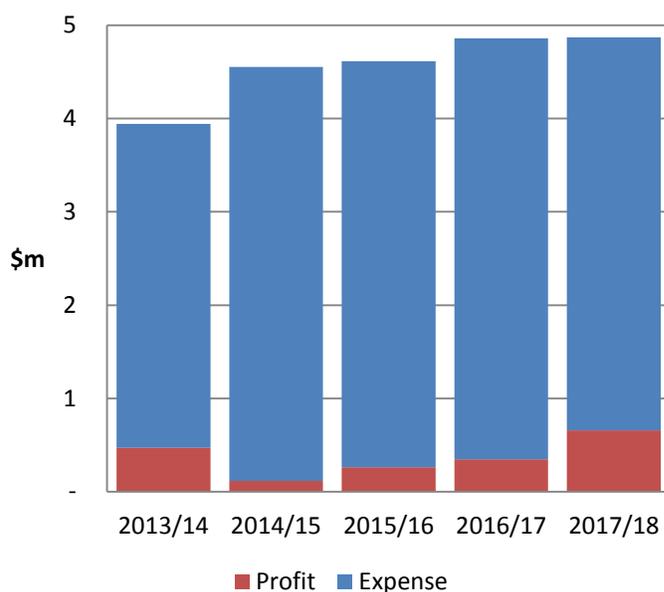
Funding in 2017/18 increased by less than the cost pressures. The impact of this funding shortfall was offset by the ending of one-time items that had been financed in 2016/17, and by the transfer of certain rural education costs from the operating fund to a special purpose fund. Should this funding trend continue in future years, the District may not be able to maintain its existing level of service to students.

International program

The District hosts an international program. International students live with homestay families in the region and attend District schools. The students pay a fee to the School District.

The chart below illustrates this fee revenue, broken out between the associated expense and overall contribution to the District’s other activities.

Chart: International fee revenue and expenditure



The number of international students was similar in the 2016/17 and 2017/18 school years. The revenue earned was also similar, at just under \$4.9m. Lower costs in 2017/18 led to an increase in the profit generated from the international program, which was \$660,000.

\$613,031 of this profit was transferred to the local capital fund to contribute towards the Board Office renovation. This is consistent with the Board’s motion outlining sources of funds for this project.

Operating expenditure

Schedule 2C outlines operating expense in detail, including allocating expense by category.

The table below summarises total expense by category for the year to June 30, 2018. It compares those proportion of expenditure to the average of all school districts in the Province for the year to June 30, 2017. The 2016/17 school year is the most recent year for which other District’s financial information is publicly available.

Function	2017/18 \$	2017/18 % of total	2016/17 Prov. Av. % of total	Comments
Instruction	66,529,175	82.6%	83.0%	See commentary below this table.
District Administration	2,781,221	3.4%	3.4%	Expenditure on district administration is consistent with the previous year’s Provincial average.
Operations and Maintenance	9,316,315	11.6%	11.7%	Expenditure on operations and maintenance is consistent with the previous year’s Provincial average.
Transportation	1,903,658	2.4%	1.9%	This expenditure is greater than the Provincial average due to the wider geographic distribution of schools in the District.
Total	80,530,369	100.0%	100.0%	

Expenditure on Instruction is about 0.4% less than the previous year’s provincial average. In recent years, the District has spent slightly more than the Provincial average.

This change is driven by two factors:

- Some teaching positions were not filled at the beginning of the year due to challenges in finding qualified candidates.
- Across the Province, many more teachers were hired in 2017/18 than retired. Typically, newly hired teachers have less teaching experience and education than retiring teachers, and so get paid less. This increase in hiring led to a shift in weighting of teacher salaries to a lower point in the salary grid. This influence is not reflected in the Provincial average benchmark used above, as it is based on 2016/17 results. It is, however, reflected in the District's 2017/18 results.

The following table compares actual expenditure by category to the budget.

Function	2017/18 \$	Budget \$	Variance \$	Comments
Instruction	66,529,175	68,898,722	-2,369,547	See commentary below this table.
District Administration	2,781,221	2,931,274	-150,053	\$118,000 of Union commitments (CUPE in-service fund and JEAC fund) remained unspent at June 30, 2018.
Operations and Maintenance	9,316,315	8,985,943	330,372	Utility costs were about \$200,000 more than budgeted, primarily due to variances in electricity and water/irrigation costs.
Transportation	1,903,658	2,046,795	-143,137	Expenditure on supplies was about \$100,000 less than budget.
Total	80,530,369	82,862,734	2,332,369	

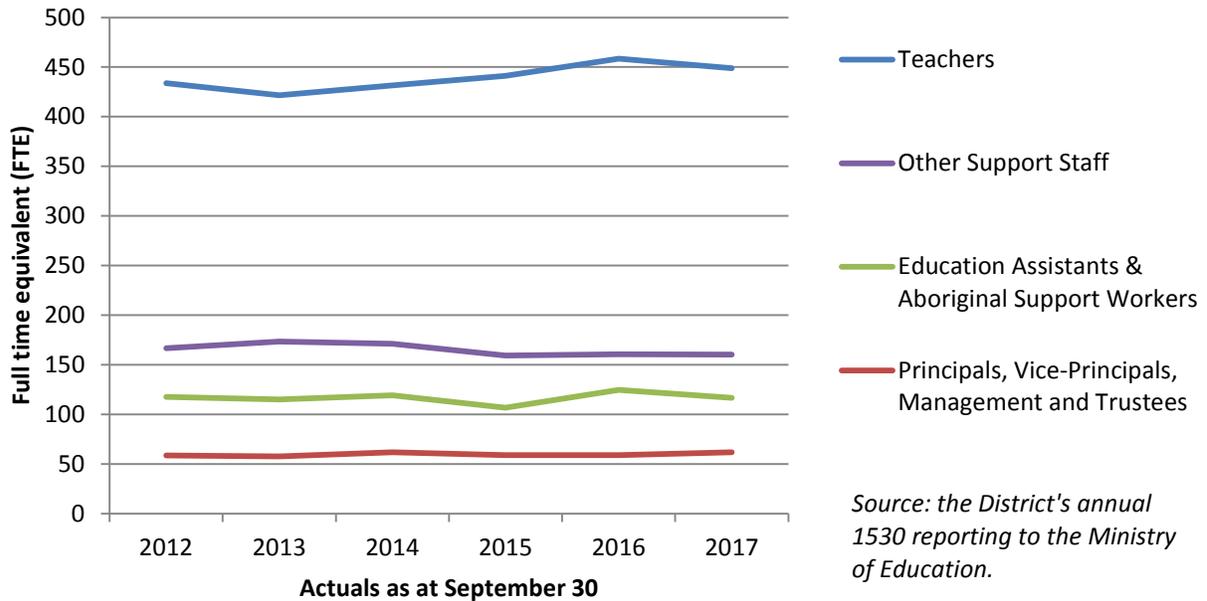
The variance in instruction of \$2,369,547 is driven by the following differences in actual costs against budget:

- \$447,247 variance due to the Educational Leave program discussed below.
- Approximately \$400,000 due to unfilled and late-filled teacher positions discussed below.
- Approximately \$110,000 PVP wage increases budgeted but still pending approval from BCPSEA.
- Approximately \$100,000 substitute costs less than budgeted.
- Approximately \$180,000 cost efficiencies in the international program achieved.
- \$355,108 school and department allocations budgeted but not utilised, carried forward as restricted funds to next year (disclosed in note 9 to the financial statements).
- \$143,417 of targeted Aboriginal Education funding not utilised, carried forward as restricted funds to next year (disclosed in note 9 to the financial statements).
- Approximately \$650,000 of other variances, including variances between the estimated standard costs and actual costs experienced. For example, a teacher's benefit costs vary considerably depending on whether they have a family or not. Overall, estimated standard costs are forecast to have been accurate to within less than 1%.

Staff

87%, or \$70.3m, of the District’s operating expenditure is spent on salaries and benefits. As would be expected for a school district, the majority of this staff cost (about 67%) is spent on teacher salaries and benefits.

Chart: Staff FTE paid for out of the operating fund



Schedule 2B on page 30 indicates that \$35,608,590 was spent on teacher salaries (excluding the cost of benefits) in the year to June 30, 2018. This is \$842,050 less than budget. This variance is driven by the Educational Leave program not being fully utilised and less teachers than budgeted being recruited.

The average full time teacher in the District receives compensation from the District of about \$100,000 a year, including benefits. In addition TTOC costs for sick leave coverage amount to an average of about \$3,600 per full time teacher.

\$483,235 was budgeted to be spent on the Educational Leave program, including about \$330,000 carried forward from 2016/17. Of this budget, \$35,988 was spent, a variance of \$447,247. This variance is committed, through the collective agreement, to be spent on the program in future years. The Educational Leave program provides partially paid leave to teachers to undertake academic training or other studies. Its use is determined by a joint committee with representation from the Board and the Vernon Teachers’ Association.

The increase in teacher positions resulting from the re-instatement of historical collective agreement language limiting class size and composition resulted in challenges in teacher recruitment across the Province. A number of teaching positions were not filled immediately at the beginning of the school year. By February 1, 2018, 457 teacher FTE was accounted for in the operating fund, about two less than budget. The budgeted Mental Health Liaison and an Elementary Behaviour Support Specialist position

were not filled during the year. This variance in teacher FTE drives the remaining variance in teacher salary.

52 FTE additional teacher positions are funded through special purpose funds described later. These positions are not included in the above totals or the chart.

The chart shows a decrease from September 2016 of Education Assistants accounted for in the operating fund. This is consistent with a budgeted reduction in EAs. Offsetting that is an increase in EAs (7.7 FTE, about 10 positions) funded through the Classroom Enhancement Fund, a Special Purpose Fund. Overall, the FTE of EAs employed by the Board increased slightly from the previous year.

Other support staff comprise bus drivers, maintenance staff, custodians, school secretaries, clerical staff, and noon hour and bus supervisors.

Operating surplus

The operating surplus for the year to June 30, 2018 was \$860,470. This is calculated on Schedule 2, on page 28 of the financial statements.

This surplus increased the operating fund balance from \$1,602,957 at the beginning of the year to \$2,463,425 at June 30, 2018.

Note 9, on page 20 of the financial statements, outlines the restrictions on the use of the accumulated surplus. The funds are restricted at the Board's discretion. The Board's approval of these restrictions is inferred from their approval of the financial statements.

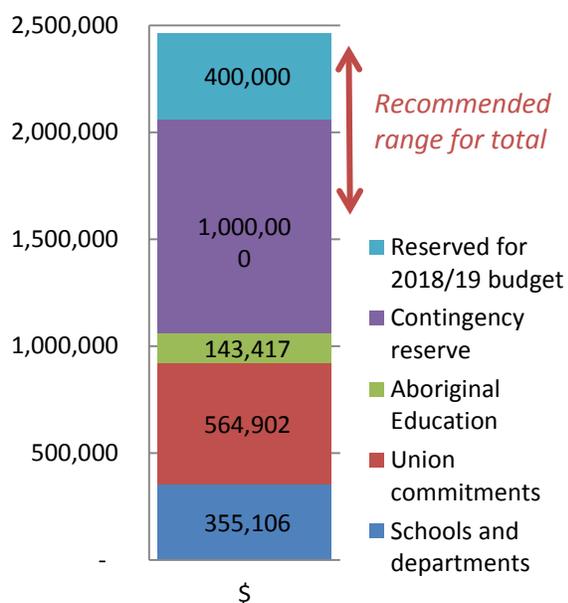
The cause of this surplus can be derived from the movements in the restricted components of the operating fund surplus, broken out below.

At June 30	2017 \$	2018 \$	Increase / (decrease)	Purpose of restriction
School and department budget balances	226,953	355,106	128,153	These funds are internally restricted to fund school-level projects. The increase is primarily driven by schools utilising the student learning grant.
Student learning grant commitments	293,334	-	(293,334)	The School District received targeted Student Learning Grant funding from the Province in the Spring of 2017. This was all spent, consistent with the requirements of the grant.
Appropriated for next year's budget	-	400,000	400,000	The 2018/19 budget adopted by the Board in May 2018 set aside \$400,000 of operating surplus to offset the cost of delaying for one year the elimination of existing bus routes which are not required per Board policy.
Contingency reserve	595,337	1,000,000	404,663	Operating surpluses realised in the year to June 30, 2018 allowed the replenishment of the contingency reserve to the target amount

At June 30	2017 \$	2018 \$	Increase / (decrease)	Purpose of restriction
				of \$1m. The appropriateness of the balance of \$1m is discussed below.
Union commitments	447,315	564,902	117,587	This balance is restricted to fund contractual obligations in collective agreements with employee unions to provide certain future funds for employee professional development and collective agreement administration. The increase is driven by the variances in the Educational Leave program outlined earlier.
Aboriginal Education commitments	40,018	143,417	103,399	The District receives targeted funding from the Province to enhance the education of Aboriginal students. The District is committed to spending the balance remaining in line with the terms of this funding.
Total	1,602,957	2,463,425	860,468	

When setting the contingency reserve target, a balance is struck between mitigating the risk of unforeseen expenses and consuming funds to maximise the educational opportunities of students.

Chart: Composition of Operating Fund surplus at June 30, 2018



The MoE’s Special Advisor’s Review of the Vancouver Board of Education (District 39), prepared by Ernst and Young in 2015, identified a range of 2% to 3% of operating expenses as a reasonable amount of total accumulated surplus.

The total operating surplus of \$2,463,425 is 3.06% of operating expenses, slightly above this range. This indicates that utilising the \$400,000 committed for the 2018/19 budget will still leave the District with sufficient surplus to mitigate future risks.

This also suggests that \$1m remains a reasonable target for the District’s contingency fund.

Special Purpose Funds

Overview

Transactions within the special purpose funds are reported in the following schedules in the financial statements.

Schedule	Page	Overview
3	33	Summarises the total revenues and expenses of all the special purpose funds. Also indicates the amounts spent on capital assets and transferred to the Local Capital fund.
3A	34	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2018.

The following table summarises some of the information presented in schedule 3A.

Fund	Surplus from previous year \$	Grants & revenue received \$	Expenses \$	Surplus at end of year \$
Annual facility grant	-	356,510	356,510	-
Learning Improvement	-	312,446	312,446	-
Scholarships and bursaries	343,775	126,538	122,205	348,108
School generated funds	745,684	2,739,195	2,702,827	782,052
Strong Start	-	128,000	128,000	-
Ready, Set, Learn	-	34,300	34,300	-
OLEP	-	170,911	170,911	-
CommunityLINK	-	653,606	653,606	-
Rural Education Enhancement Fund	-	443,320	443,320	-
Coding and curriculum implementation	70,409	-	70,409	-
Classroom Enhancement Fund – Overhead	-	932,734	932,734	-
Classroom Enhancement Fund – Staffing	-	5,230,728	5,214,465	16,263
Other grants	10,767	63,163	47,049	26,881
Total	1,170,635	11,191,451	11,188,782	1,173,304

School generated funds

School generated funds account for fees and contributions raised at the school level. Examples of such fees and contributions include: school supply fees paid by parents and caregivers; school trip fees; PAC contributions; graduation celebration fundraising; cafeteria revenue, vending machine revenue and athletics fees. These amounts are targeted and used for the purpose that they were provided to the school.

CommunityLINK

The CommunityLINK grant from the Provincial Government is to support programs and services to improve the educational performance of vulnerable students, including both academic achievement and social functioning. This includes promoting partnerships and an integrated approach to supporting vulnerable students with families, communities and service providers.

It primarily funds staff from community organisations who work with our vulnerable students to improve their educational performance. It also partially funds lunch meal programs at certain schools in the District.

Grant funding has not increased in line with inflation in previous years. To maintain a reasonable level of service, the District contributes an additional \$40,000 from the operating fund to provide these services.

Rural Education Enhancement Fund

This grant is new for the year to June 30, 2018. It is targeted to offset the extra costs associated with running a small rural school (Cherryville Elementary). In previous years, these costs were accounted for in the operating fund.

Classroom Enhancement Fund

The grants from the Classroom Enhancement Fund – Overhead and Classroom Enhancement Fund – Staffing total \$6,163,462. These grants are intended to offset the additional costs associated with the restoration of historical collective agreement language regarding class size and composition.

Direct staffing costs associated with the changes to class size and composition are accounted for within the ‘Classroom Enhancement Fund – Staffing’. They include:

- 47.8 FTE additional teachers needed to offset the reduction in class sizes;
- 2.8 FTE teacher librarians needed to meet non-enrolling ratios;
- TTOC wages to allow teachers to attend meetings required by the restored language; and
- TTOC and regular wages required to provide remedy to teachers who teach classes which are not compliant with the class size and composition language.

Indirect costs, or overheads, associated with these changes are accounted for within the ‘Classroom Enhancement Fund – Overhead’. They include:

- TTOC coverage for sick and other leaves for the additional teachers;
- Supplies, furniture and computers for additional classes and teachers;
- Additional Educational Assistants needed to support the increased number of classes; and
- Other miscellaneous costs associated with data tracking, increased class space and staff recruitment.

To receive the grants, the District must be able to demonstrate to the Provincial Government that the associated direct or indirect costs are a result of the restoration of the collective agreement language.

The classroom enhancement fund, although new in the 2017/18 year, is a core part of the District's funding. It funds over 10% of the District's teachers. This funding is tied to the application of historical language restored to the collective agreement. The collective agreement expires at the end of June 2019. Any change in the collective agreement will likely impact the classroom enhancement funding received by the District in future years. In turn, this could impact the ability of the District to maintain current class size and composition ratios.

Related entities

The operating results and surplus of 554210 B.C. Ltd, a company controlled by the District, are also reflected as a special purpose fund as a related entity. The company facilitates the District's delivery of its forestry career education program. The majority of the company's revenue is generated from the sale of timber harvested from a woodlot owned by the company. Harvesting typically occurs in five year cycles. This year, little harvesting was conducted, leading to the expenses of maintaining the woodlot exceeding the revenue generated by \$54,383.

Capital Fund

Overview

The capital fund, including the local capital fund, accounts for assets owned by the District and the funds used to acquire them.

Provincial grants targeted for the purchase of assets – for example, a grant to renovate a school – are recorded in the capital fund. If an asset is purchased using operating funds, then the cost of the asset is treated as a transfer from the operating fund to the capital fund.

The Province does not provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, photocopiers, classroom renovations or district administration buildings. The only source of funding available for these assets is typically operating funds. To set aside funds to allow the future purchase of major assets, the Board may transfer funds from the operating fund to the local capital fund.

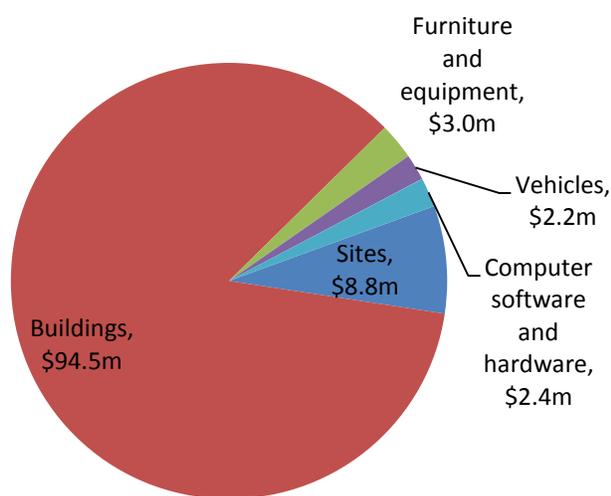
Schedule	Page	Overview
4	36	Summarises amortization, local capital balances, and transfers to the capital fund from other funds. Also shows the budgeted amounts and prior year amounts.
4A	37	Outlines: <ul style="list-style-type: none"> • The cost of assets acquired during the year. • the amortization of assets by asset class. • the original cost of assets owned by the District, by asset class • the total amortization of each asset class. This is an estimate of the value of the wear-and-tear of assets over their lifetime. • the net book value of assets, being the cost less amortization.

Schedule	Page	Overview
4B	38	Outlines costs to date on construction which is still in progress at June 30, 2018. The only major capital project in progress at June 30, 2018 was the board office capital project.
4C	39	Accounts for targeted funding spent on the acquisition of capital assets.
4D	40	Accounts for funding received which is targeted towards capital asset purchases and which has yet to be spent.

Capital assets

Schedule 4A summarises the capital assets owned by the District.

Chart: Net book value (being cost less amortization) of tangible capital assets



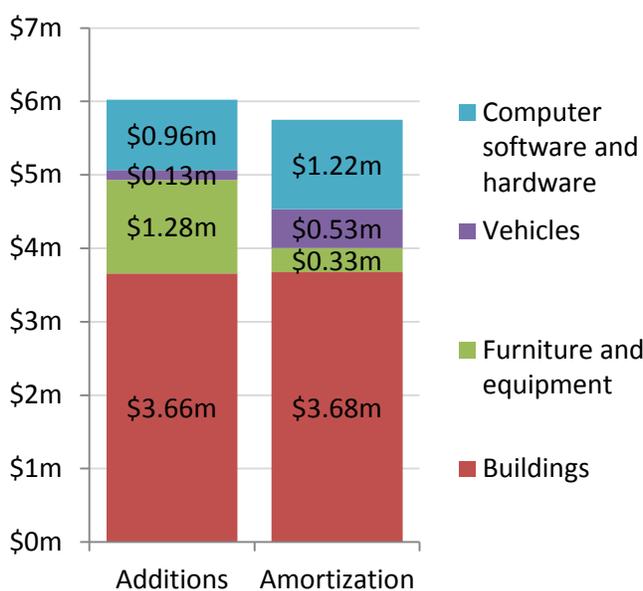
The District has \$110.8 million of funds invested in its capital infrastructure.

The cost of the land that the District’s schools are located on is \$8.8m.

The vast majority of the District’s capital assets are the school buildings.

The District also has significant investment in vehicles (primarily school buses), furniture and equipment (school furniture, shop equipment etc) and computer software and hardware, including servers and staff computers.

Chart: Asset additions compared to asset amortization



The amortization expense recognises the depreciation of an asset over its useful life. The proportion of amortization to asset additions is an indication of the sufficiency of the level of capital investment. For example, if assets are amortizing faster than they are being replaced, this may indicate an infrastructure deficit.

The amortization of computer software and hardware is greater than new additions. Advances in technology are allowing the District to replace existing computer hardware which has reached the end of its life with lower-cost devices or cloud solutions.

Vehicle additions are also significantly less than amortization. Over the previous five years, bus routes have reduced. This results in less buses being needed, and so not all busses that reach the end of their useful life are replaced.

Furniture and equipment additions were nearly \$1m greater than amortization. This indicates a strong year of investment in equipment. During the year, there were a number of major equipment related maintenance projects. Included in these additions is a new fleet of photocopiers, mechanical upgrades to school HVAC systems, and dust extractors for school shops.

Including work in progress, investment in buildings approximated the amortization of buildings. About \$2.7m of building additions during the year were renovation projects to existing buildings, including roof replacements and interior renovations. The remaining \$1.0m relates to the replacement of the temporary buildings at the Board Office with a permanent structure, and the renovation of the existing Board Office.

Deferred capital revenue

Schedule 4C accounts for grants received for capital asset purchases that have been spent. Schedule 4D accounts for grants received for capital asset purchases that have yet to be spent.

Schedule 4D illustrates that \$2,736,119 of grants were received in the year to June 30, 2018 from the Ministry of Education in the form of bylaw capital. \$362,193 of similar grants was carried forward from the previous fiscal year. During the year, \$2,903,384 of this bylaw capital was spent, leaving \$194,928 remaining to be carried forward into the next fiscal year.

The \$2,903,384 of bylaw capital that was spent is then accounted for as deferred capital revenue on schedule 4C. Deferred capital revenue balances are accumulated over the years, and amortized over the estimated lifespan of the assets acquired with the grant money. The deferred capital revenue balance was reduced by \$4,048,188 in the year to June 30, 2018 to reflect this amortization.

Schedule 4D also shows that the District has \$125,260 of Ministry of Education Restricted Capital. This is targeted grants remaining from a project which was completed in previous years. It is expected to be allocated to a school renovation project.

The 'Other Provincial Capital' on schedule 4D relates to unspent grants received for investment in capital equipment for trades programs. This balance was \$40,896 at the year-end.

Historically, the Province has provided targeted funding for major school renovations and replacements and buses. The Province does not typically provide targeted funding for any other capital assets, including the purchase or construction of technology, classroom furniture and equipment, administrative buildings, and maintenance equipment.

The deferred capital revenue balance at June 30, 2018 is \$90.9m, indicating 82% of the District's assets were purchased with targeted grant funding.

Local capital

Schedule 4 includes a column showing the transfers to and from the local capital fund, and the balance in local capital at the end of the year.

As outlined in Board policy 2.22.0, 'Financial Surplus and Inter-Fund Transfer Policy', the Board approves transfers of funds from the operating fund to the capital fund in anticipation of necessary future capital expenditure which will not be funded by additional targeted grants from the Province. In doing so, a balance must be struck between ensuring the District has the necessary assets to effectively function, and using operational funds to directly provide education for students.

The five year local capital plan adopted by the Board on November 23, 2016 allocated accumulated local capital to various projects, and laid out future transfers from the operating fund to local capital.

During the year to June 30, 2018, the District transferred the following balances from the operating fund to local capital:

Amount \$	Purpose	Board approval
845,000	Technology	November 23, 2016 local capital plan, and reflected in the 2017/18 original budget.
130,000	Maintenance vehicles	November 23, 2016 local capital plan, and reflected in the 2017/18 original budget.
58,000	Maintenance, custodial and transportation equipment	November 23, 2016 local capital plan, and reflected in the 2017/18 original budget.
100,000	School classroom improvements	Included in the 2017/18 original budget, and the 2017/18 budget adjustment plan.
300,000	New photocopier fleet	November 22, 2017, specific board motion.
613,031	Board office renovation and portable replacement	Through approval of the financial statements for the year ended June 30, 2018, and consistent with the board motion from April 26, 2017 that this project '... utilizes funding from sale of properties, AFG funds, International revenue, and surpluses from maintenance and transportation funds'. Profit from the international program this year was \$660,000.
2,046,031	Total	

To facilitate year-to-year capital planning, local capital budgets which are not spent at the year-end are carried forward to the following year. Budgets remaining at June 30, 2018 are as follows:

Allocation carried forward \$	Purpose	Notes
268,201	Technology	Balances were unspent in the year to June 30, 2018 in anticipation of a major server replacement which commenced in July 2018.
128,914	Maintenance vehicles	Purchase orders for about \$80,000 of vehicles were initiated in March 2018. The vehicles have yet to be received.

Allocation carried forward \$	Purpose	Notes
59,226	Maintenance, custodial and transportation equipment	This budget has been set aside by the respective departments in anticipation of future purchases of equipment.
65,958	School classroom improvements	The District was short of electricians in 2017/18. Another electrician was recruited towards the end of the year, who is working primarily on technology improvements for classrooms. This balance is expected to be spent in the 2018/19 year.
400,000	Finance enterprise resource planning software	The District has selected a vendor for this software and is currently in negotiations with that vendor for its purchase and implementation.
6,508,346	Board office renovation and portable replacement	\$951,885 has been spent to June 30, 2018 from local capital on this project, being the work-in-progress shown on schedule 4C.
7,430,645	Total	

Total costs for the Board Office project are estimated to be \$9,500,000, of which \$951,885 has already been spent, leaving \$8,548,115 remaining. The available local capital balance is \$6,508,346, a difference of \$2,039,769.

The Board Office Capital Project Update to the Board, presented at the May 23, 2018 Board Meeting, identified the following as potential sources of funding to address this difference:

- Annual Facilities Grant for 2018/19;
- Annual Facilities Grant for 2019/20;
- Proceeds from the potential disposal of the former Whitevale Elementary site and other surplus properties; and
- International Program profit for other years (the 2017/18 profit is allocated to local capital in the financial statements).

The District expects to have sufficient funds to meet its commitments for this capital project.

Long Term Facility Plan

The District's Long Term Facility Plan was finalised on June 17, 2016. It can be found at:

<http://www.sd22.bc.ca/District/FacilityPlan/Pages/default.aspx>

This Long Term Facility Plan identified the Board Office as being in worse condition than any other District building, including schools. It identified the need to renovate the Board Office and replace the portables currently being utilised at the Board Office site. The Province does not provide targeted grants for projects of this nature, so these two projects are addressed through local capital funds.

This Long Term Facility Plan also identified the need to expand and / or replace four schools in the District, including the expansion of BX Elementary. These projects are incorporated into the District's capital plan. The combined cost of these projects is approximately \$50 million.

The District does not have the funds to implement these school projects or to contribute towards their implementation. Historically, projects of this nature have been entirely funded through project-specific capital grants provided by the Province.

The Province has not yet approved funding for any of the school replacement or expansion projects currently in the District's capital plan. They have requested a project definition report for the expansion of BX Elementary. This is a step in the process for funding approval and indicates they will likely provide funding for this project.

In the Spring of 2017, the Province indicated that it will expect School Districts to contribute a portion of capital project costs. No details as to expected contributions have been provided.

The District does not set aside operating funds for the replacement or expansion of schools.

Summary

Some key points identified in this document are:

Significant changes to funding may occur in the 2019/20 school year and beyond.

Over 10% of our teachers are funded through the classroom enhancement fund. This funding is tied to the collective agreement, which expires at the end of June 2019. Any changes to the collective agreement would require corresponding changes to the funding provided to the school district for the District to maintain the current class size and composition ratios.

The Provincial Government is undertaking a review of the funding formula used to calculate funding. The results of that review are expected to be announced in March 2019. This may result in substantial changes to the District's funding for the 2019/20 school year and beyond.

Funds have been set aside for certain capital projects.

The District has local capital funds set aside to fund certain capital projects, primarily to fund the Board Office capital project. \$2m of additional funds are needed to complete this project. The District expects to have sufficient funds from board-approved sources to meet its project commitments.

The District does not currently have funding for future major school replacement or expansion. The Province has requested a project definition report for the BX School Expansion, which indicates they will likely provide funding for this project.

The Province has been seeking financial contributions from School Boards to support Ministry approved capital projects.

The accumulated operating surplus is sufficient to mitigate the risk of unforeseen expenditures.

The District's contingency fund was replenished during the year. The total accumulated operating surplus is now within the recommended range sufficient to mitigate the risk of unforeseen expenditures.