

# Financial Statement Discussion and Analysis



*Year ended June 30, 2020*

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## Introduction

This is management’s discussion and analysis of the financial performance of School District 22 (Vernon) (the ‘District’) for the fiscal year ended June 30, 2020. Management prepare this analysis based on currently known facts, decisions, and conditions. Users of this document should read this 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 8,500 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 the District allocated and consumed resources during the year to June 30, 2020.

## **Management report and Independent Auditors' Report**

These two reports outline the responsibilities of management and the Auditor regarding the financial statements.

Management are responsible for the integrity and objectivity of the financial statements. The financial statements are the sum of over 100,000 individual transactions made during the year. Management are responsible for maintaining controls to ensure the District records and reports these transactions correctly.

The Auditors are responsible for gaining an understanding and performing testing to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement.

## **Composition of the Financial Statements**

The two key audited statements are:

- A **statement of financial position** (page 5), which summarises the assets and liabilities at June 30th. This provides an indication of the financial health of the District.
- A **statement of operations** (page 6), 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 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 29) illustrates the sum of the funds.

Schedule 2 (page 30) 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 35) provides detail on the **Special Purpose Funds**.

The Special Purpose Funds account for grants and contributions that the provider directs towards specific activities. As these are targeted grants, the Board accounts for any unspent funding as deferred revenue, not as accumulated surplus.

Schedule 4 (page 38) 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, 2020, the District held \$24.0 million 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 receivable

The District collects funds from various entities during the year, including the Ministry of Education, the Okanagan Indian Band, unions for the cost of replacing union leaves, international students, and various other reasons. Some amounts had not been collected by the year-end, which is normal.

Also included within other accounts receivable is \$340,676 (2019 - \$nil) related to employee extended health and dental plans. The District's contributions to these plans, in the form of premiums calculated by the benefit provider, has exceeded to the cost of providing the plan. Benefit costs were less than anticipated by the benefit provider. The District is entitled to this excess amount of premiums, adjusted to reflect employee contributions.

### Accounts payable and accrued liabilities

Accounts payable and accrued liabilities represent expenses that the District has incurred but not paid. They comprise the following amounts:

	June 30, 2019	June 30, 2020
Trade and other amounts payable	\$ 2,896,694	\$ 3,606,919
Wages payable – teachers’ 12 month instalment plan	1,249,540	1,321,451
Pension contributions payable	1,280,210	1,210,242
Payroll taxes payable	1,622,245	1,871,529
Accrued vacation pay	868,513	962,530
Other accrued liabilities	693,283	393,509
Due to Okanagan Labour Relations Council	-	268,254
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 8,610,485</b>	<b>\$ 9,634,434</b>

Notable variances from the prior year are:

- Trade and other amounts payable, which have increased due to large invoices awaiting payment for the construction activity at BX Elementary,
- An increase in accrued vacation pay driven by staff being unable to, or choosing not to, take vacation after the commencement of the pandemic,
- Other accrued liabilities, which have decreased due to a large construction related invoice being accrued in the previous year, and
- The inclusion of new account, ‘Due to Okanagan Labour Relations Council’ (OLRC). The OLRC is an organisation that assists School Districts in the Okanagan and Southern Interior with labour relations matters. During the year, the District became responsible for the administration of the OLRC’s finances. The District’s bank account holds the OLRC’s cash reserves. This liability represents the District’s liability to the OLRC for those amounts.

### Unearned revenue

The District receives payment of tuition fees for international students in advance of the student commencing their studies at the District. The financial statements recognise these fees as earned revenue when the District provides the program to the student. The unearned revenue of \$1.3 million represents international student fees received prior to June 30, 2020 for tuition in the 2020/21 school year. This is a substantial drop from the previous year’s figure of \$2.2 million, with the uncertainty created by the pandemic leading to a decline in International Student recruitment.

The District has committed to providing refunds of tuition and home stay fees to students who are unable to obtain a student visa. It is possible that much of these fees received will be refunded in 2020/21.

### Deferred revenue

Deferred revenue represents the unspent portion of grants that the provider targets, by legislation or contractual obligation, for a specific purpose.

	June 30, 2019	June 30, 2020	Commentary
Scholarships and bursaries – balances administered by the District and amounts awarded but not yet claimed	\$ 409,070	\$ <b>370,970</b>	New scholarships were set up during the year, with funds disbursed in future years.
School generated funds – amounts raised by schools for specific projects, such as class trips and PAC financial contributions	975,909	<b>1,160,262</b>	This is 45% of revenue generated during the year, and represents amounts raised in 2019/20 for activities to occur in the next school year.
Official Languages in Education Protocol ('OLEP') – funding targeted towards teaching French, primarily through French Immersion	-	<b>52,147</b>	Various professional development and cultural activities were put on hold due to the suspension of in-class instruction
Classroom enhancement funds – funding targeted towards meeting the requirements of the restored teacher collective agreement language regarding class size and composition.	306,964	<b>44,244</b>	Amounts allocated for the provision of remedies to teachers were not utilised by the end of the school year, primarily due to the pandemic. The unspent funds are allocated to schools for next school year.
First Nation Student Transportation – funding targeted towards removing education barriers related to transportation for First Nation students living on reserve.	-	<b>87,483</b>	Funding allocated for transportation assistance and transportation to / from extra-curricular activities was not utilised.
Other unspent targeted funds	24,623	<b>4,794</b>	The District spent the majority of funds held over from the previous year.
<b>Total deferred revenue</b>	<b>\$ 1,716,296</b>	<b>\$ 1,719,900</b>	

### 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 that have a lifespan of more than one year. This includes school buildings and sites, furniture, busses and most computer equipment.

Specific grants provided by the Ministry of Education fund the majority of the District's capital expenditure, such as the construction of new schools. 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 \$116,608,417 of tangible capital assets. Of this, \$88,606,616 (being the deferred capital revenue balance) of assets were purchased with targeted grants. Operating revenues and other non-targeted funding funded the remainder.

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. Note 2 to the financial statements explains this in more detail.

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 \$3,815,802 accounts for amounts or benefits earned by current employees during past service.

About 87% of this amount accounts for retirement benefits. 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 financial statements reflect the amount set aside during the year as an expense. The expense 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.

Actuaries calculate the total liability amount based on the District's number of employees, age, length of service, contract terms, and established actuarial assumptions. They also review and update these estimates every four years. The most recent review of estimates led to an increase in the estimated liability that has yet to be recognised. The actual estimated obligation is \$549,830 greater than the balance reflected on the statement of financial position. The District will recognise an additional annual expense of about \$60,000 over the next nine years to reflect this increase. Accounting standards require this accounting method.

### **Net financial debt**

This is the total of the District's financial assets and liabilities. It implies that the District has a net debt of \$80.3 million. The deferred capital revenue liability of \$88.6 million heavily skews this net debt amount. 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 \$8.3 million.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$5.4 million and local capital fund balance of \$2.0 million. 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, 2019	June 30, 2020
Operating fund	\$ 3,905,864	\$ 5,176,022
Special purpose funds	57,343	441,563
Capital fund – local capital (amounts available to spend on future capital asset purchases)	2,422,926	2,903,971
Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants)	26,512,053	28,430,798
Total accumulated surplus	\$ 32,898,186	\$ 36,952,354

Cost reductions resulting from the suspension of in-class instruction at the end of March 2020 contributed to a larger than usual operating surplus at the year-end.

This analysis discusses these surpluses in more detail later in this document.

## Statement of Operations

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

Year to	June 30, 2019	June 30, 2020	Increase
Total revenue	\$ 102,776,438	\$ 109,736,457	\$ 6,960,019
Total expense	100,069,072	105,682,289	5,613,217
Surplus for the year	\$ 2,707,366	\$ 4,054,168	\$ 1,346,802

Ministry of Education grant funding increased from 2019 by \$5.1 million. This is a consequence of increased enrolment and increased funding to offset wage and benefit increases.

The District owns a woodlot to support its forestry education program. This earned revenue of \$1.1 million during the year, about \$1.0 million more than the previous year. The woodlot is restricted to harvesting a certain amount of timber over a five-year period. The District harvested the majority of that timber allowance during the year.

Salary and benefit expenses increased from 2019 by \$4.1 million as the District implemented negotiated wage increases and allocated additional educational resources.

The District changed its accounting practice for amortization during the year. Prior to the change, amortization commenced on assets in the year after they were brought into service. For the 2019/20 fiscal year, amortization commenced in the year the District starts using an asset. For example, staff started using the renovated Board Office during the year, and started incurring an amortization expense. This change in practice led to a one-time 'catch-up' amortization expense of about \$1.6 million.

Overall, the District's revenues exceeded its expenses by \$4,054,168. Broken down by fund, this variance arises as follows (after transfers between funds):

Fund	Net changes for the year	Commentary
<b>Operating fund</b>	\$ 1,270,158	See discussion and analysis in the Operating Fund section of this document.
<b>Special purpose funds</b>	\$384,220	The District's woodlot harvested much of its five-year allowable quota of timber. This represents the profit from that harvest.
<b>Capital fund</b>	\$ 2,399,790	The capital fund balance increased by this amount during the year, indicating the District invested more in capital assets than was consumed by the aging of the District's capital assets.
<b>Total</b>	<b>\$ 4,054,168</b>	

This analysis considers the revenues, expenses and surpluses of the individual funds in more detail below.

## Operating Fund

### Overview

The following schedules in the financial statements report operating fund transactions. The schedules show columns with figures for the amended budget, year to June 30, 2020 and year to June 30, 2019.

Schedule	Page	Overview
<b>2</b>	30	Summarises the revenues and expenses of the operating fund. Also indicates the amounts spent on capital assets and transferred to the Local Capital fund.
<b>2A</b>	31	Outlines in more detail the operating revenues earned by the District.
<b>2B</b>	32	Summarises salaries by employee group and other operating costs.
<b>2C</b>	33-34	Provides the same information as in 2B, broken down in more detail to show each program the District spent funds on.

### Revenue

Schedule 2A on page 31 breaks down operating revenue by source.

91% of the District's operating revenue is from Provincial Ministry of Education ('MoE') and direct funding from the Okanagan Indian Band through a Local Education Agreement ('LEA'). The majority of this funding is based on student enrolment and certain identified special needs of those students.

The table below compares revenue earned against budget for the year ended June 30, 2020.

	Actual \$	Budget \$	Variance \$	Commentary
Provincial grants - MoE	85,058,940	83,992,938	1,066,002	The Board ratified a collective agreement with the Teachers' Union after the Board adopted the budget. This agreement allowed for a 2% wage increase for teachers. The Province provided additional labour settlement funding of \$961,275 to cover the related expense.



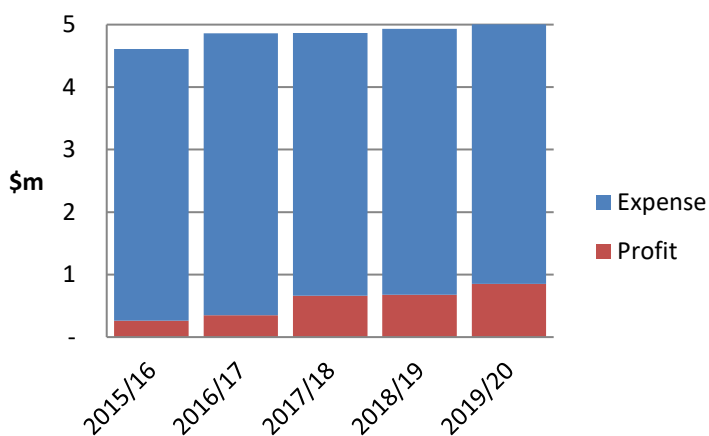
	Actual \$	Budget \$	Variance \$	Commentary
Other Government grants	336,034	317,864	18,170	These grants were reasonably consistent with budget
International fees	5,041,265	5,278,828	-237,563	The suspension of in-class instruction after Spring Break resulted in many International Students returning home. The Board refunded homestay fees for the remaining three months of the school year to those students, reducing revenue.
LEA funding from First Nations	970,380	998,994	-28,614	Variance driven by increase in the number of OKIB students living on reserve.
Fees	120,547	150,000	-29,453	Transportation services were suspended after Spring Break due to the pandemic. The Board refunded the equivalent of three months of courtesy transportation fees to families, leading to a reduction in revenue.
Other revenues	125,250	83,903	41,347	The Board received various grants during the year, which were not anticipated during the budget creation.
Investment income	302,940	250,000	52,940	The average cash balance was greater than expected during the year, earning more interest income.
<b>Total</b>	<b>91,955,356</b>	<b>91,072,527</b>	<b>882,829</b>	<b>Overall variance is about 1.0 % of budget.</b>

### 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 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*



International student enrolment has increased steadily over the past five years, and profit has increased approximately in line with that.

The Board transferred a profit of \$855,139 during the year to the local capital fund to contribute towards facility improvements.

## 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, 2020. It compares the proportion of expenditure to the average of all school districts in the Province for the year to June 30, 2019. The 2018/19 school year is the most recent year for which other District's financial information is publicly available. For comparison purposes, this analysis excludes international program expenditures.

Function	2019/20 % of total	2018/19 Prov. Av. % of total	Comments
<b>Instruction</b>	83.0%	81.9%	Expenditure on instruction is slightly greater than the previous year's Provincial average.
<b>District Administration</b>	3.7%	4.1%	Expenditure on district administration is less than the previous year's Provincial average. This indicates the District has a relatively efficient administration structure.
<b>Operations and Maintenance</b>	11.1%	12.0%	Expenditure on operations and maintenance is less than the previous year's Provincial average. This could indicate that the District has an efficient operations and maintenance structure. It may also indicate that the District is underinvesting in its maintenance programs, to the detriment of the quality of our facilities.
<b>Transportation</b>	2.7%	2.0%	This expenditure is greater than the Provincial average due to the wider geographic distribution of schools in the District and one of the lowest walk limits in the Province.
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

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

Function	2019/20 \$	Budget \$	Variance \$	Comments
<b>Instruction</b>	72,754,192	76,272,513	-3,518,321	See commentary below this table.
<b>District Administration</b>	3,072,296	3,233,250	-160,954	About \$100,000 of budgeted Union commitments (CUPE in-service fund and JEAC fund) remained unspent at June 30, 2020.
<b>Operations and Maintenance</b>	9,190,901	9,530,420	-339,519	A variety of different smaller savings in different areas of operations and maintenance created the overall variance from budget.
<b>Transportation</b>	1,820,133	2,071,481	-251,348	Transportation services stopped when in-class instruction was suspended. This led to supplies expenditure being substantially less than budget. Transportation staff continued to work supporting other tasks in the District, meaning the wage variance was small.
<b>Total</b>	<b>86,837,522</b>	<b>91,107,664</b>	<b>-4,270,142</b>	

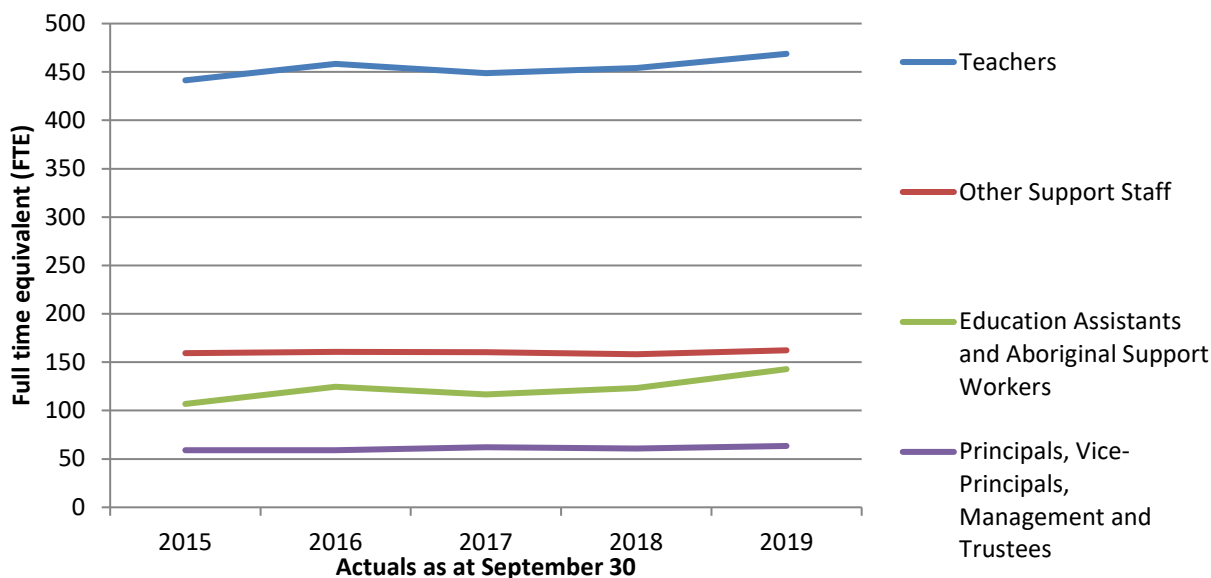
The following differences in costs against budget lead to the variance of \$3,518,321 in instruction costs:

Variance	Narrative
587,761	Educational Leave program. This is a requirement of the Teachers' collective agreement and provides partially paid leave to teachers to undertake academic training or other studies. A joint committee with representation from the Board and the Vernon Teachers' Association determines its use. The District is required to commit these unspent funds to this Educational Leave Program for use in future years.
110,000	The District did not fill the mental health liaison position until the beginning of April.
350,000	Various teaching positions (Deaf and Hard of Hearing specialist, reading intervention, speech and language pathologist, SBRTs) were vacant at points during the year. This is due to a combination of challenges in filling specialized positions, and the timing of retirements and leaves of absence.
510,000	Teacher sick and other paid leave costs were about 20% less than budget. This reflects the two out of ten months that teachers were not attending schools for to provide in-class instruction.
116,000	Support staff sick and other paid leave costs were about 35% less than budget.
1,090,000	International program costs less than budgeted. To mitigate the risk of generating lower than forecast international revenue, the Board prudently assumes the program will not generate a profit when creating the budget. A balancing expenditure amount is budgeted to reflect this. The program is run with this budget amount being held in reserve. As expected, it was not utilised during the year, creating a budget variance. In addition, homestay payments were significantly less as many international students returned home at Spring Break. This led to a reduction in revenue as well as a reduction in expenses.
716,070	School budgets but not utilised, carried forward as restricted funds to next year. The unutilised balance is greater than usual as schools cancelled many activities due to the suspension of in-class instruction.
598,224	Targeted Aboriginal Education funding not utilised. As the funding for the budget is targeted, this unspent amount is included as a liability at the year-end.
-960,000	Retroactive 2% wage increase for teachers not reflected in budget. A similar amount of revenue offsets this.
190,000	The budget for the implementation of MyEdBC included a \$200,000 contingency amount that the implementation project team did not need to spend.
250,000	Variances in benefit assumptions
-39,734	The net amount of various other variances from budget.
<b>3,518,321</b>	<b>Total</b>

### Staff

The District spends 87%, or \$72.8 million, of operating expenditure on salaries and benefits. As expected for a school district, the majority of this staff cost (about 67%) is for teacher salaries and benefits.

**Chart: Staff FTE paid for out of the operating fund**



Teacher FTE increased from 2018/19 2019/20, in line with budgeted FTE. This was due to additional classroom teachers to address increases in enrolment and the addition of various specialist positions.

The average full time teacher in the District receives compensation from the District of about \$100,000 a year, including benefits. In addition, substitute costs for sick leave coverage and other paid leaves amount to an average of about \$4,300 per full time equivalent teacher.

53.3 FTE additional teacher positions are funded through the Classroom Enhancement Fund described later. The totals and chart above do not include these positions.

The chart shows an increase from September 2018 of about 19 FTE Education Assistants (about 24 positions) accounted for in the operating fund. This is primarily to address the support needs created by an increase in special needs enrolment.

An additional 7.7 FTE (about 10 positions) EAs are funded through the Classroom Enhancement Fund, a Special Purpose Fund.

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

**Transfers to other funds**

The District purchased about \$473,862 of capital assets during the year directly from the operating fund, about \$66,000 greater than budgeted. An unexpected need for a sewer line replacement at Harwood Elementary led to this variance.

The Board transferred \$3,403,814 to the local capital fund during the year. This is broken down in detail later in the Capital Fund section of this document.

\$30,000 was transferred to the operating fund from the company that owns the woodlot utilised by the School District’s forestry trades program. This funding received is directed towards the forestry trades education program.

**Operating surplus**

The operating surplus for the year to June 30, 2020 was \$1,270,158. This is calculated on Schedule 2, on page 30 of the financial statements. This surplus increased the operating fund balance from \$3,905,864 at the beginning of the year to \$5,176,022 at June 30, 2020.

Note 9, on page 21 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 through approval of the financial statements.

The table below breaks out the individual components of the accumulated operating surplus.

	2019 \$	2020 \$	Increase / (Decrease) \$	Purpose of restriction
School budget balances	392,648	716,070	323,422	The board allocates schools budgets for supplies, training, administration costs, equipment and other non-salary school level costs. These funds are internally restricted to fund school-level projects.
Trustee travel	4,293	18,836	14,543	Board policy 1.0.9 ‘Trustee Travel’ states that ‘Trustee travel budgets not utilised in a budget year can be carried forward and accumulated for future use’. This balance represents the not utilized portion of Trustee travel budget allocations.
Department budget balances	-	87,605	87,605	Various projects at the department level were not completed by the end of the fiscal year. This balance represents the setting aside of funds to enable those projects to be completed.
Appropriated by 2020/21 budget bylaw	1,693,680	1,179,756	(513,924)	The original annual budget adopted by the Board at the May 27, 2020 board meeting appropriated \$1,179,756 to fund costs budgeted for the 2020/21 school year. The budget adjustment plan presented at the April 29 <sup>th</sup> 2020 Board meeting explains the background.
Budget allocations	-	881,416	881,416	This amount is set aside for the Board to allocate to priority areas.
Contingency reserve	1,000,000	1,000,000	-	See analysis below this table.
Union commitments	643,885	694,115	50,230	This balance is restricted to fund contractual obligations in collective agreements with

	2019 \$	2020 \$	Increase / (Decrease) \$	Purpose of restriction
				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.
Indigenous Education commitments	171,358	598,224	426,866	The District receives targeted funding from the Province to enhance the education of Indigenous students. The District is committed to spending the balance remaining in line with the terms of this funding. Challenges in recruiting qualified staff and the impact of the pandemic drive the increase in the surplus.
<b>Total</b>	<b>3,905,864</b>	<b>5,176,022</b>	<b>1,270,158</b>	

### Contingency reserve

The Board has restricted \$1 million as a contingency reserve.

The Ministry of Education's financial management working group recommend that 'the unrestricted portion of the accumulated reserve ... is expected to range from one to four percent'. The Board has not allocated the contingency reserve for future expenditure. It is analogous to the unrestricted portion of the accumulated reserve for the purposes of that recommendation.

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

The uncertainty created by the current pandemic increases the risk of unforeseen expenses or unexpected decreases in revenue. The District has already set aside surplus to offset decreases in revenue from the international program. The Provincial and Federal government have provided additional funds to offset the costs of the pandemic. Other funding sources mitigate the risk of the pandemic, and so the District has not increased the contingency reserve to address the risk.

The Districts' annual operating revenues are \$91,955,356. The contingency reserve represents 1.1% of that amount. This is at the bottom of the 1% to 4% expectation set by the Ministry of Education's financial management working group. This suggests that the Board is allocating as much funds as prudently possible for the educational opportunities of students, maintaining the contingency reserve at a low balance.

## Special Purpose Funds

### Overview

The financial statements report transactions within the special purpose funds in the following schedules:

Schedule	Page	Overview
<b>3</b>	35	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.
<b>3A</b>	36-37	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2020.

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	-	307,600	307,600	-
Scholarships and bursaries	409,070	129,520	167,620	370,970
School generated funds	975,909	2,611,162	2,426,809	1,160,262
Strong Start	-	128,632	128,632	-
Ready, Set, Learn	-	34,689	34,689	-
OLEP	22,352	170,911	141,116	52,147
CommunityLINK	-	650,683	650,683	-
Rural Education Enhancement Fund	-	475,680	475,680	-
Classroom Enhancement Fund – Overhead	-	781,455	781,455	-
Classroom Enhancement Fund – Staffing	306,694	5,111,538	5,418,232	-
Classroom Enhancement Fund – Remedies	-	199,534	155,290	44,244
First Nation Student Transportation	-	203,288	115,805	87,483
Mental Health in Schools	-	28,500	28,500	-
Changing Results for Young Children	-	9,489	9,489	-
Other grants	2,271	45,300	42,777	4,794
<b>Total</b>	<b>1,716,296</b>	<b>11,244,491</b>	<b>11,240,887</b>	<b>1,719,900</b>

### 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 contributed an additional \$178,091 from the operating fund to provide these services.

### **Rural Education Enhancement Fund**

The Province provided this grant to offset the extra costs associated with running a small rural school (Cherryville Elementary). The Province no longer provides this grant, meaning the District must cover the associated costs out of operating funds in 2020/21.

### **Classroom Enhancement Funds**

The grants from the three Classroom Enhancement Funds totalled \$6,399,221 before offsetting prior year surplus. 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:

- 45.9 FTE additional teachers needed to offset the reduction in class sizes;
- 5.1 FTE additional teachers allocated in consultation with teaching staff;
- 2.8 FTE teacher librarians needed to meet non-enrolling ratios; and
- TTOC wages to address other requirements of the restored language.

The grant received was based on initial forecasts provided to the Ministry of Education by the School District. The School District is only able to utilise these funds to meet necessary costs of the restored 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.

Certain classes exceeded the class size and composition limits outlined in the Collective Agreement. The School District is required to provide remedy, typically in the form of additional preparation time or collaboration time, to teachers of such classes. The 'Classroom Enhancement Fund – Remedies' provides grant funding to cover the associated expense.

The classroom enhancement funds, although new in the 2017/18 year, are a core part of the District's funding. They fund over 10% of the District's teachers. This funding is tied to the application of historical language restored to the collective agreement.

## **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 company generates the majority of its revenue from the sale of timber harvested from a woodlot owned by the company. Harvesting typically occurs in five-year cycles.

This year, the company harvested the majority of the allowable five-year cut, with a profit of about \$385,000. In other years, the company typically makes a loss as it incurs costs to maintain the woodlot but little revenue. The District keeps much of the profit within the company to offset future losses.

The company distributes \$30,000 to the operating fund to contribute towards the costs of the District's forestry education program

## **Capital Fund**

### **Overview**

The capital fund, including the local capital fund, accounts for assets owned by the District and the funds used or set aside 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 the District purchases an asset using operating funds, then the District treats the cost of the asset 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

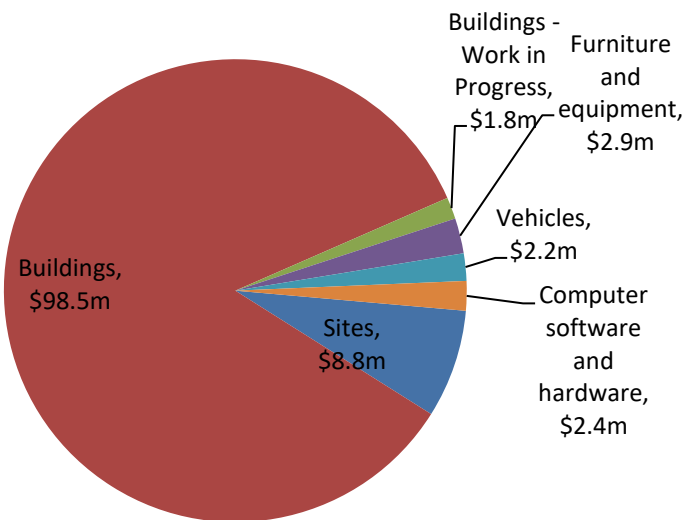
operating funds. To set aside funds to allow the future purchase of major assets, the Board may transfer funds from the operating fund to the local capital fund.

Schedule	Page	Overview
<b>4</b>	38	Summarises amortization, local capital balances, and transfers to the capital fund from other funds.
<b>4A</b>	39	Outlines <ul style="list-style-type: none"> <li>the cost of assets acquired during the year.</li> <li>the amortization of assets by asset class.</li> <li>the original cost of assets owned by the District, by asset class</li> <li>the total amortization of each asset class. This is an estimate of the value of the wear-and-tear of assets over their lifetime.</li> <li>the net book value of assets, being the cost less amortization.</li> </ul>
<b>4B</b>	40	Outlines costs to date on construction that is still in progress at June 30, 2020. The only major capital project in progress at June 30, 2020 was the BX Elementary School addition.
<b>4C</b>	41	Accounts for targeted funding spent on the acquisition of capital assets.
<b>4D</b>	42	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 \$117 million invested in its capital infrastructure.

The original cost (not current market value) of the land that the District’s schools are located on is \$8.8m.

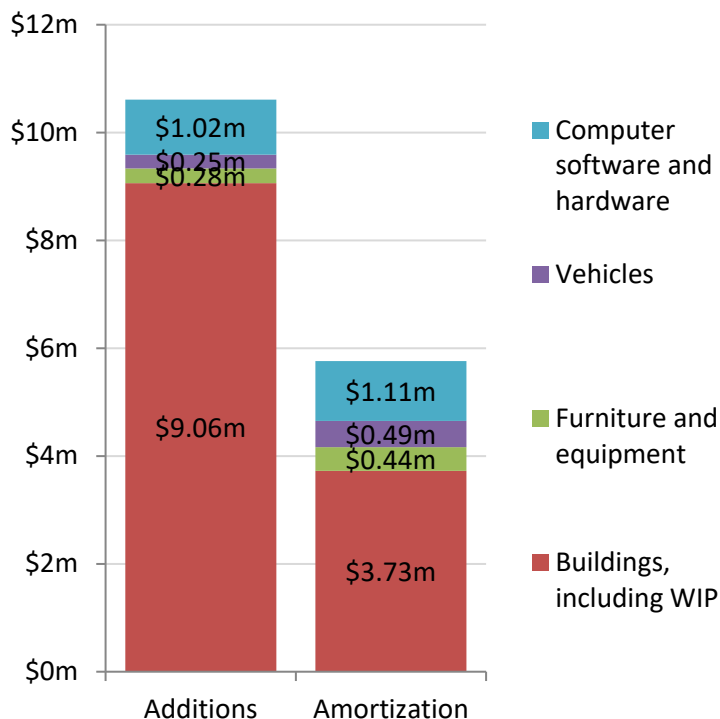
The vast majority of the District’s capital assets are the school buildings.

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 the District is replacing them, 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 that has reached the end of its life with lower-cost devices or cloud solutions.



Vehicle additions are also significantly less than amortization. The School District is making a significant investment in vehicles in the 2020/21 school year, purchasing several new school busses, including electric busses.

Investment in building infrastructure significantly outpaces amortisation. This is primarily due to two large capital projects that were underway during the year.

Work-in-progress outlined in Schedule 4b on page 40 of the financial statements illustrates these building projects that span multiple years.

The District completed the Board Office renovation and construction project during the year. \$9,653,000 was transferred from Work-in-progress (schedule 4b) to Buildings (schedule 4a) to reflect the cost of this new asset.

\$1,768,138 of buildings remain under construction at June 30, 2020, and so remain in work in progress. This primarily relates to the construction of the BX Elementary addition.

**Deferred capital revenue**

Schedule 4C accounts for grants received for capital asset purchases that the District has spent.

Schedule 4D accounts for grants received for capital asset purchases that the District has yet to spend.

Schedule 4D illustrates that the District received \$4,315,708 of grants in the year to June 30, 2020 from the Ministry of Education in the form of bylaw capital. This includes the capital portion of the annual facilities grant.

The District completed \$2.9 million of grant funded capital projects during the year. This includes the purchase of busses, geothermal field installations, HVAC upgrades, a playground and the completion of the Board Office renovation.

The \$2.9 million of bylaw capital that the District spent on completed projects 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 \$5.3 million in the year to June 30, 2020 to reflect this amortization.

Schedule 4D also shows that the District has \$428,997 of Ministry of Education Restricted Capital. This is targeted grants remaining from projects completed in previous years. It is allocated to the BX elementary expansion project.

The 'Other Provincial Capital' on schedule 4D relates to historical grants received for investment in capital equipment for trades programs. The District fully spent the carried-forward during the year.

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, 2020 is \$88.0 million, indicating the District acquired 75% of its assets using 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, the Board must strike a balance between ensuring the District has the necessary assets to function effectively, and using operational funds to provide quality education for students.

During the year to June 30, 2020, the District transferred the following balances from the operating fund to local capital:

Purpose	Amount \$	Budget \$	Commentary
<b>Technology</b>	845,000	845,000	Consistent with budget
<b>Maintenance vehicles</b>	130,000	130,000	Consistent with budget
<b>Maintenance, custodial and transportation equipment</b>	58,000	58,000	Consistent with budget
<b>School classroom improvements</b>	100,000	100,000	Consistent with budget
<b>Replacement of school shop equipment</b>	30,000	30,000	Consistent with budget
<b>Acquisition of portables</b>	660,000	660,000	Consistent with budget
<b>Purchase of electric busses</b>	300,000	300,000	Consistent with budget
<b>Creation of learning commons areas</b>	370,000	370,000	Consistent with budget
<b>Facility improvements</b>	855,139	0	Profits from the International Program are unpredictable. This makes them suited towards setting aside for capital funds. Since the International Program was established, profits have primarily been utilised to fund the updating of the School District's technology infrastructure, and the completed Board Office renovation and portable replacement project.
<b>Photocopiers</b>	55,675	0	Management expect the lifespan of the School District's fleet of photocopiers to be about 5 to 7 years. An amount is set aside every year, based on the number of copies and prints made, to fund the future replacement of these photocopiers. As this amount varies, and the budget accounts for it in schools' photocopy charge budget, the budget does not explicitly recognise this as a transfer to local capital.
<b>Total</b>	<b>3,403,814</b>	<b>2,493,000</b>	

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, 2020 are as follows:

Allocation carried forward \$	Purpose	Notes
128,460	Technology	A large order placed just after the year-end utilised most of this carry-forward amount.
67,060	Maintenance, custodial and transportation equipment	The respective departments have set aside this budget in anticipation of future purchases of equipment.
74,664	Photocopier replacement	The District purchased the current fleet of photocopiers in 2017/18 at a cost of about \$300,000. The Board sets aside funds each year in anticipation of the need to replace these assets at the end of their useful life.
97,726	School classroom improvements	The District spent about \$120,000 on providing projectors in classrooms during the year. This is an ongoing project.
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.
855,139	Facility improvements	The Board has set aside the profit generated by the International Program in 2019/20 to fund future facility improvements.
370,000	Learning commons creation	The Board allocated funding in 2019/20 to renovate school spaces, such as libraries, to create learning commons areas. The District has formed a committee to make recommendations as to how the District should best spend this funding to achieve this goal.
300,000	Electric bus acquisition	The District is acquiring two electric school busses using grant funding and local capital.
594,752	Portable acquisition	Four portable classrooms were delivered and installed this summer, utilising this funding.
16,170	School shop equipment replacement	The Board allocated \$30,000 to the replacement of school shop equipment in 2019/20, of which \$16,170 remains for the District to spend.
<b>2,903,971</b>	<b>Total</b>	

### 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 need to expand and / or replace four schools in the District, including the expansion of BX Elementary that has commenced. The District's capital plan incorporates these projects. The combined cost of these projects is approximately \$50 million.

The plan also identified the need to develop options for the District's Alternate Programs. These programs include vLearn, Open Door, ALP (housed at the Dorothy Alexander Centre), and Crossroads. It

is very unlikely that the District will obtain grant funding to acquire or construct new space, meaning local capital is the most likely source of funding should capital investment be required.

## Summary

Some key points identified in this document are:

*Cost reductions resulting from the suspension of in-class instruction at the end of March 2020 contributed to a larger than usual operating surplus at the year-end.*

As a result of this surplus, the Board has allocated over \$2 million to enhance education or maintain education services in the 2020/21 school year.

*Additional funding from the Province, Federal Government, and the District's contingency reserve mitigates the financial risk created by the pandemic.*

The Board has restricted \$1 million as a contingency reserve.

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

The uncertainty created by the current pandemic increases the risk of unforeseen expenses or unexpected decreases in revenue. The District has already set aside surplus to offset decreases in revenue from the international program. The Provincial and Federal government have provided additional funds to offset the costs of the pandemic. Other funding sources mitigate the risk of the pandemic, and so the District has not increased the contingency reserve to address the risk.

The Districts' annual operating revenues are \$91,955,356. The contingency reserve represents 1.1% of that amount. This is at the bottom of the 1% to 4% expectation set by the Ministry of Education's financial management working group. This suggests that the Board is allocating as much funds as prudently possible for the educational opportunities of students, maintaining the contingency reserve at a low balance.

*Funds have been set aside for certain capital projects.*

At June 30, 2020, the District has \$3.4 million set aside to fund identified capital projects. There is no other source of funding available for the related projects.