

Financial Statement Discussion and Analysis



Year ended June 30, 2019

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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, 2019. 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 8,500 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 resources have been allocated and consumed during the year to June 30, 2019.

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 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 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, 2019, the District held \$22.0m 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, 2018	June 30, 2019
Trade and other amounts payable	\$ 3,009,910	\$ 2,896,694
Wages payable – teachers' 12 month instalment plan	1,219,864	1,249,540
Pension contributions payable	1,297,795	1,280,210
Payroll taxes payable	1,009,240	1,622,245
Accrued vacation pay	809,951	868,513
Other accrued liabilities	323,075	693,283
Total accounts payable and accrued liabilities	\$ 7,669,835	\$ 8,610,485

Balances are broadly consistent with the previous year. Notable variances are:

- other accrued liabilities, which have increased due to a large accrued invoice related to construction activities at the District, and
- Payroll taxes payable, which have increased due to an accrual for the Employer Health Tax introduced in 2019.

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 \$2.2m represents international student fees received prior to June 30, 2019 for tuition in the 2019/20 school year.

Deferred revenue

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

	June 30, 2018	June 30, 2019	Commentary
Scholarships and bursaries – balances administered by the District and amounts awarded but not yet claimed	\$ 348,108	\$ 409,070	New scholarships were set up during the year, with funds to be disbursed in future years.
School generated funds – amounts raised by schools for specific projects, such as class trips and PAC financial contributions	782,052	975,909	This is 32% of revenue generated during the year, and represents amounts raised in 2018/19 for activities to occur in the next school year.
Classroom enhancement funds	16,623	306,964	See discussion below the table.
Other unspent targeted funds	26,881	24,623	Balance is consistent with prior year.
Total deferred revenue	\$ 1,173,304	\$ 1,716,296	

An amount remained unspent in the Classroom Enhancement fund as the District did not require as many teachers as initially funded to meet the terms of the restored collective agreement language. The District is only permitted to employ teachers utilising this funding that were actually required regardless of approved funding.

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, busses 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 \$115,699,715 of tangible capital assets. Of this, \$89,647,612 (being the deferred capital revenue balance) of assets were purchased with targeted grants. The remainder was funded through operating revenues 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 \$3,539,784 accounts for amounts or benefits owed to current employees as a result of past service.

About 87% 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.

The total liability amount is calculated by actuaries based on the District's number of employees, age, length of service, contract terms, and established actuarial assumptions. These estimates are reviewed and updated every four years. The most recent review of estimates led to an increase in the estimated liability which has yet to be recognised. The actual estimated obligation is \$479,174 greater than the balance reflected on the statement of financial position. An additional annual expense of about \$60,000 will be recognised over the next nine years to reflect this increase. This accounting method is required by accounting standards.

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 \$82.9m. This is heavily skewed by the deferred capital revenue liability of \$89.6m. 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 \$6.7m.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$3.9m and local capital fund balance of \$2.4m. 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, 2018	June 30, 2019
Operating fund	\$ 2,463,425	\$ 3,905,864
Special purpose funds	58,891	57,343
Capital fund – local capital (amounts available to spend on future capital asset purchases)	7,430,645	2,422,926
Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants)	20,237,859	26,512,053
Total accumulated surplus	\$ 30,190,820	\$ 32,898,186

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, 2018	June 30, 2019	Increase
Total revenue	\$ 99,462,808	\$ 102,776,438	\$ 3,313,630
Total expense	97,204,062	100,069,072	2,865,010
Surplus for the year	\$ 2,258,746	\$ 2,707,366	\$ 448,620

Ministry of Education grant funding increased from 2018 by \$2.8m. This is a consequence of increased enrolment and increased funding to offset wage and benefit increases.

Expenses increased from 2018 by \$2.8m as wage increases were implemented and additional educational resources were allocated.

Overall, the District's revenues exceeded its expenses by \$2,707,366. Broken down by fund, this variance arises as follows (after transfers between funds):

Fund	Surplus or deficit for the year	Commentary
Operating fund	\$1,442,439 surplus	See discussion and analysis in the Operating Fund section of this document.
Special purpose funds	\$1,548 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	\$1,266,475 surplus	The capital fund balance increased by this amount during the year, indicating more was invested in capital assets than was consumed by the aging of the District's capital assets.
Total	\$2,707,366	

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, 2019 and year to June 30, 2018 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.

Revenue

Schedule 2A on page 29 breaks down operating revenue by source.

93% 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 majority of this funding is based on student enrolment and certain identified special needs of those students.

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 next year. This may result in substantial changes to the District's funding for the 2020/21 school year and beyond.

The table below compares revenue earned against budget for the year ended June 30, 2019.

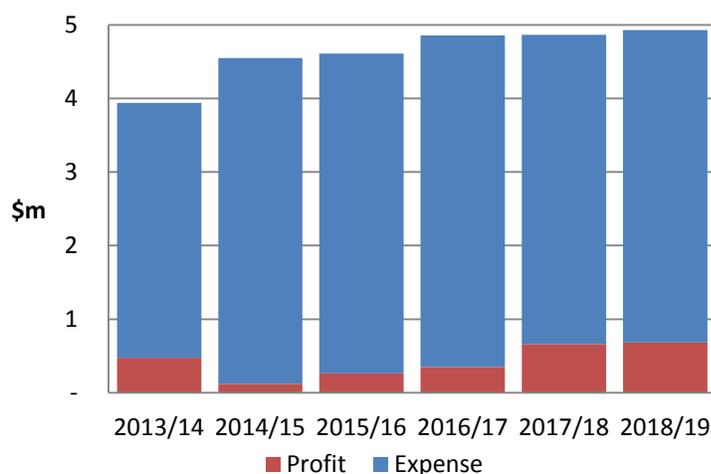
	Actual \$	Budget \$	Variance \$	Commentary
Provincial grants - MoE	80,343,450	79,843,765	499,685	\$200,000 variance due to increase in Special Needs designations with funding confirmed after budget was set. \$200,000 variance due to Employer Health Tax Grant announced after budget was set. Remaining variance driven by greater than budgeted distributed learning enrolment and various other smaller grants.
Other Provincial grants	316,874	297,864	19,010	These grants were reasonably consistent with budget
International fees	4,933,289	4,697,328	235,961	Budget assumed 199.5 FTE international students. About ten more students than budgeted were recruited.
LEA funding from First Nations	998,994	910,703	88,291	Variance driven by increase in the number of OKIB students living on reserve.
Fees	132,820	180,000	-47,180	This primarily relates to transportation courtesy fees. Less fees than budgeted were collected.
Other revenues	157,305	96,213	61,092	About \$30,000 earned through a review of PST rebate entitlements in prior years. Remainder of variance through sales of miscellaneous assets and other fundraising.
Investment income	303,473	180,000	123,473	Interest rates increased during the year, cash balance was greater than expected.
Total	87,186,205	86,205,873	980,332	Overall variance is about 1.1% of budget.

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



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

A profit of \$714,013 was transferred during the year to the local capital fund to contribute towards the Board Office portable replacement and 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, 2019. It compares the proportion of expenditure to the average of all school districts in the Province for the year to June 30, 2018. The 2017/18 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	2018/19 % of total	2017/18 Prov. Av. % of total	Comments
Instruction	82.1%	82.2%	Expenditure on instruction is consistent with the previous year’s Provincial average.
District Administration	3.7%	4.0%	Expenditure on district administration is less than the previous year’s Provincial average. This indicates the District has a relatively efficient administration structure.
Operations and Maintenance	11.7%	11.8%	Expenditure on operations and maintenance is consistent with the previous year’s Provincial average.
Transportation	2.5%	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.
Total	100.0%	100.0%	

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

Function	2018/19 \$	Budget \$	Variance \$	Comments
Instruction	69,178,492	71,132,116	-1,953,624	See commentary below this table.
District Administration	2,928,721	2,965,625	-36,904	About \$110,000 of budgeted Union commitments (CUPE in-service fund and JEAC fund) remained unspent at June 30, 2019. Offsetting that, about \$60,000 of other costs, such as the employee engagement survey and certain software licenses, were budgeted for in other functions, but the expense was appropriately recorded here.
Operations and Maintenance	9,254,752	9,583,714	-328,962	Utility costs were about \$270,000 less than budgeted, with natural gas and electricity prices being lower than expected. The charge from the Provincial Government for internet service fees was about \$65,000 less than originally stated by the Province. Two management staff positions were vacant at points during the year.
Transportation	1,974,754	2,081,227	-106,473	Expenditure on transportation related wages was greater than budgeted. This was more than offset by expenditure on supplies being more than \$100,000 less than budget.
Total	83,336,719	85,762,682	-2,425,963	

The variance of \$1,953,624 in instruction is driven by the following differences in costs against budget:

Variance	Narrative
535,332	Educational Leave program discussed below.
100,000	PVP wage and benefit variances due to the late filling of the special education VP position, and variances in average salary assumptions.
120,000	Teacher sick and other paid leave costs less than budget (5% of associated budget).
60,000	Support staff sick and other paid leave costs less than budget (18% of associated budget).
467,878	International program costs less than budgeted. To mitigate the risk of generating lower than forecast international revenue, when the budget is created it prudently assumes the program will not generate a profit. 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, other international program expenses were kept lower than budget.
392,648	School budgets but not utilised, carried forward as restricted funds to next year.
171,358	Targeted Aboriginal Education funding not utilised, carried forward as restricted next year.
300,000	Variance in estimates of support staff benefit costs, primarily education assistants. Assumptions for these benefit costs have been adjusted for the 2019/20 original budget to increase available spending by \$300,000.
-80,000	Increased EA time to address the increase in special education enrolment
-113,592	Other variances
1,953,624	Total

Schedule 2B on page 30 indicates that \$36,991,986 was spent on teacher salaries (excluding the cost of benefits) in the year to June 30, 2019. This is \$564,203 less than budget. \$535,332 of this variance is driven by the Educational Leave program not being fully utilised.

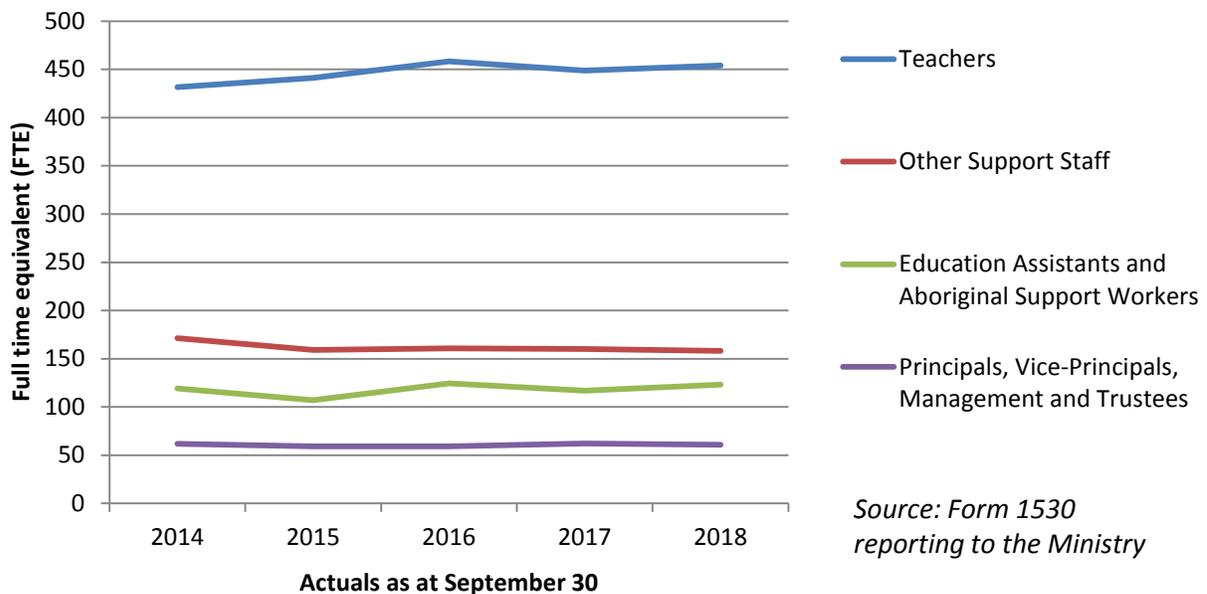
The Educational Leave program is a requirement of the collective agreement and provides partially paid leave to teachers to undertake academic training or other studies. Its use is determined by a joint committee with representation from the Board and the Vernon Teachers’ Association.

\$603,390 was budgeted to be spent on the Educational Leave program, including about \$450,000 carried forward from 2017/18. Of this budget, \$68,058 was spent, a variance of \$535,332. This variance is committed, through the collective agreement, to be spent on the program in future years.

Staff

87%, or \$72.8m, 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



Teacher FTE increased from 2017/18 to 2018/19, in line with budgeted FTE. This was due to additional classroom teachers to address increases in enrolment and the addition of literacy intervention 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 amount to an average of about \$3,600 per full time teacher.

52.5 FTE additional teacher positions are funded through the Classroom Enhancement Fund described later. These positions are not included in the above totals or the chart.

The chart shows an increase from the previous year of about 6.5 FTE Education Assistants accounted for in the operating fund. In addition, EA positions were added subsequent to September 2018 to address increased 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

\$522,789 of capital assets were purchased during the year, about \$122,000 greater than budgeted. About half the variance is driven by certain unforeseen costs on the installation of geothermal fields at Lavington Elementary and Ellison Elementary. This led to the cost of the project exceeding the capital grant funding available.

The remainder of the variance is due to planning costs incurred for phase 2 of these projects. The planning was undertaken in anticipation of funding for the second phase being approved by the Ministry of Education. The planning costs would then have been applied against that funding.

The Ministry of Education only approved funding for the second phase of one of those projects. This means there is no funding for planning costs of one of the project, and so the cost was applied in the operating fund. Management expect to be able to recover those planning costs through capital grant funding anticipated to be received in future years.

\$1,914,258 was transferred to the local capital 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 which 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, 2019 was \$1,442,439. This is calculated on Schedule 2, on page 28 of the financial statements. This surplus increased the operating fund balance from \$2,643,425 at the beginning of the year to \$3,905,864 at June 30, 2019.

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 through 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	2018 \$	2019 \$	Increase / (decrease)	Purpose of restriction
School and department budget balances	355,106	396,941	41,835	These funds are internally restricted to fund school-level projects. The increase is primarily driven by an increase in school budgets allocations.
Appropriated for next year's budget	400,000	1,693,680	1,293,680	See discussion below.
Contingency reserve	1,000,000	1,000,000	-	The appropriateness of the balance of \$1m is discussed below.
Union commitments	564,902	643,885	78,983	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	143,417	171,358	27,941	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	2,463,425	3,905,864	1,442,439	

Appropriated for next year's budget \$1,693,680

The revenue and expenditure variance tables earlier in this document outline the variances from budget which drive the \$1.3m increase in the surplus.

The 2018/19 original 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. A reduction in the contribution rate for the Teachers' Pension Plan effective January 1, 2019 meant this carried forward surplus did not need to be utilised. This change was addressed in the 2018/19 amended budget.

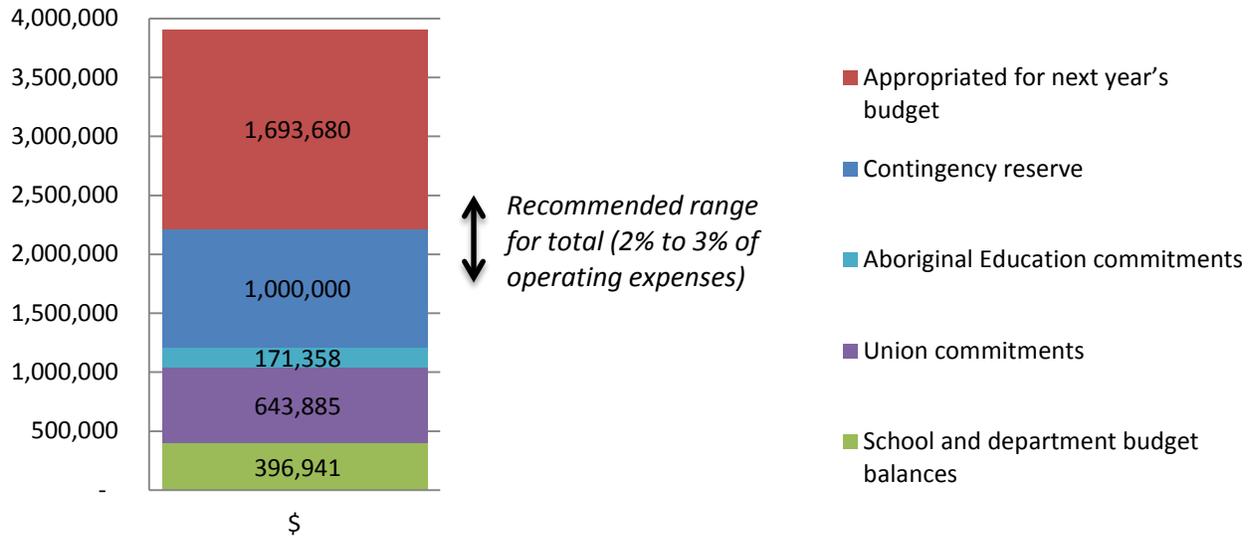
The use of this surplus in 2019/20 is outlined in a Board paper presented to the Board in the September 18, 2019 public board meeting. It is subject to approval by the Board.

Contingency reserve

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.

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.

Chart: Composition of Operating Fund surplus at June 30, 2019



The chart above demonstrates that utilising \$1.7m in the 2019/20 budget will still leave sufficient reserves to mitigate risk. It also demonstrates that, when combined with other internally restricted surpluses, the contingency reserve of \$1m is sufficient.

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	-	308,787	308,787	-
Scholarships and bursaries	348,108	188,112	127,150	409,070
School generated funds	782,052	3,090,557	2,896,700	975,909
Strong Start	-	128,000	128,000	-
Ready, Set, Learn	-	34,300	34,300	-

Fund	Surplus from previous year \$	Grants & revenue received \$	Expenses \$	Surplus at end of year \$
OLEP	-	187,404	165,052	22,352
CommunityLINK	-	651,368	651,368	-
Rural Education Enhancement Fund	-	443,320	443,320	-
Classroom Enhancement Fund – Overhead	-	783,583	783,583	-
Classroom Enhancement Fund – Staffing	48,819	5,332,085	5,074,210	306,694
Classroom Enhancement Fund – Remedies	-32,556	258,857	226,301	-
Other grants	26,881	46,414	71,024	2,271
Total	1,173,304	11,808,297	11,266,305	1,716,296

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 \$54,556 from the operating fund to provide these services.

Rural Education Enhancement Fund

This grant 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 Funds

The grants from the three Classroom Enhancement Funds totalled \$6,374,525. 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; 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. These prudently indicated one FTE more teachers would be needed to offset the reduction in class sizes than was actually required. The forecasts also indicated that substantially more TTOC time would be needed to address other requirements of the restored language than was actually necessary. The School District is only able to utilise these funds to meet necessary costs of the restored language.

These two differences led to the expenditures being \$306,694 less than the grant funding. It is expected that 2019/20 classroom enhancement fund grants will be reduced to offset this difference.

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. The collective agreement has expired at the end of June 2019, and is currently being renegotiated. Any change in the collective agreement may impact the grants provided to the School District.

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 \$1,548.

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.

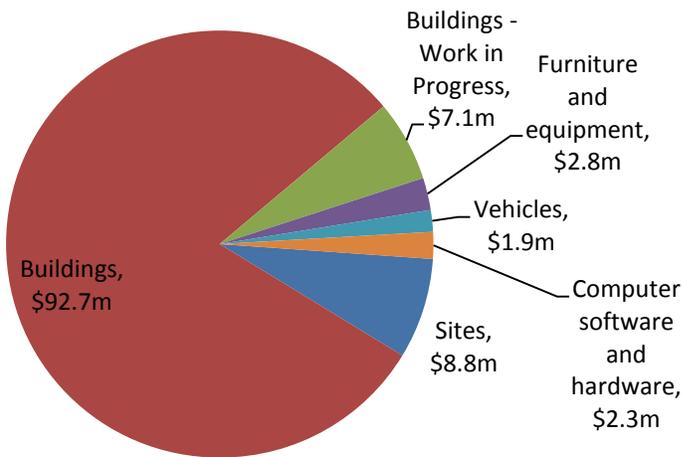
The Province does not provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, photocopiers, classroom renovations or district administration buildings. The only source of funding available for these assets is typically 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.
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.
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 \$116 million of funds 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.

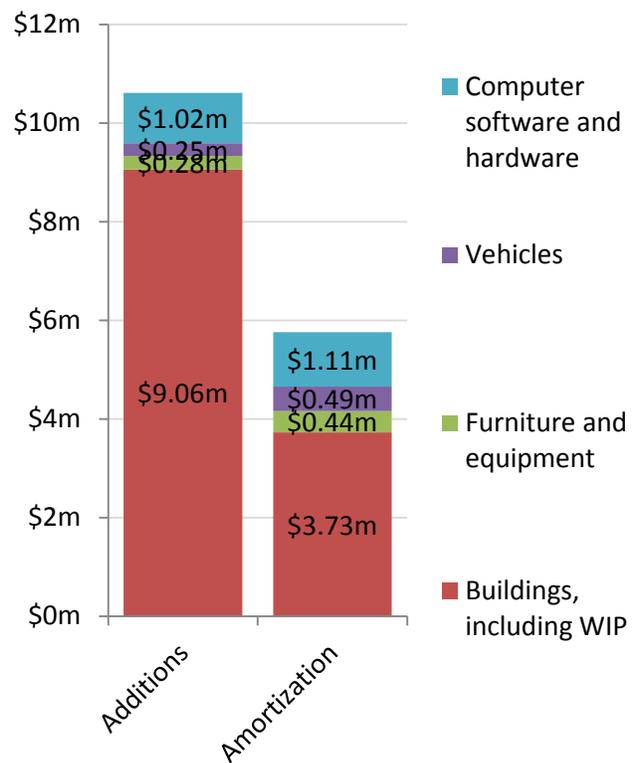
Chart: Asset additions compared to asset amortization

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 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. The School District is making a significant investment in vehicles in the 2019/20 school year, purchasing four busses.

Work-in-progress outlined in Schedule B on page 38 of the financial statements shows that \$6,149,503 was spent on buildings which remained under construction at June 30, 2019. This is primarily the construction of the district administration building which replaced the old portables.



Including this work in progress, investment in buildings significantly exceeded the amortization of buildings. The construction of the BX elementary addition in 2019/20 will mean this trend of investment in capital infrastructure continues.

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 \$2,749,103 of grants were received in the year to June 30, 2019 from the Ministry of Education in the form of bylaw capital. This includes the annual facilities grant. \$194,928 of similar grants was carried forward from the previous fiscal year. These capital grants were fully spend during the year.

\$270,852 of the annual facility grant funding was spent on the Board Office project, which remained as work-in-progress at the year-end. \$31,283 of bylaw capital was spent on the commencement of the BX Elementary expansion project, which also remained as work-in-progress at the year-end.

\$2.3m of grant funded capital projects were completed across the School District. These include a dust extractor upgrade, flooring and painting upgrades, new roofing, a school parking lot expansion, and geothermal field installations.

The \$2,341,896 of bylaw capital that was 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 \$4,048,192 in the year to June 30, 2019 to reflect this amortization.

Schedule 4D also shows that the District has \$427,195 of Ministry of Education Restricted Capital. This is targeted grants remaining from projects completed in previous years. It is now allocated to the BX elementary expansion project.

The 'Other Provincial Capital' on schedule 4D relates to unspent grants received for investment in capital equipment for trades programs. This balance was \$32,755 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 \$89.2m, indicating 77% 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.

During the year to June 30, 2019, the District transferred the following balances from the operating fund to local capital:

Purpose	Amount \$	Budget \$	Commentary
Technology	845,000	845,000	Consistent with budget
Maintenance vehicles	130,000	130,000	Consistent with budget
Maintenance, custodial and transportation equipment	58,000	58,000	Consistent with budget
School classroom improvements	100,000	100,000	Consistent with budget
Board office renovation and portable replacement	714,013	0	Through approval of the financial statements for the year ended June 30, 2019, 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'. This amount transferred represents the profit from the international program. It was not reflected in the budget as the amount was not known.
Photocopiers	67,245	0	The lifespan of the School District's fleet of photocopiers is expected to be about 5 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 is reflected in school's photocopy charge budget, it is not explicitly recognised as a transfer to local capital in the budget.
Total	1,914,258	1,133,000	

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, 2019 are as follows:

Allocation carried forward \$	Purpose	Notes
217,853	Technology	A large order received just after the year-end utilising most of this carry-forward amount.
18,448	Maintenance vehicles	Majority of budget was spent.
86,894	Maintenance, custodial and transportation equipment	This budget has been set aside by the respective departments in anticipation of future purchases of equipment.
54,192	Photocopier replacement	The current fleet of photocopiers was purchased in 2017/18 and cost about \$300,000. Funds are set aside each year in anticipation of the need to replace these assets at the end of their useful life.
117,655	School classroom improvements	The District has struggled to recruit the electricians necessary to undertake this project in its entirety. This balance is expected to be spent in the 2019/20 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.
1,527,883	Board office renovation and portable replacement	\$6,799,253 has been spent to June 30, 2019 from local capital on this project. Another \$270,852 has been spent from the annual facilities grant.
7,430,645	Total	

Total costs for the Board Office project are estimated to be \$9.5m, of which \$7.1m has already been spent, leaving about \$2.4m remaining. The available local capital balance is \$1.5m, a shortfall of \$0.9m. The District expects to have sufficient funds from the 2019/20 annual facilities grant and profit from the international program 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 Province has approved \$11m of funding for the expansion of BX Elementary. This project commenced towards the end of the 2018/19 school year.

Summary

Some key points identified in this document are:

The School District has nearly \$1.7m operating surplus carried forward and allocated to 2019/20 projects.

A variety of variances from assumptions in expenditure and revenue led to an operating surplus being available at the end of the year. Key variances are:

- \$0.4m Teacher's Pension Plan premium reduction
- \$0.2m Employer Health Tax Grant announced late in year
- \$0.2m increased funding due to increase in special needs enrolment
- \$0.3m Support Staff benefit costs being less than anticipated
- \$0.3m utility and internet costs less than anticipated
- \$0.3m other variances, primarily in wage and absenteeism assumptions

If this amount of \$1.7m is spent on projects in 2019/20, the remaining operating surplus of \$2.2m is sufficient to mitigate the risk of future unforeseen expenditures.

Significant changes to funding may occur in the 2020/21 school year and beyond.

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. The collective agreement has expired at the end of June 2019, and is currently being renegotiated. Any change in the collective agreement may impact the grants provided to the School District.

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 2020. This may result in substantial changes to the District's funding for the 2020/21 school year and beyond.

Funds have been set aside for certain capital projects.

The School District has local capital funds set aside to fund certain capital projects, primarily to fund the Board Office capital project. \$0.9m 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 School District has received grant commitments to fund the 10 classroom BX Elementary Expansion project. In addition to that grant, the School District is contributing \$400,000 generated through surpluses on historical capital projects.