



# FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the Year Ended June 30,2020

School District No.83 (North Okanagan-Shuswap)

# School District No. 83 (North Okanagan-Shuswap) Financial Statement Discussion & Analysis

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*Year ended June 30, 2020*

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## **Introduction**

The following is a discussion and analysis of the School District’s financial performance for the fiscal year ended June 30, 2020. The report is a summary of the School District’s financial activities based on currently known facts, decisions, or conditions. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. The financial statements illustrate, in financial terms, how resources have been allocated and consumed during the School District’s fiscal year ended June 30. This report should be read in conjunction with the School District’s financial statements for the same period.

## **District Overview**

In the North Okanagan-Shuswap School District (SD83), located on the Traditional Territory of the Secwepemc people, we serve just over 6400 K-12 students in 24 schools located around Shuswap Lake and the North Okanagan. The area encompasses the communities of Malakwa, Sicamous, Grindrod, Enderby, Ashton Creek, Kingfisher, Armstrong, Spallumcheen, Falkland, Rancho/Deep Creek, Silver Creek, Salmon Arm, Tappen, Sorrento, Celistia, and Seymour Arm.

School District No. 83 employs over 1,100 staff and has an annual operating, special purpose, and capital budget totaling approximately \$83.8 million.

The Board of Education of School District No. 83 is comprised of 5 elected trustees. The Board was elected in October 2018 for a four year term.

We are known for our focus on academic achievement, thriving trades and careers program, a rich fine arts program and strong school athletics program. We offer French Immersion at one elementary, one middle and one secondary school. The school district enjoys comprehensive Local Education Agreements with each of four First Nations bands. Our strategic plan prioritizes a "students first" focus on success, organizational efficiency, and a culture of health and wellness as our key goals.

## About BC School District Financial Statements

BC School District financial statements are prepared in accordance with section 23.1 of the *Budget Transparency and Accountability Act* of the Province of BC which requires that financial statements are prepared in accordance with Canadian public sector accounting standards with some exceptions as explained in note 2(a) to the financial statements. Public sector accounting emphasizes accountability, not profitability. **School District Financial Statements have a prescribed common format** and they are consolidated into the Provincial Financial Statements.

Further, **Financial Statements of BC School Districts are reported as a consolidation of three separate funds: Operating, Special Purpose and Capital.** In the financial statements, these three separated funds are reported collectively in statements 1 through 5 and separately in schedules 2 (Operating Fund), 3 (Special Purpose Funds) and 4 (Capital Fund). To gain a full understanding of statements 1 through 5, it is important to also review each of the funds separately.

## Composition of the Financial Statements

The two key 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 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 31) illustrates the sum of the funds.

Schedule 2 (page 32) 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 37) 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 40) provides detail on the **Capital Fund**.

The capital fund accounts for:

- The capital assets of the District, including sites, buildings, furniture & equipment, vehicles, computer software and computer hardware.
- 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 (All funds)

### Cash and cash equivalents

At June 30, 2020, the District held \$15.4m 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, 2019	June 30, 2020
Trade and other amounts payable	\$ 4,924,018	\$ 5,017,899
Salaries and benefits payable	845,046	1,237,968
Accrued vacation pay	704,291	445,197
Total accounts payable and accrued liabilities	\$ 6,473,355	\$ 6,701,064

## Unearned revenue

Unearned revenue represents payment of tuition fees for international students in advance of the student commencing their studies at the District for 2020, as well as payments for rental/leasing fees received on facilities in advance. These fees were recognized as earned revenue when the program was provided to the student during the year. As at June 30, 2020, \$23,900 was received in advance for the international student fees for tuition in the 2021/22 school year.

## Deferred revenue

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

	June 30, 2019	June 30, 2020	Commentary
School Generated Funds	\$1,594,604	<b>\$1,704,005</b>	Amounts raised by schools
Classroom Enhancement Funds	49,076	<b>334,133</b>	Balance increased from previous year
Other unspent targeted Funds	54,548	<b>128,717</b>	Various targeted funds
<b>Total Deferred Revenue</b>	<b>\$ 1,698,228</b>	<b>\$ 2,166,855</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 items which have a lifespan of more than one year.

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 associated with tangible capital assets are also amortized over the expected life.

After allowing for amortization, the District has \$87,737,138 of tangible capital assets. Of this, \$63,095,476 (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(a) 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 \$4,348,754 accounts for amounts or benefits owed to current employees as a result of past service.

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

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

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

## Net financial assets (debt)

This is the total of the District's financial assets and liabilities. It implies that the District has a net debt of \$59.8m. This is heavily skewed by the deferred capital revenue liability of \$63.1m. 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 \$3.3m.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$1.3m and local capital fund balance of \$1.8m. 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	\$ 548,371	\$ 1,349,398
Special purpose funds	103,937	103,937
Capital fund – local capital (amounts available to spend on future capital asset purchases)	2,028,290	1,793,495
Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants)	25,846,341	25,355,668
Total accumulated surplus	\$ 28,526,939	\$ 28,602,498

## Statement of Operations (All funds)

The surplus (deficit) for the year is the net total of the revenues and expenses of the District's various funds.

Year to	June 30, 2019	June 30, 2020	Increase (Decrease)
Total revenue	\$ 83,679,752	<b>\$ 85,756,939</b>	\$ 2,077,187
Total expense	82,766,869	<b>85,681,380</b>	2,914,511
Surplus (deficit) for the year	\$ 912,883	<b>\$ 75,559</b>	\$ (837,324)

Overall revenue increased by \$2.1m. Ministry of Education grant funding increased from 2019 by \$3.7m. This is a result of increased enrolment and increased funding to offset wage and benefit increases. Last years revenue included \$1.3m gain on sale of Tangible Capital Assets.

Expenses increased from 2019 by \$2.9m as wage increases were implemented and additional educational resources were allocated.

Overall, the District's revenues exceeded its expenses by \$75,559. Broken down by fund, this variance arises as follows (after transfers between funds):

Fund	Surplus or deficit for the year	Commentary
<b>Operating fund</b>	\$ 801,027 surplus	See discussion and analysis in the Operating Fund section of this document.
<b>Special purpose funds</b>	\$ -	Revenues match expenses for all the special purpose funds.
<b>Capital fund</b>	\$ (725,468) deficit	The capital fund balance decreased by this amount during the year, indicating less of the assets purchased were funded by deferred capital revenue, and more was consumed by the aging of the District's capital assets.
<b>Total</b>	<b>\$ 75,559 surplus</b>	

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.

Schedule	Page	Overview
<b>2</b>	32	Summarizes 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>	33	Outlines in more detail the operating revenues earned by the District.
<b>2B</b>	34	Summarizes salaries by employee group and other operating costs.
<b>2C</b>	35-36	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 33 breaks down operating revenue by source.

99% of the District's operating funding is from Provincial Ministry of Education ('MoE') and direct funding from four First Nation Bands through a Local Education Agreement ('LEA'). The majority of this funding is based on student enrolment and certain identified special needs of those students.

### Operating expenditure

Schedule 2B outlines operating expenses in relation to salaries and benefits, as well as services and supplies. Schedule 2C outlines operating expense in detail, including allocating expense by category.

The table below summarizes 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>	80.0%	81.9%	Expenditure on instruction is slightly lower than the previous year's Provincial average.
<b>District Administration</b>	3.8%	4.1%	Expenditure on district administration is slightly lower than the previous year's Provincial average.
<b>Operations and Maintenance</b>	12.2%	12.0%	Expenditure on operations and maintenance is comparable to the previous year's Provincial average despite the District's wider geographic distribution of schools and climate.
<b>Transportation</b>	4.0%	2.0%	This expenditure is greater than the Provincial average, also due to the District's wider geographic distribution of schools in the District.
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

**Staff**

90.4%, or \$64.3m of the District's operating expenditure is spent on salaries and benefits. As would be expected for a school district, the majority of this staff cost is spent on teacher salaries and benefits.

The average full-time teacher in the District receives compensation from the District of about \$99,000 a year, including benefits.

53.4 FTE additional teacher positions are funded through the Classroom Enhancement Fund (a special purpose fund) described later, comprising of 39.9 enrolling FTE ("full-time equivalent") teachers and 13.5 non-enrolling FTE teachers.

**Transfers to other funds**

\$623,525 of capital assets purchased during the year were from the operating fund and \$339,595 of capital assets purchased during the year were from the special purpose fund. In addition, \$12,500 was transferred to the local capital fund during the year. This is broken down in detail later in the Capital Fund section of this document.

**Operating surplus**

The operating surplus for the year to June 30, 2020 was \$801,027. This is calculated on Schedule 2, on page 32 of the financial statements. This surplus increased the operating fund balance from \$548,371 at the beginning of the year to \$1,349,398 at June 30, 2020.

Note 18, on pages 27-28 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	2019	2020	Increase / (decrease)	Purpose of restriction
School budget balances	\$ 175,268	\$469,182	\$293,914	These funds are internally restricted to fund school-level projects.
Career program	52,910	37,446	(15,464)	Represents Industry Training Authority funds.
Unspent Aboriginal Education targeted funds	30,500	218,249	187,749	The District receives targeted funding from the Province to enhance the education of Aboriginal students.
AED commitments	-	30,537	30,537	Automated External Defibrillators
Various outstanding projects	11,085	51,000	39,915	Various less significant items.
Contingency reserve	130,000	199,984	69,984	When setting the contingency reserve target, a balance is struck between mitigating the risk of unforeseen expenses and maximizing educational opportunities of current students.
2019/2020 Budget enhancement - Benefits	148,608	-	(148,608)	Represented increased benefit premium costs for 2019/20
Appropriated for Next Year's Budget	-	343,000	343,000	Represents funds appropriated for 2020/21 budget.
<b>Total</b>	<b>\$ 548,371</b>	<b>\$1,349,398</b>	<b>\$801,027</b>	

## Special Purpose Funds

### Overview

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

Schedule	Page	Overview
3	37	Summarizes the total revenues and expenses of all the special purpose funds. Also indicates the amounts spent on capital assets.
3A	38-39	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2020. Surplus at the end of the year for each fund is identified as Deferred Revenue, end of year.

Special Purpose Funds (Sch. 3A)	Opening Balance July 1, 2019	Receipts	Spent	Ending Balance June 30, 2020	Increase (decrease)
Annual Facility Grant	\$ -	\$ 342,430	\$ 342,430	\$ -	\$ -
Learning Improvement Fund	30,204	253,615	275,018	8,801	(21,403)
Scholarships and bursaries	10,998	9,583	4,000	16,581	5,583
School Generated Funds	1,594,604	1,934,079	1,824,678	1,704,005	109,401
Strong Start	1,150	192,948	194,098	-	(1,150)
Ready, Set, Learn	6,566	44,684	37,304	13,946	7,380
OLEP	5,630	153,222	112,556	46,296	40,666
Community LINK	-	320,270	320,270	-	-
Rural Education Enhancement Fund	-	213,353	213,353	-	-
Classroom Enhancement Fund - Overhead	-	357,469	357,469	-	-
Classroom Enhancement Fund - Staffing	49,076	5,162,209	* 5,211,285	-	(49,076)
Classroom Enhancement Fund - Remedies	-	1,184,141	850,008	334,133	334,133
First Nation Student Transportation	-	62,451	44,384	18,067	18,067
Mental Health in Schools	-	28,500	12,172	16,328	16,328
Changing Results for Young Children	-	11,234	2,536	8,698	8,698
<b>Total</b>	<b>\$1,698,228</b>	<b>\$10,270,188</b>	<b>\$9,801,561</b>	<b>\$2,166,855</b>	<b>\$468,627</b>

\* Includes Ministry Recovery of funds remaining from 2019 in the amount \$49,076

### 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 donations to the school, fundraisers, 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 with families, communities and service providers as an integrated approach to supporting vulnerable students.

## Rural Education Enhancement Fund

This grant is targeted to offset the extra costs associated with running a small rural school (Silver Creek Elementary). In previous years, these costs were accounted for in the operating fund. This special grant was removed in 2020/21.

## Classroom Enhancement Funds

The grants from the Classroom Enhancement Funds (three components) totalled \$6,703,819, net of a recovery of funds remaining from 2019 in the amount of \$49,076. These grants are intended to offset the additional costs associated with the restoration of historical collective agreement language regarding class size and composition.

Direct costs associated with required staffing levels that address class size and composition are accounted for within the 'Classroom Enhancement Fund – Staffing'. They include:

- 39.9 FTE additional enrolling teachers needed to offset the reduction in class sizes;
- 13.5 FTE additional non-enrolling teachers for additional support; and
- TTOC wages to remedy other requirements of the restored language.

Indirect costs, or overheads, associated with these required 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; and
- Additional Support Staff needed for the increased number of classes.

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.

After best efforts have been applied, 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. This funding is tied to the application of historical language restored to the collective agreement.

# 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 normally 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>	40	Summarizes amortization, invested in tangible capital asset balances, local capital balances, and transfers to the capital fund from other funds.
<b>4A</b>	41	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>4C</b>	42	Accounts for targeted funding spent on the acquisition of capital assets.
<b>4D</b>	43	Accounts for funding received which is targeted towards capital asset purchases and which has yet to be spent.

## Capital assets

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

### *Net book value (being cost less amortization) of tangible capital assets*

The District has \$87.7m of funds invested in its capital infrastructure. The vast majority of the District’s capital assets are the school buildings.

The cost of the land that the District’s schools are located on is \$5.8m.

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.

### ***Asset additions compared to asset amortization***

The amortization expense recognizes 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.

### **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 \$2,182,421 of grants were received in the year to June 30, 2020 from the Ministry of Education in the form of bylaw capital. This includes the annual facilities capital grant.

The \$2,116,516 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 \$3,328,408 in the year to June 30, 2020 to reflect this amortization.

Schedule 4D also shows that the District has \$615,165 of Ministry of Education Restricted Capital. This represents the Ministry of Education portion from previous proceeds on disposal.

The 'Other Provincial Capital' on schedule 4D relates to unspent grants received for investment in capital equipment for trades programs. This balance was \$32,938 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, 2020 is \$63.1m, indicating 72% 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 regulation 4060.01R, 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 within the year they are granted to directly provide education for students.

During the year to June 30, 2020, the District transferred \$12,500 from the operating fund to local capital to maintain a reserve for future building expenses related to a lease agreement.

Tangible capital assets purchased from local capital totalled \$284,431.

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. Local capital had a surplus remaining at June 30, 2020 of \$1,793,495, as shown on Schedule 4.

## **Contacting Management**

This financial report is designed to provide the School District's stakeholders with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Secretary Treasurer's office.