

Financial Statement Discussion and Analysis



Year ended June 30, 2022

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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, 2022. Management prepares 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 for the year ended June 30, 2022, which are available on the School District's website. This document guides the user through the various components of the financial statements and provides a supporting analysis of the financial information.

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 8,700 students. These services include an international program, a French immersion program, a Montessori program, online learning courses, an Aboriginal focus, opportunities for trades training and secondary apprenticeships, numerous sports, and specialty academies.

The District's mission is:

We inspire and nurture students to thrive in their learning, relationships, and community.

The financial statements illustrate, in financial terms, how the District allocated and consumed resources during the year to June 30, 2022.

Summary

Some key points identified in this document are:

Enrolment, staff FTE and funding increased in the year

Enrolment increased during the year, as did the number of students with funded special needs. The Ministry of Education and Childcare ('MoECC') allocates funding largely based on the number of students, so this drove an increase in funding. With more students comes more needs, and so the number of staff increased to address those needs.

The District continues to maintain a contingency reserve at the lower end of the recommended range

The Districts' contingency reserve is \$1,161,850. The Districts' annual operating revenues are \$98,503,077. The contingency reserve represents 1.2% 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. The Board is allocating as much funds as prudently possible for the educational opportunities of students, maintaining the contingency reserve at a low balance.

The District has set aside \$1.4 million of surplus to balance the 2022/23 budget

A preliminary forecast of reserves for the next three years shows a deficit at the end of 2023/24, which is not allowable under Provincial legislation. The forecast surplus appropriation which creates this deficit situation reflects about 1.5% of operating expenditures. Given this relatively small percentage, it is possible that additional unforeseen revenues and/or cost variances from forecast will remediate that situation. If so, the current level of service can be maintained over the next three-year period.

The District continues to efficiently allocate resources to maximise expenditure on instruction

Expenditure on instruction is greater than the previous year's Provincial average, indicating that the District is able to devote a greater percentage of its resources to the delivery of education.

Replacement costs for sick teachers and support staff exceeded budget by about \$700,000

Overall, sick leave costs have increased by about \$1 million from pre-pandemic levels. Changes to budget have not kept pace with that substantial increase.

Management report and Independent Auditors' Report

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

Management is 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 is responsible for maintaining controls to ensure the District records and reports these transactions correctly.

The Auditors (BDO LLP) 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.

The Auditors concluded that the 2021/22 financial statements present fairly, in all material respects, the financial position of the School District.

Composition of the Financial Statements

The two key audited statements are:

- A **statement of financial position** (page 5), which summarises the assets and liabilities on 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 the District spent that funding.

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, 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 39) 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

The statement of Financial Position is on page 5 of the financial statements.

Cash and cash equivalents

On June 30, 2022, the District held \$26 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 sources. The District had not collected some outstanding amounts by the year-end, which is normal.

The table below provides further detail as to the origin of these receivable amounts.

	June 30, 2021	June 30, 2022	
Due from MoECC	\$ 1,351,007	\$ 416,554	This relates to capital costs, ventilation fund grants and remedy related grants that had yet to be reimbursed by the MOECC. Ongoing extensive construction activity at BX Elementary led to the larger figure in 2021.
Due from other Ministries	-	901,547	This relates to costs incurred on the construction of four childcare facilities that will be reimbursed by the Ministry of Children and Family Development.
Due from Okanagan Indian Band ('OKIB')	1,107,041	950,798	OKIB pays the School District directly for the education of students who live on the OKIB reserve. This amount represents the amount yet to be paid by OKIB for the education of students in the year.

	June 30, 2021	June 30, 2022	
Employee health and dental benefits program surplus	870,467	830,067	The District's contributions to these plans during the year, 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.
Sales taxes recoverable	142,525	283,820	The District receives a partial rebate for the GST portion paid on most expenditures.
Other – miscellaneous receivables	240,625	320,371	Relates to various other costs that the School District recovers from third parties.
Total accounts receivable	\$ 3,711,665	\$ 3,703,157	

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, 2021	June 30, 2022
Trade and other amounts payable	\$ 3,931,916	\$ 2,873,351
Wages payable – teachers' 12 month instalment plan	1,389,805	1,395,146
Pension contributions payable	1,292,016	1,274,272
Payroll taxes payable	1,894,375	1,855,630
Accrued vacation pay	1,120,264	948,088
Other accrued liabilities	994,623	877,940
Due to Okanagan Labour Relations Council	316,143	347,254
Total accounts payable and accrued liabilities	\$ 10,939,142	\$ 9,571,981

Trade and other amounts payable primarily relates to service, supply and asset purchase costs incurred before the year-end that the District had not yet paid on June 30. The amount of \$2.9 million indicates an average gap between receiving the service, supply or asset and paying for it of about 1.6 months. This is reasonable given the timing of invoice issuance by the vendor and checking and processing by the School District. For example, a utility or credit card bill covering the month of May would not typically be paid until at least the middle of June.

Wages payable – teachers' 12-month instalment plan represents the total of amounts teaching staff have elected the District to withhold from their pay during the school year. The District then pays these amounts to those teachers in July.

Pension contributions payable and payroll taxes payable relate to pension contributions and tax withholdings for June payroll. The District paid these amounts to the pension plan providers and CRA in early July, in the usual manner.

Accrued vacation pay increased due to staff being unable to, or choosing not to, take vacation in the summer after the commencement of the pandemic.

Other accrued liabilities represent costs incurred during the year which have not yet been invoiced.

The Okanagan Labour Relations Council' (OLRC) is an organisation that assists School Districts in the Okanagan and Southern Interior with labour relations matters. The School District is 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 \$3.0 million represents international student fees received prior to June 30, 2022 for tuition in the 2022/23 school year. This is an increase from the previous year's figure of \$2.4 million. It reflects the growth of the International Program, with forecast enrolment for next year exceeding pre-pandemic levels.

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, 2021	June 30, 2022	Commentary
Scholarships and bursaries – balances administered by the District and amounts awarded but not yet claimed	\$ 413,737	\$ 437,718	The District set up new scholarships 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	1,191,758	1,209,233	This represents amounts raised in 2021/22 for activities to occur in the next school year. It equates to about 56% of amounts collected in the year.
Official Languages in Education Protocol ('OLEP') – funding targeted towards teaching French, primarily through French Immersion	16,998	-	Schools put in place additional supports during the school year utilising surplus funding from the previous year.
First Nation Student Transportation – funding targeted towards removing education barriers related to transportation for First Nation students living on reserve.	73,985	42,355	Funding allocated for transportation assistance and transportation to / from extra-curricular activities was not utilised partly due to Covid related restrictions on extra-curricular activities.
Early Childhood Education Dual Credit Program	-	70,743	Towards the end of the year, the MOECC provided the District with a

	June 30, 2021	June 30, 2022	Commentary
			grant targeted towards a dual credit program training students in Early Childhood Education.
Other unspent targeted funds	38,098	8,125	The District spent the majority of funds held over from the previous year.
Total deferred revenue	\$ 1,734,576	\$ 1,768,174	

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 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 MoECC 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 \$128,519,090 of tangible capital assets. Of this, \$98,236,798 (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 \$4,081,709 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.

Net debt

This is the total of the District's financial assets and liabilities. It implies that the District has a net debt of \$89.6 million. The deferred capital revenue liability of \$98.2 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 \$8.6 million.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$4.9 million and local capital fund balance of \$3.4 million. The use of these amounts is outlined below.

Accumulated surplus

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

	June 30, 2021	June 30, 2022
Operating fund	\$ 5,932,543	\$ 4,874,684
Special purpose funds	429,907	630,586
Capital fund – local capital (amounts available to spend on future capital asset purchases)	3,175,605	3,398,727
Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants)	30,741,660	30,341,365
Total accumulated surplus	\$ 40,279,715	39,245,362

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

Statement of Operations

The consolidated statement of operations on page 6 is the sum of the revenues and expenses of the District's various funds.

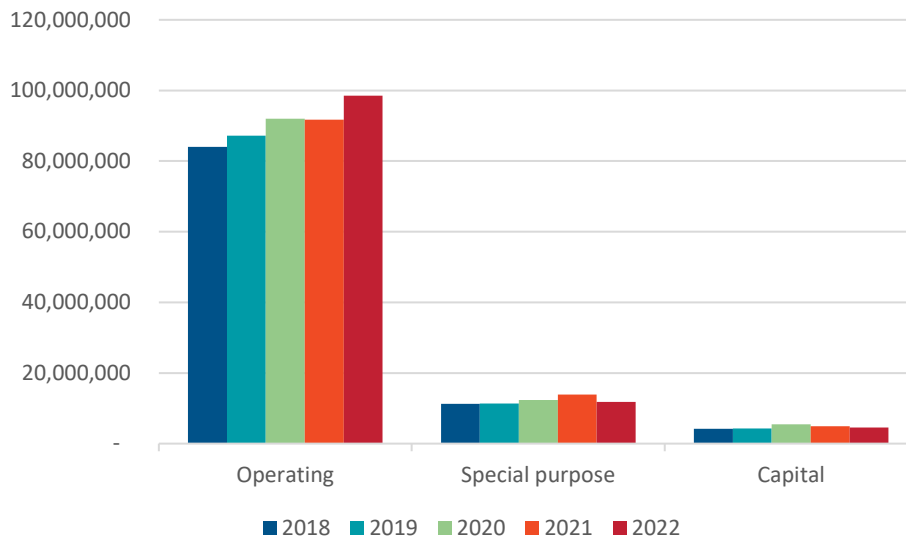
Year to	June 30, 2021	June 30, 2022
Revenue		
Operating fund (Schedule 2, page 30)	\$ 91,730,064	\$ 98,503,077
Special purpose funds (Schedule 3, page 35)	13,891,428	11,842,884
Capital fund (Schedule 4, page 39)	4,956,014	4,574,249
Total revenue (Statement of Operations)	110,577,506	114,920,210
Expenses		
Operating fund	87,769,865	\$ 98,050,813
Special purpose funds	12,602,865	11,205,561
Capital fund	6,877,415	6,698,189
Total expense	107,250,145	115,954,563

Surplus (deficit) for the year	\$ 3,327,361	\$ (1,034,353)
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Revenue has increased steadily over the previous five years.

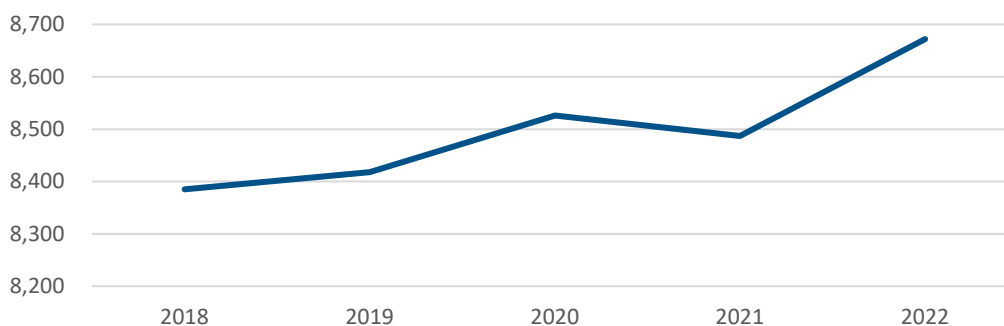
The impact of the pandemic on international tuition fee revenue and enrolment in 2020/21 caused a blip in this increasing trend for the operating fund in 2021.

Chart: Revenue by fund for past five years



Student funded enrolment has also increased steadily, with the exception of the 2021 school year, when it dipped due to the pandemic.

Chart: Enrolment (FTE) over past five years

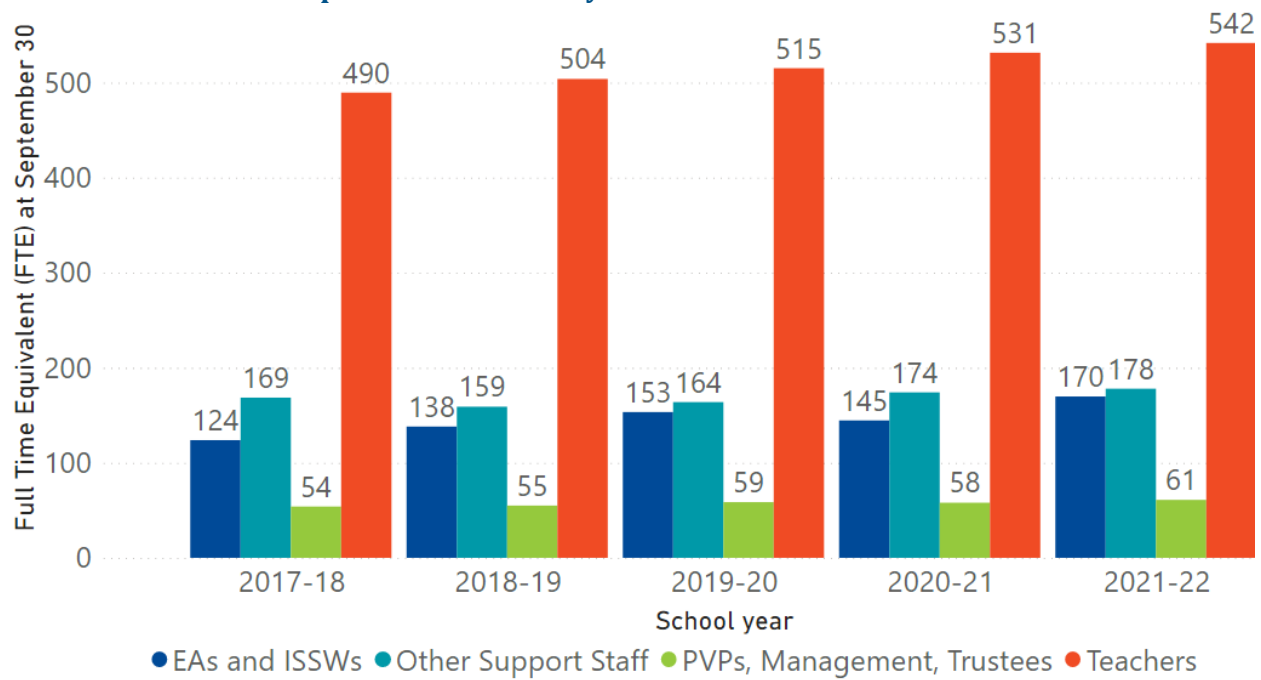


Revenue per full-time equivalent student has increased every year.

Table: Revenue per full-time equivalent student

Fund	2018	2019	2020	2021	2022
Operating	10,018	10,357	10,785	10,808	11,359
Special purpose	1,339	1,347	1,449	1,637	1,366
Capital	504	505	637	584	527
Total	11,862	12,209	12,871	13,029	13,252

The majority (81%) of the School District's total expense is on salaries and benefits (note 14, page 27 of the financial statements).

Chart: Staff FTE as at September 30 of each year.

The chart shows that teacher, EA and ISSW FTE has steadily increased from year to year. Enrolment increases and the creation of additional roles to support students create this increase.

Other support staff comprise bus drivers, maintenance staff, custodians, school secretaries, clerical staff, and noon hour and bus supervisors. FTE increased in 2020-21 and 2021-22 as the District hired additional enhanced cleaners and bus drivers to support the additional services required by the pandemic.

Many positions are part-time, so the actual number of staff (headcount) is significantly greater than the FTE indicated by the chart.

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, 2022 and year to June 30, 2021.

Schedule	Page	Overview
2	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.
2A	31	Outlines in more detail the operating revenues earned by the District.
2B	32	Summarises salaries by employee group and other operating costs.
2C	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.

94% of the District's operating revenue is from the MoECC and direct funding from the Okanagan Indian Band through a Local Education Agreement ('LEA').

The MoECC provides the majority (\$91.8 million) of this funding using a funding formula. The primary inputs into this formula are student enrolment and demographics, and the geographic circumstances of the School District. The composition of the School District's allocation of \$91.8 million is available on the MoECC website:

<https://www2.gov.bc.ca/assets/gov/education/administration/resource-management/k12funding/21-22/21-22-sd22-june-2022.pdf>

The table below compares revenue earned against budget for the year ended June 30, 2022.

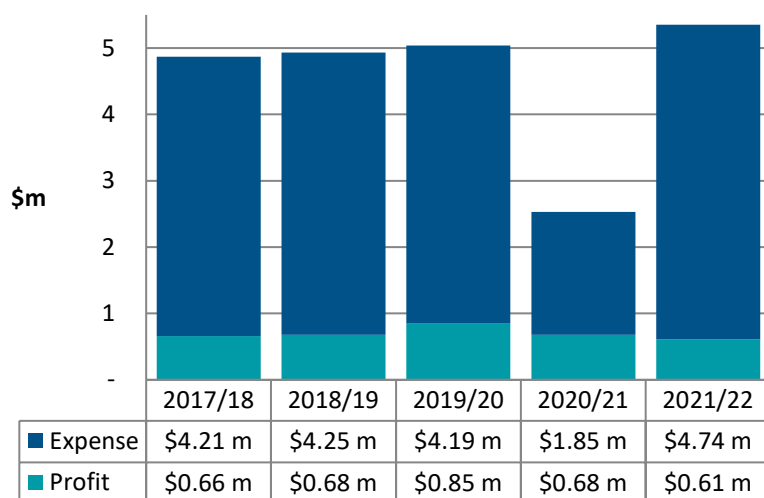
	Actual \$	Budget \$	Variance \$	Commentary
Provincial grants - MOECC	91,283,867	90,611,938	671,929	The number of students with special needs was greater than management anticipated when preparing the amended budget. This additional enrolment resulted in more grant revenue. The District created additional education assistant positions to support these students.
Other Government grants	337,450	317,864	19,586	These grants were reasonably consistent with budget.
International fees	5,353,188	5,160,000	193,188	Management prepared the amended budget prudently, based on known international student enrolment. Actual enrolment in the latter half of the year exceeded these expectations.

	Actual \$	Budget \$	Variance \$	Commentary
LEA funding from First Nations	950,798	1,107,042	-156,244	A decrease in the number of OKIB students living on reserve drives this variance.
Fees	358,651	290,000	68,651	This primarily represents fees charged to families for transportation to and from school. The Board increased fees for the 2021/22 school year, and changed policy to increase the number of students eligible for transportation. The change in fees exceeded the forecast amended budget amount, however, the cost of providing transportation also exceeded budget.
Other revenues	32,321	47,803	-15,482	The Board received various grants and revenues during the year.
Rentals and leases	12,443	6,000	6,443	The Board rents certain facilities, such as school gyms, for community and commercial use by third parties. In a typical year, the Board generates about \$50,000 in revenue for these rentals. The board did not typically rent to third parties in the first half of the year due to the pandemic.
Investment income	174,359	200,000	-25,641	Interest rates were lower, on average, than expected.
Total	98,503,077	97,740,647	762,430	

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

This chart illustrates the increasing fee revenue as the international student program has continued to grow. The pandemic in the 2020/21 school year caused a blip in the trend.

Profits have not grown in line with increased revenue. This is due to increasing costs, such as increasing staff wages and homestay payments, with no matching increase in fees charged.

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, 2022. It compares the proportion of expenditure to the average of all school districts in the province for the year to June 30, 2021. The 2020/21 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	2021/22 % of total	2020/21 Prov. Av. % of total	Comments
Instruction	83.7%	82.5%	Expenditure on instruction is greater than the previous year's Provincial average, indicating that the District is able to devote a greater percentage of its resources to the delivery of education.
District Administration	4.2%	4.2%	Expenditure on district administration is consistent with the previous year's provincial average.
Operations and Maintenance	9.8%	11.4%	Expenditure on operations and maintenance is less than the previous year's provincial average. The District utilises its own operations staff to perform functions that many other school districts contract third parties to provide. This typically results in better quality control and lower costs.
Transportation	2.3%	1.9%	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	2021/22 \$	Budget \$	Variance \$	Comments
Instruction	82,727,207	85,207,866	-2,480,659	See commentary below this table.
District Administration	3,817,983	3,500,459	317,524	The variance is driven by severance amounts required by Provincial legislation.
Operations and Maintenance	9,103,230	9,555,969	-452,739	Management diverted some maintenance resources to capital projects during the year. This reclassifies the associated expense as a capital asset purchase, with costs offset by capital grants.
Transportation	2,402,393	2,133,997	268,396	About \$60,000 of this variance relates to extra-curricular trips which are covered by school budgets. The remaining variance is driven by the impact of inflation on fuel and supplies.
Total	98,050,813	100,398,291	-2,347,478	

The following differences in costs against budget lead to the variance of \$2.3 million in instruction costs:

Variance \$	Narrative
-724,000	Variances in budgets allocated to meet Union commitments, including \$655,000 for the 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.
-400,000	International program costs less than budgeted due to prudent budgeting and travel restrictions meaning less recruitment related travel.
-721,000	School budgets not utilised, carried forward as restricted funds to next year.
-785,000	Targeted Aboriginal Education funding not utilised, carried forward as restricted funds to next year.
700,000	Additional costs incurred related to sick leave. Overall, sick leave costs have increased by about \$1 million from pre-pandemic levels. Changes to budget have not kept pace with that substantial increase.
-417,478	The net amount of various other variances from budget, primarily comprising variances from forecast average costs for teacher salary and benefits.
2,347,478	Total

Staff

The District spent 88%, or \$86.7 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.

Funding criteria means the district distributes staff costs among the operating fund and the special purpose funds. The classroom enhancement fund, for example, covers the salary and benefit cost of over ten percent of the District's teachers. Total staff levels across the funds are considered earlier in this document.

Transfers to other funds

The District purchased about \$330,860 of capital assets during the year directly from the operating fund, about \$261,103 less than budgeted.

The Board transferred \$1,209,263 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. The District directs this funding towards the forestry trades education program.

Operating surplus

Operating surplus restrictions

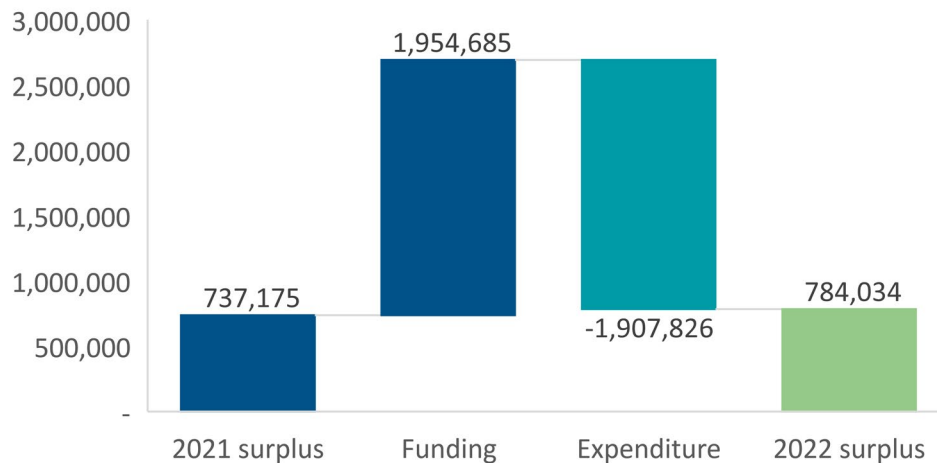
The operating deficit for the year to June 30, 2022 was \$1,057,859. Schedule 2 on page 30 of the financial statements shows the calculation of this amount. This deficit the operating fund balance from \$5,932,543 at the beginning of the year to \$4,874,684 at June 30, 2022.

Note 10, on page 22 of the financial statements, outlines the restrictions on the use of the accumulated surplus. The funds are restricted at the Board's discretion.

	June 30, 2021	June 30, 2022
Indigenous Education commitments	\$ 737,157	784,034
Union commitments	857,857	771,264
School budget balances	746,240	723,836
Trustee travel	18,074	30,286
Department budget balances	47,271	38,119
Appropriated by budget bylaw and budget allocations	2,063,887	1,365,295
Address learning impacts of pandemic	277,780	-
Contingency reserve	1,185,276	1,161,850
Total operating surplus	5,932,543	4,874,684

Indigenous Education commitments

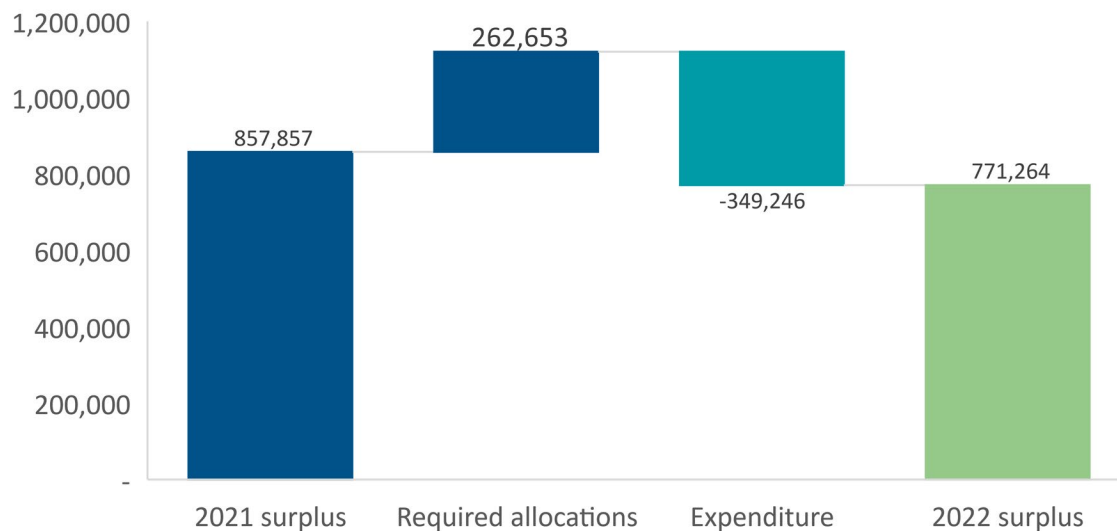
The board receives funding from the MOECC which Provincial policy states the District must spend on the provision of Indigenous education programs and services.



This chart illustrates the revenues and expenditures for the year in comparison to funding remaining at the year-end. This year, the District spent the majority of the funding received in the year. An amount equivalent to 40% of the annual funding remains available at the year-end to spend in future years.

Union commitments

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.



\$653,693 (85%) of this surplus relates to the teachers' educational leave fund.

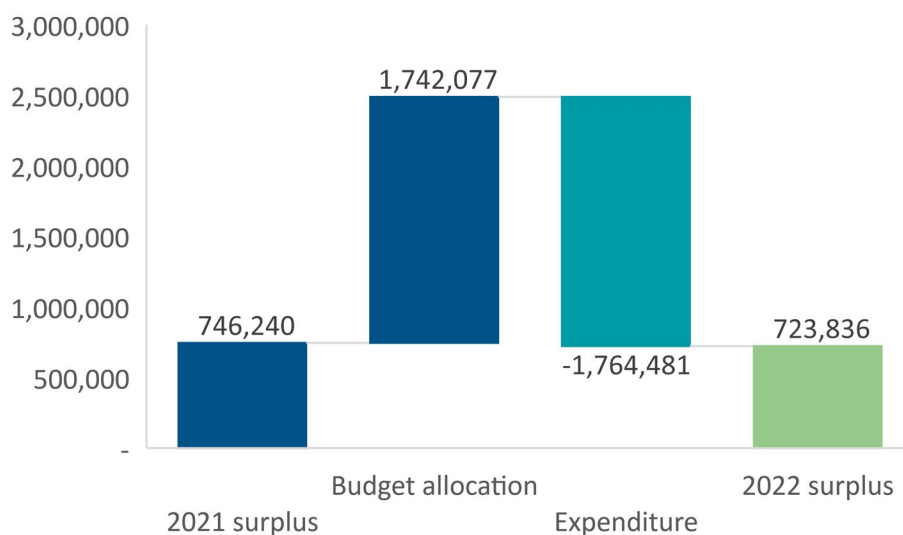
School budget balances

The District allocates schools a budget to cover the costs that a school Principal has discretion over. This includes classroom supplies, repair, replacement or acquisition of minor equipment, consumables, discretionary time for school staff and many other discretionary costs.

The budget allocation to schools primarily comprises a base amount per school and a per-student amount.

The district has a practice of carrying forward unspent amounts to the following year, facilitating the Principal's year-to-year management of the school budget.

The chart below shows budget allocations in comparison to surplus and annual expenditure.



Annual expenditure approximated the annual budget allocation. The surplus at the beginning of the year was present at the end of the year. The closing surplus equates to 41% of annual expenditure.

In addition to this surplus, about \$1.2 million of deferred revenue remains for school generated funds noted in the Financial Position section earlier in this document.

Appropriated by budget bylaw

The board carried forward \$ 1,365,295 of funds from the prior year for allocation in the 2022/23 school year. Utilising reserves to balance the budget on an ongoing basis is not sustainable.

The following table is a three year projection of surplus and deficit. Key assumptions used to prepare this are:

- Additional revenue is generated only from increases in enrolment;
- Any additional revenue achieved by an increase in per pupil funding from the Province is offset by the cost of wage increases negotiated for unionized staff;
- Cost increases reflect only
 - the additional staff typically allocated for the associated forecast increase in enrolment; and
 - wage increases for non-unionized staff

The table shows a deficit at the end of 2023/24, which is not allowable under Provincial legislation. The forecast surplus appropriation which creates this deficit situation reflects about 1.5% of operating

expenditures. Given this relatively small percentage, it is possible that additional unforeseen revenues and/or cost variances from forecast will remediate that situation. If so, the current level of service can be maintained over the next three year period.

Year	2022/23	2023/24	2024/23
Revenues	99,736,910	99,886,725	100,269,745
Expenses	99,535,095	99,805,447	100,229,653
Net transfers to other funds	1,567,110	1,567,110	1,567,110
Surplus appropriation required	1,365,295	1,485,832	1,500,018
Available reserves / deficit at beginning of year	2,527,145	1,161,850	-323,982
Available reserves / deficit at end of year	1,161,850	-323,982	-1,824,000

Contingency reserve

The Board has restricted \$1,161,850 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 Districts' annual operating revenues are \$98,503,077. The contingency reserve represents 1.2% 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. 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
3	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.
3A	36-38	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2022.

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	-	348,991	348,991	-
Learning Improvement	-	311,490	311,490	-
Scholarships and bursaries	413,737	179,188	155,207	437,718
School generated funds	1,191,758	2,193,519	2,176,044	1,209,233
Strong Start	-	128,000	128,000	-
Ready, Set, Learn	-	34,300	34,300	-
OLEP	16,998	162,717	179,715	-
CommunityLINK	-	646,292	646,292	-
Classroom Enhancement Fund – Overhead	-	696,607	696,607	-
Classroom Enhancement Fund – Staffing	-	5,821,175	5,821,175	-
Classroom Enhancement Fund – Remedies	-	210,540	210,540	-
First Nation Student Transportation	73,985	61,807	93,437	42,355
Mental Health in Schools	-	122,845	122,845	-
Changing Results for Young Children	-	6,000	6,000	-
Health and Safety	-	216,486	216,486	-
Ventilation	-	150,368	150,368	-
Seamless Day Kindergarten	-	50,000	48,370	1,630
Early Childhood Education Dual Credit Program	-	71,000	257	70,743
Other grants	38,098	53,038	84,641	6,495
Total	1,734,576	11,464,363	11,430,765	1,768,174

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. The schools target these funds for the purpose that the fee payers or donors intended.

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 \$455,900 from the operating fund to provide these services.

Classroom Enhancement Funds

The grants from the three Classroom Enhancement Funds totalled \$6,728,322. The MOECC provides these grants 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:

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

The MOECC calculates the grant based on initial forecasts provided to the MOECC by the School District. The School District is only able to utilise these funds to meet necessary costs of the restored language.

Schedule 3A accounts for indirect costs, or overheads, associated with these changes within the 'Classroom Enhancement Fund – Overhead'. They include:

- TTOC coverage for sick and other leaves for the additional 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. Large scale harvesting typically occurs once every five years due to regulatory requirements. 2021/22 was one of those years, with harvesting performed early in the five year cycle to mitigate the threat posed by an infestation of fir beetle. This harvesting resulted in revenues of over \$400,000. Silviculture expenditure related to planning for future harvests and the reforestation of previously logged areas continued to occur.

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 to purchase them or set aside to acquire them in the future.

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.

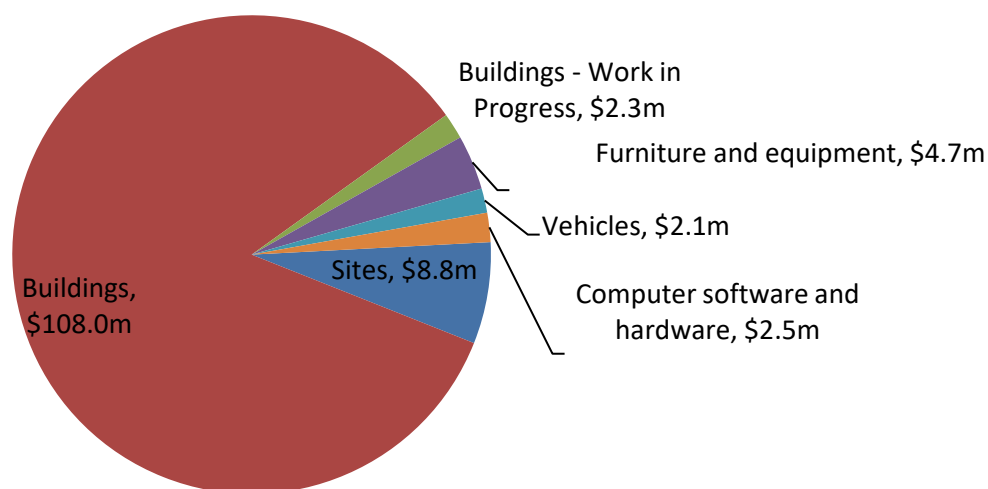
Schedule	Page	Overview
4	39	Summarises amortization, local capital balances, and transfers to the capital fund from other funds.
4A	40	Outlines <ul style="list-style-type: none"> the cost of assets acquired during the year. the amortization of assets by asset class. the original cost of assets owned 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	41	Outlines costs to date on construction that is still in progress on June 30, 2020. The only major capital project in progress on June 30, 2020 was the BX Elementary School addition.
4C	42	Accounts for targeted funding spent on the acquisition of capital assets.
4D	43	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 \$126 million invested in its capital infrastructure.

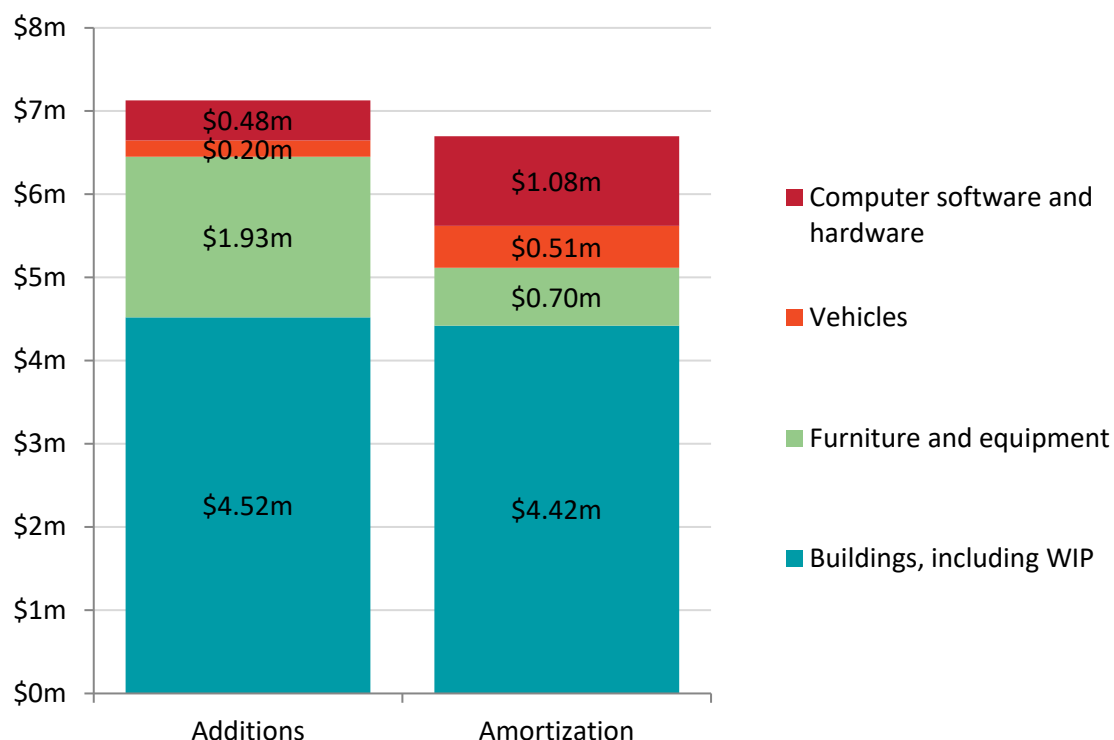
The original cost (not current market value) of the land that the District's schools are located on is \$8.8m.

The school buildings comprise the vast majority of the District's capital assets.

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.

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 chart below shows that additions were larger than amortization. This indicates that a healthy level of capital replacement occurred during the year.

Chart: Asset additions compared to asset amortization

Vehicle purchases include the acquisition of electric busses during the year.

The chart excludes the construction of new child care facilities at four elementary schools. These facilities are not yet complete.

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 was entitled to receive \$.4 million of grants in the year to June 30, 2022 from the Ministry of Education in the form of bylaw capital. This includes the capital portion of the annual facilities grant.

The District completed \$5.4 million of grant funded capital projects during the year. This includes the purchase of busses, HVAC upgrades, a playground, and the completion of the BX elementary addition.

The \$5.4 million of bylaw capital that the District spent on completed projects is 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 reduced by \$4.5 million in the year to June 30, 2022 to reflect this amortization.

The 'Other Provincial Capital' on schedule 4D relates to funding received from the Provincial Government to construct early childhood education centres at four elementary schools in the District. These construction projects remain a work in progress and are forecast for completion in the 2022/23 school 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, 2022 is \$98.2 million (Schedule 4C). As the net book value of capital assets is \$128.5 million (schedule 4A), this indicates the District acquired 76% 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.

To facilitate year-to-year capital planning, local capital budgets that the District has not spent at the year-end are carried forward to the following year.

The table below discusses the transfers to local capital made during the year, and the utilisation of the local capital amounts.

Table: Local Capital analysis

Purpose	Opening balance	Transferred in	Assets purchased	Remaining amount	Notes
Technology	-415,623	845,000	349,014	80,363	There are currently significant supply chain obstacles for acquiring information technology equipment. The School District is currently undergoing a major refresh of devices. The opportunity arose to acquire a large number of devices prior to the year-end that the District will deploy in the 2021/22 school year. IT management took this opportunity to purchase the devices, incurring a deficit but ensuring they had devices on hand to deploy. The budgeted transfer to local capital for the 2021/22 school year will eliminate this deficit.
Maintenance, custodial and transportation equipment and vehicles	171,951	188,000	68,515	291,436	The District transfers \$188,000 a year to local capital for acquisition of this equipment and vehicles. The respective departments have set aside this amount in anticipation of future purchases of equipment or vehicles. A relatively large balance remains in local capital to facilitate the anticipated purchase in 2022/23 of a new large delivery truck to replace the aging vehicle currently used.
Photocopier replacement	121,900	46,263	-	168,163	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. 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.
School classroom improvements	14,493	100,000	136,021	-21,528	The District spent about \$136,000 on providing projectors in classrooms during the year. This slightly exceeded the available budget. This is an ongoing project, with an annual budget allocation of \$100,000.
Finance enterprise resource planning ('ERP') software	331,336	-	28,638	302,698	The District deployed the Finance module element of the replacement ERP software in April of 2021. The District will

Purpose	Opening balance	Transferred in	Assets purchased	Remaining amount	Notes
					deploy the HR and Payroll module in 2022/23, utilising the remainder of this budget.
Electric bus acquisition	534,135	-	-	534,135	The Board has allocated funding to local capital to facilitate the future acquisition of electric busses. The District did not receive delivery of busses during the year due to delays in supply, and will use this funding to pay for the electric busses being delivered in early 2022/23.
Facility improvements	1,940,493	-750,000	-	1,190,493	The Board set aside amounts in previous school years to fund future facility improvements. In 2021/22, the board approved using \$750,000 of these funds to acquire and install three new portables to accommodate growing enrolment. This was transferred to the portable acquisition allocation below.
Beairsto Outdoor Learning Area	30,921	-	30,921	-	The project was successfully completed during the year,
Learning commons creation	370,000	-	26,769	343,231	The Board allocated funding in 2019/20 to renovate school spaces, such as libraries, to create learning commons areas. A District committee made recommendations as to how the District should best spend this funding to achieve this goal. This funding will be utilised over the next four years, as the District makes improvements to school facilities consistent with the recommendations of the committee.
Portable acquisition	53,296	750,000	310,936	492,360	This relates to the purchase of the three portables recently installed at Alexis Park (one) and Seaton (two). Part of the associated expenditure was incurred during 2021/22, with the remainder incurred over the summer of 2022 when the portables were delivered and set up.
School shop equipment replacement	22,705	30,000	35,327	17,376	The Board allocated \$30,000 a year to the replacement of school shop equipment.
Total	3,175,607	1,209,263	986,141	3,398,727	Agrees to schedule 4, page 39 of the financial statements