

Financial Statement Discussion and Analysis



Year ended June 30, 2023

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Introduction

This is management's discussion and analysis of the financial performance of the Board of Education of School District 22 (Vernon) (the 'Board') for the fiscal year ended June 30, 2023. Management prepares this analysis based on currently known facts, decisions, and conditions.

Users of this document should read this in conjunction with the Board's consolidated financial statements for the year ended June 30, 2023, 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 Board serves the communities of Vernon, Coldstream, Lavington, Lumby, and Cherryville. The Board provides educational services to approximately 9,000 students. These services include an international program, a French immersion program, a Montessori program, online learning courses, an Indigenous focus, opportunities for trades training and secondary apprenticeships, numerous sports, and specialty academies.

The Board'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 Board allocated and consumed resources during the year to June 30, 2023.

Summary

Key points identified in this report 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 ('MECC') 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 Board 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 Board can devote a greater percentage of its resources to the delivery of education.

Revenues and expenses exceeded budget.

Operating revenue exceeded budget by \$1.31 million. Operating expenses and inter-fund transfers exceeded budget by \$0.96 million, primarily driven by unexpected increases in employee benefit costs. This net positive variance resulted in about \$350,000 more in reserves at the end of the year than budgeted.

The contingency reserve at the end of the year of \$1,672,101 is over \$500,000 more than at the end of the previous year, and about \$260,000 more than forecast in the 2023 amended budget. Although expenses generally exceeded budget, so did revenues, leading to a positive gain.

Changes to assumptions and service levels are needed to achieve a desired contingency reserve.

At current service levels, and with current assumptions, future contingency reserves will fall below target amounts. The budget setting process for the upcoming school years will consider changes to assumptions and service levels to achieve the desired targeted reserves amount.

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 Board 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 are free from material misstatement.

The Auditors concluded that the 2022/23 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 Board.
- 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 Board and how the Board 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 Board's finances.

The Board 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 and Child Care ('MECC'). 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 28) illustrates the sum of the funds.

Schedule 2 (page 29) provides detail on the **Operating Fund**.

The Operating Fund accounts for the Board's operating grants and other operating revenues. Legislation requires that the Board 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 34) provides detail on the **Special Purpose Funds**.

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

Schedule 4 (page 38) provides detail on the **Capital Fund**. The capital fund accounts for:

- The capital assets of the Board, 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, 2023, the Board held \$23.8 million in cash. This is deposited in financial institutions and the Province's central deposit system. This cash balance offsets the liabilities of the Board and unspent funds restricted for use on specific projects.

Accounts receivable

The Board collects funds from various entities during the year, including the MECC, the Okanagan Indian Band, unions for the cost of replacing union leaves, international students, and various other sources. The Board 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, 2022	June 30, 2023	
Due from MECC	\$ 416,554	\$ 752,024	This relates to capital grants that had yet to be reimbursed by the MECC.
Due from other Ministries	901,547	-	In 2022, this related to costs incurred on the construction of four childcare facilities that were reimbursed by the Ministry of Children and Family Development.
Due from Okanagan Indian Band ('OKIB')	950,798	145,287	OKIB pays the School District directly for the education of students who live on the OKIB reserve. This amount represents the amount yet

	June 30, 2022	June 30, 2023	
			to be paid by OKIB for the education of students in the year.
Employee health and dental benefits program surplus	830,067	977,284	The Board'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 Board is entitled to this excess amount of premiums, adjusted to reflect employee contributions.
Sales taxes recoverable	283,820	268,487	The Board receives a partial rebate for the GST portion paid on most expenditures.
Other – miscellaneous receivables	320,371	109,894	Relates to various other costs that the School District recovers from third parties.
Total accounts receivable	\$ 3,703,157	\$ 2,22,976	

Accounts payable and accrued liabilities

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

	June 30, 2022	June 30, 2023
Trade and other amounts payable	\$ 2,873,351	\$ 3,141,786
Wages payable – teachers' 12 month instalment plan	1,395,146	1,416,013
Pension contributions payable	1,274,272	1,479,163
Payroll taxes payable	1,855,630	2,217,170
Accrued vacation pay	948,088	1,015,200
Other accrued liabilities	877,940	568,127
Due to Okanagan Labour Relations Council	347,254	291,947
Total accounts payable and accrued liabilities	\$ 9,571,981	\$ 10,129,406

Trade and other amounts payable primarily relates to service, supply and asset purchase costs incurred before the year-end that the Board had not yet paid on June 30. The amount of \$3.1 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 Board to withhold from their pay during the school year. The Board 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 Board paid these amounts to the pension plan providers and CRA in early July, in the usual manner.

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 Board's bank account holds the OLRC's cash reserves. This liability represents the Board's liability to the OLRC for those amounts.

Unearned revenue

The Board receives payment of tuition fees for international students in advance of the student commencing their studies at the School District. The financial statements recognise these fees as earned revenue when the Board provides the program to the student. The unearned revenue of \$2.6 million represents international student fees received prior to June 30, 2023, for tuition in the 2023/24 school year.

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, 2022	June 30, 2023	Commentary
Scholarships and bursaries – balances administered by the Board and amounts awarded but not yet claimed	\$ 437,718	472,448	The Board 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 contributions	1,209,233	1,334,193	This represents amounts raised in 2022/23 for activities to occur in the next school year, about 45% of amounts collected in the year.
Integrated Inquiry Project – an MECC grant for the Board to pilot Early Learning and Child Care initiatives.	-	866,352	MECC announced and provided a grant of \$880,000 in March of 2023. The Board has budgeted to spend that in the 2023/24 school year.
Official Languages in Education Protocol ('OLEP') – funding targeted towards teaching French, primarily through French Immersion	-	12,744	MECC provided an additional grant of \$200,000 this year.
Student and Family Affordability – MECC announced funding of \$925,658 early in the school	-	190,664	The Board spent 80% of the funding received in the year. Schools will use the carry-forward balance to continue to address affordability challenges.

	June 30, 2022	June 30, 2023	Commentary
year to assist in addressing affordability issues.			
First Nation Student Transportation – funding targeted towards removing education barriers related to transportation for First Nation students living on reserve.	42,355	27,154	Funding allocated for transportation assistance and transportation to / from extra-curricular activities was not fully utilised. This is a relatively new program and community usage is steadily increasing.
Early Childhood Education Dual Credit Program	70,743	71,287	This is a relatively new program, and surplus funds will be utilised as the program matures.
Other unspent targeted funds	8,125	85,788	The Province provided several new targeted funding streams during the year.
Total deferred revenue	\$ 1,768,174	3,060,630	

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 Board 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 MECC fund most of the Board'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 Board has \$133,200,294 of tangible capital assets. Of this, \$101,437,407 (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 \$4,249,139 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 Board on their retirement. The amount of payment depends on years of service and final salary.

The Board 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 Board's number of employees, age, length of service, contract terms, and established actuarial assumptions. They also review and update these estimates every four years.

Asset Retirement Obligation

Many facilities constructed prior to 1990 contain asbestos. This substantially increases the cost of renovating or removing those facilities. The Asset Retirement Obligation liability of \$5.7 million is an estimate of these additional future costs. It also reflects an estimate of future costs of remediating other hazardous materials, such as removing fuel tanks.

The reflection of this liability is a new requirement. Previous financial statements did not recognise this amount. The comparative figures provided for June 30, 2022, in this document and in the financial statements have been adjusted to include this figure. Consequently, they do not agree directly to last year's financial statements.

Net debt

This is the total of the Board's financial assets and liabilities. It implies that the Board has a net debt of \$101.1 million. The deferred capital revenue liability of \$101.4 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 \$0.3 million.

This revised net financial assets balance is primarily comprised of the asset retirement obligation of \$5.7 million offset by the accumulated operating fund surplus of \$3.5 million and local capital fund balance of \$2.0 million. The use of these reserve amounts is outlined below.

Accumulated surplus

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

	June 30, 2022	June 30, 2023
Operating fund	\$ 4,874,684	\$ 3,529,029
Special purpose funds	630,586	720,067
Capital fund – local capital (amounts available to spend on future capital asset purchases)	3,398,727	1,974,528
Capital fund – invested in tangible capital assets (being the cost of assets owned by the Board, net of amortization and targeted grants)	18,163,366	26,025,981
Total accumulated surplus	\$ 27,067,363	\$ 32,249,605

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

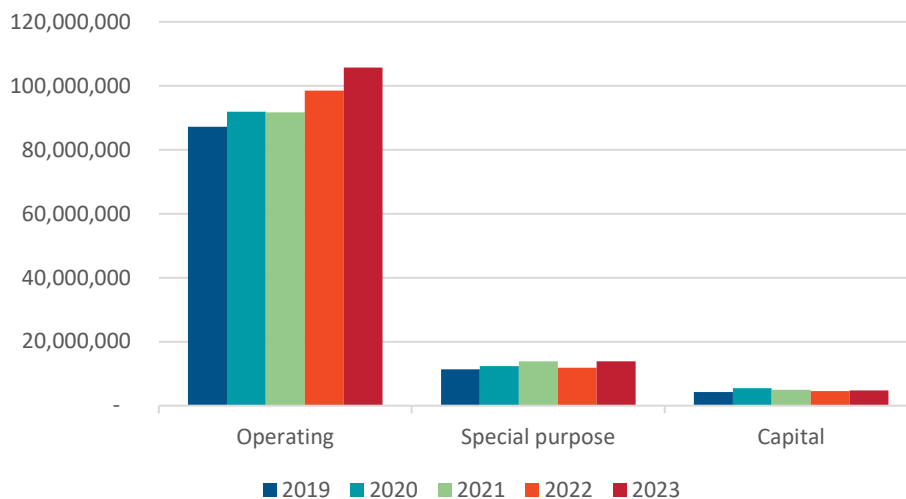
Statement of Operations

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

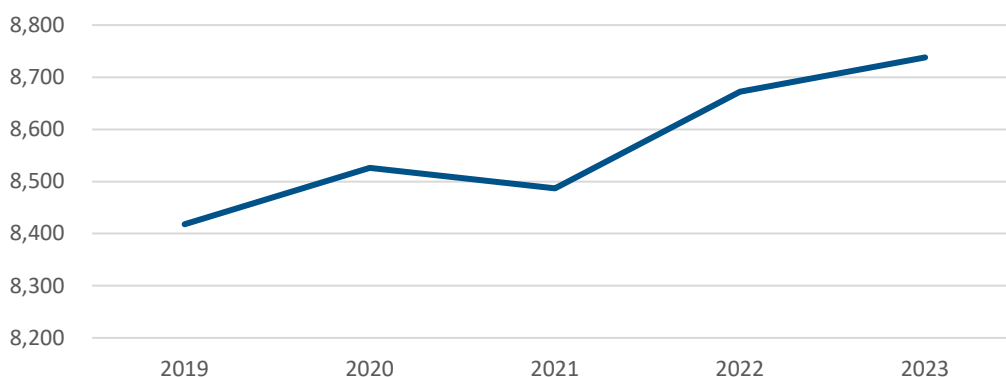
Year to	June 30, 2022	June 30, 2023
Revenue		
Operating fund (Schedule 2, page 29)	\$ 98,503,077	\$ 105,713,630
Special purpose funds (Schedule 3, page 34)	11,842,884	13,891,318
Capital fund (Schedule 4, page 38)	4,574,249	4,776,238
Total revenue (Statement of Operations)	114,920,210	124,381,186
Expenses		
Operating fund	98,050,813	105,278,081
Special purpose funds	11,205,561	13,421,617
Capital fund	6,715,284	6,979,724
Total expense	115,971,658	125,679,422
Surplus (deficit) for the year	\$ (1,051,448)	\$ (1,298,236)

The chart below summarises revenue over the previous five years. It has increased steadily over that period.

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. That year also saw a one-off increase in targeted special purpose funding related to the pandemic.

Chart: Revenue by fund for past five years

Student funded enrolment has also increased steadily, except for the 2021 school year, when it dipped due to the pandemic.

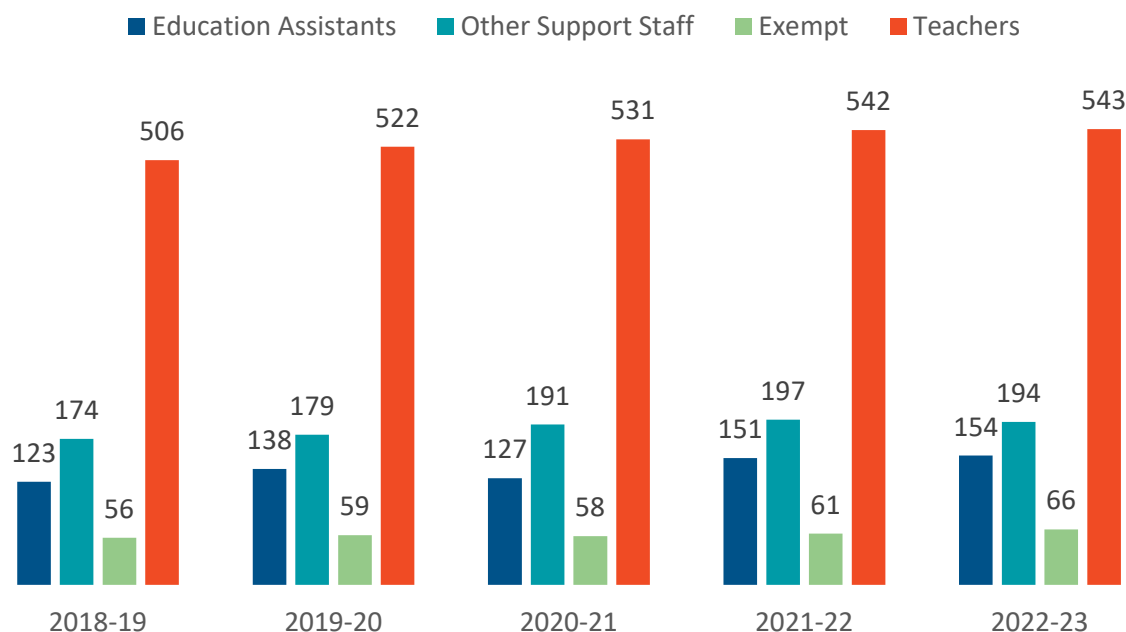
Chart: Enrolment (FTE) over past five years

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

Table: Revenue per full-time equivalent student

Fund	2019	2020	2021	2022	2023
Operating	10,357	10,785	10,808	11,359	12,098
Special purpose	1,347	1,449	1,637	1,366	1,590
Capital	505	637	584	527	547
Total	12,209	12,871	13,029	13,252	14,235

The majority (81%) of the School District's total expense is on salaries and benefits (note 15, page 256 of the financial statements).

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

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

For teachers, there is typically a gap of about 10 FTE between the number of FTE in posted positions and the budgeted FTE. This gap arises, for example, if a teacher starts a leave before their position is filled with a specific person. At September 30, 2022, that gap was several FTE greater than usual.

Other support staff comprise Indigenous support workers, 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 Board hired additional enhanced cleaners and bus drivers to support the additional services required by the pandemic.

Exempt staff reflects staff who are not members of a union, including principals, vice-principals, managers, trustees, Indigenous outreach workers and homestay coordinators.

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, 2023 and year to June 30, 2022.

Schedule	Page	Overview
2	29	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	30	Outlines in more detail the operating revenues earned by the Board.
2B	31	Summarises salaries by employee group and other operating costs.
2C	32-33	Provides the same information as in 2B, broken down in more detail to show each program the Board spent funds on.

Revenue

Schedule 2A on page 30 breaks down operating revenue by source.

93% of the Board's operating revenue is from the MECC and direct funding from the Okanagan Indian Band through a Local Education Agreement ('LEA').

The MECC allocates the majority (\$94.2 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 \$94.2 million is available on the MECC website:

<https://www2.gov.bc.ca/assets/gov/education/administration/resource-management/k12funding/22-23/22-23-sd22-june-2023.pdf>

The table below compares revenue earned against budget for the year ended June 30, 2023.

	Actual \$	Budget \$	Variance \$	Commentary
Provincial grants - MOECC	97,268,799	96,468,418	800,381	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. Additionally, more students enrolled in online courses in the second half of the year than initially expected.
Other Government grants	271,061	317,864	-46,803	\$31,000 of grant revenue related to school age physical therapy programs is delayed until the next school year while management renegotiates the contract

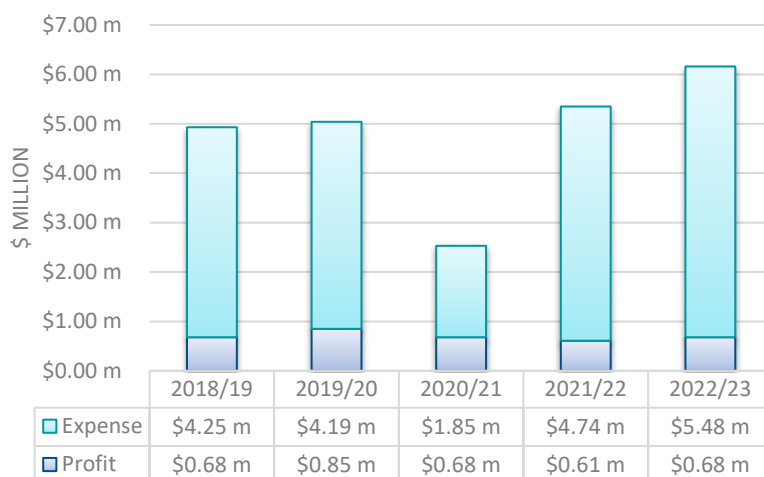
	Actual \$	Budget \$	Variance \$	Commentary
				with the Provincial Government to reflect inflationary impacts.
International fees	6,163,678	5,851,600	312,078	Management prepared the amended budget prudently, based on known international student enrolment. Actual enrolment in the latter half of the year exceeded these expectations.
LEA funding from First Nations	954,356	950,798	3,558	Revenue is consistent with budget.
Fees	232,141	230,000	2,141	This primarily represents fees charged to families for transportation to and from school. Revenue is consistent with budget.
Other revenues	34,777	35,803	-1,026	The Board received various grants and revenues during the year. Revenue is consistent with budget.
Rentals and leases	75,463	50,000	25,463	Rental requests picked up after the pandemic.
Investment income	713,355	500,000	213,355	Interest rates were higher than expected.
Total	105,713,630	104,404,483	1,309,147	

International program

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

The chart below illustrates this fee revenue, broken out between the associated expense and overall contribution to the Board'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 and fees have increased. 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. The Board sets fees to maximise fee revenue while ensuring the fees are in line with the market, and approved a fee increase for the 2024-2025 school year.

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, 2023. It compares the proportion of expenditure to the average of all school districts in the province for the year to June 30, 2022. The 2021/22 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	2022/23 % of total	2021/22 Prov. Av. % of total	Comments
Instruction	83.1%	82.5%	Expenditure on instruction is greater than the previous year's Provincial average, indicating that the Board is able to devote a greater percentage of its resources to the delivery of education.
District Administration	4.2%	3.9%	Expenditure on district administration is slightly higher than the previous year's provincial average. The following table discusses budget variances.
Operations and Maintenance	10.3%	11.7%	Expenditure on operations and maintenance is less than the previous year's provincial average. The Board 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	2.4%	1.9%	This expenditure is greater than the provincial average due to the wider geographic distribution of schools in the Board 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	2022/23 \$	Budget \$	Variance \$	Comments
Instruction	88,469,309	87,966,643	502,666	See commentary below this table.
District Administration	4,171,731	4,017,629	154,102	Legal expenses exceeded budget. New human resource software is in the process of being implemented, which in the short term creates an increase in software fees due to overlap of subscriptions. Employee benefit costs were greater than budgeted.

Function	2022/23 \$	Budget \$	Variance \$	Comments
Operations and Maintenance	10,258,763	10,093,566	165,197	Variance is driven by employee benefits costs being greater than budgeted.
Transportation	2,378,278	2,476,969	-98,691	Management diverted some resources to a capital project during the year. This reclassifies the associated expense as a capital asset purchase, reducing the expenditure captured here.
Total	105,278,081	104,554,807	723,274	About 0.7% of the budget.

The following differences in costs against budget lead to the variance of \$0.5 million in instruction costs:

Variance \$	Narrative
700,000	Employee benefits costs were greater than budgeted. This was due to the assumptions made in preparing the budget underestimating the inflationary increase of about 11% in benefit costs.
-400,000	International program costs less than budgeted due to prudent budgeting and travel restrictions meaning less recruitment related travel.
-170,000	Targeted Indigenous Education funding not utilised, carried forward as restricted funds to next year.
350,000	Increases to sick leave budgets were sufficient to cover the cost of sick leaves. Costs incurred related to other paid leaves for teachers, such as maternity leave, exceeded budget by about \$400,000.
200,000	Coverage for school administration staff who were on unforeseen longer term leave due to illness.
-177,334	The net amount of various other variances from budget, primarily comprising variances from forecast average costs for salaries.
502,666	Total

Staff

The Board spent 88%, or \$92.7 million, of operating expenditure on salaries and benefits. As expected for a school district, most of this staff cost (about 61%) is for teacher salaries and benefits.

Funding criteria means the Board 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 about ten percent of the Board's teachers. Total staff levels across the funds are considered earlier in this document.

Transfers to other funds

The Board purchased \$585,111 of capital assets during the year directly from the operating fund and transferred \$1,226,093 to the local capital fund during the year. Local capital 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 Board directs this funding towards the forestry trades education program.

Operating surplus

Operating surplus restrictions

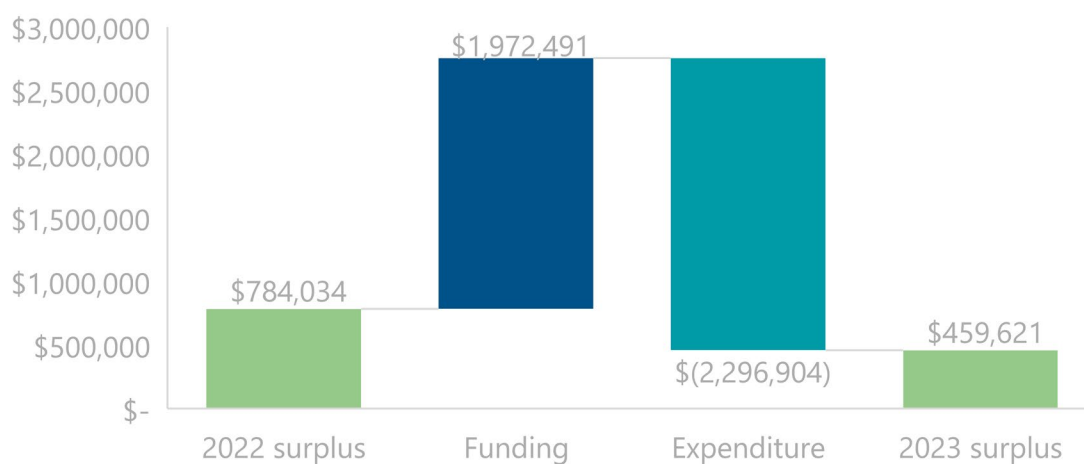
The total operating deficit for the year to June 30, 2023, was \$1,345,655. Schedule 2 on page 29 of the financial statements shows the calculation of this amount. This decreased the operating fund balance from \$4,874,684 at the beginning of the year to \$3,529,029 at June 30, 2023.

Note 11, on page 21 of the financial statements, outlines the restrictions on the use of the accumulated surplus. The funds are restricted at the Board's discretion.

	June 30, 2022	June 30, 2023
Indigenous Education commitments	784,034	459,621
Union commitments	771,264	747,446
School budget balances	723,836	499,287
Trustee travel	30,286	36,787
Department budget balances	38,119	-
Appropriated by budget bylaw and budget allocations	1,365,295	113,787
Contingency reserve	1,161,850	1,672,101
Total operating surplus	4,874,684	3,529,029

Indigenous Education commitments

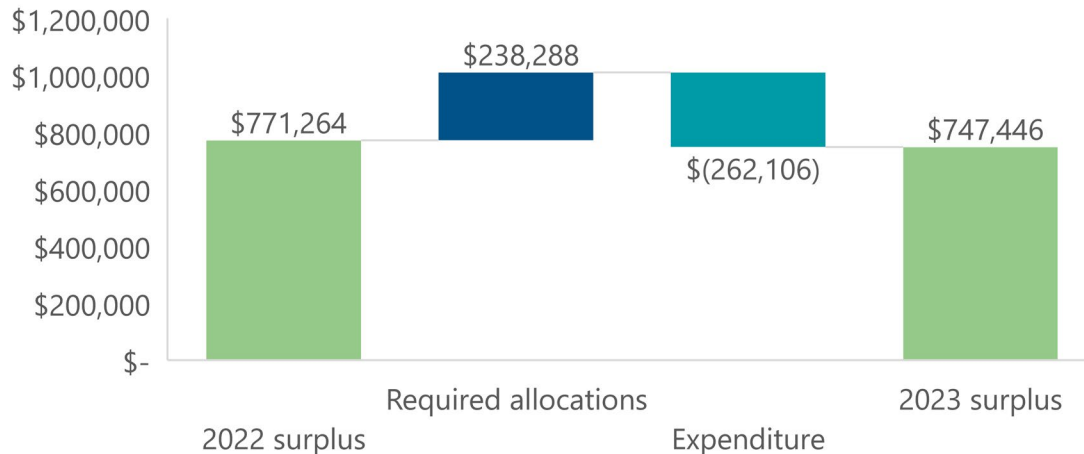
The Board receives funding from the MOECC which Provincial policy states the Board must spend on the provision of Indigenous education programs and services.



This chart illustrates the revenues and expenditures for the year in comparison to funding remaining at the year-end. This year, the Board utilised some surplus to provide targeted educational opportunities. About 23% of annual revenues remains in surplus at the year-end.

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.



\$599,314 (80%) of this surplus relates to the teachers' educational leave fund.

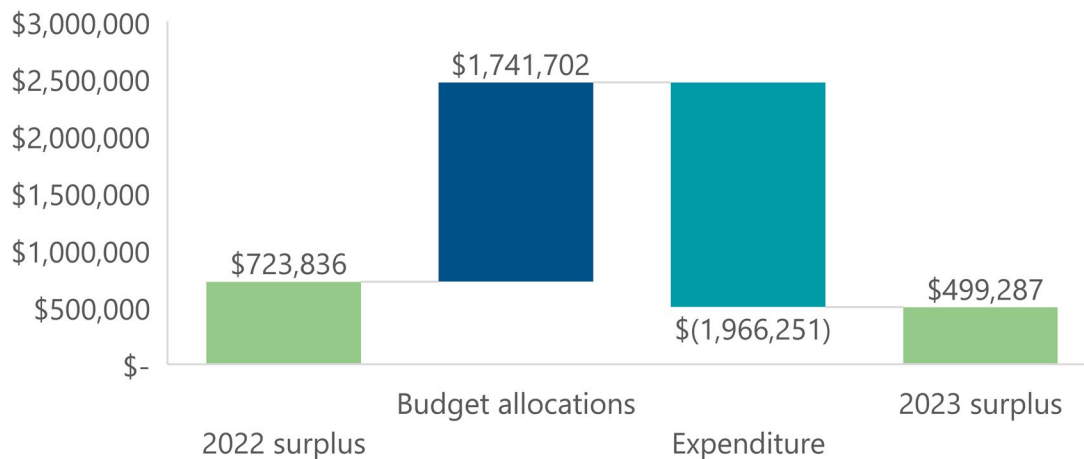
School budget balances

The Board 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 Board 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 exceeded the annual budget allocation. The closing surplus equates to 25% of annual expenditure.

In addition to this surplus, about \$1.3 million of deferred revenue remains for school generated funds noted in the Financial Position section earlier in this document.

Appropriated by budget bylaw and budget allocations

The 2024 original budget adopted by the Board in May assumed the Board would appropriate \$635,195 of reserves to balance the budget, excluding the use of targeted reserves.

MECC announced an additional \$521,408 of funding for 2024 after the budget was passed. Accordingly, the financial statements indicate \$113,787 as appropriated to balance next year's budget.

Contingency reserve

Operating revenue exceeded budget by \$1.31 million. Operating expenses and inter-fund transfers exceeded budget by \$0.96 million. This net positive variance resulted in about \$350,000 more in the unrestricted contingency reserve at the end of the year than budgeted.

Mutli-year operating fund financial plan

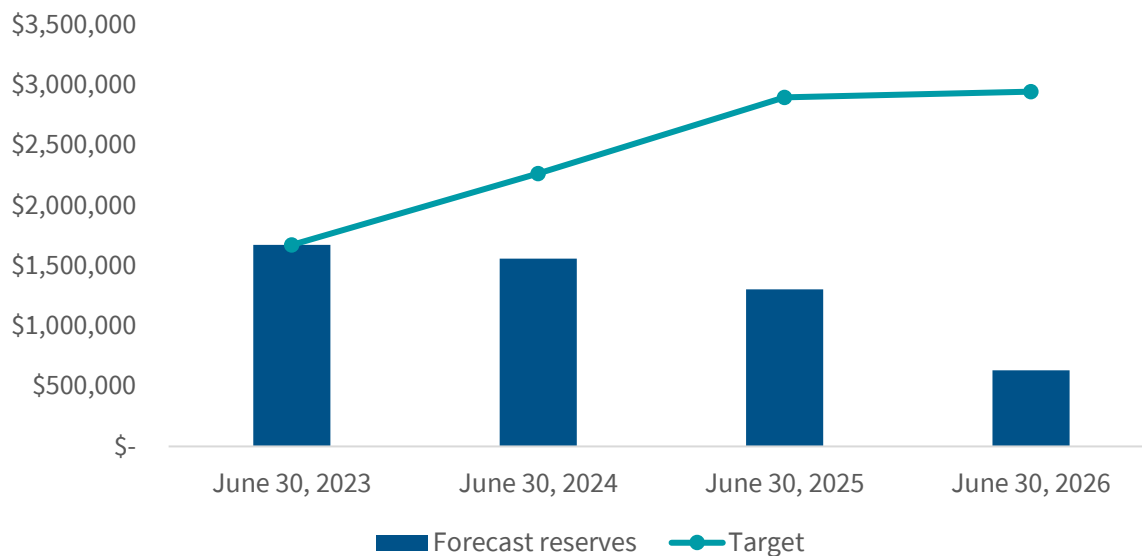
The following table shows a projection of operating revenues, expenses and reserves over three years. It updates the projection provided to the board in the April 19, 2023, staff report to the Board of Education. It reflects actual opening reserves and updated funding and inflation assumptions.

Year ended June 30	2024	Change	2025	Change	2026
Revenues					
Provincial grants					
MECC	\$ 104,826,540	\$ 2,708,649	\$ 107,535,189	\$ 1,879,017	\$ 109,414,206
Other	\$ 317,864	\$ -	\$ 317,864	\$ -	\$ 317,864
Tuition	\$ 6,081,600	\$ -	\$ 6,081,600	\$ -	\$ 6,081,600
Other revenue	\$ 1,216,601	\$ -	\$ 1,216,601	\$ -	\$ 1,216,601
Rentals and leases	\$ 70,000	\$ -	\$ 70,000	\$ -	\$ 70,000
Investment income	\$ 670,000	\$ -	\$ 670,000	\$ -	\$ 670,000
Total revenue	\$ 113,182,605		\$ 115,891,254		\$ 117,770,271
Expenses					
Instruction	\$ 95,170,492	\$ 1,813,828	\$ 96,984,320	\$ 1,890,125	\$ 98,874,445
District Administration	\$ 4,390,116	\$ 98,000	\$ 4,488,116	\$ 98,000	\$ 4,586,116
Operations and Maintenance	\$ 10,398,469	\$ 250,635	\$ 10,649,104	\$ 250,635	\$ 10,899,740
Transportation and Housing	\$ 2,518,608	\$ 64,531	\$ 2,583,139	\$ 55,231	\$ 2,638,371
Total expense	\$ 112,477,685		\$ 114,704,680		\$ 116,998,671
Net Revenue	\$ 704,920		\$ 1,186,575		\$ 771,601
Transfers to other funds					
Capital assets purchased	\$ (309,242)	\$ -	\$ (309,242)	\$ -	\$ (309,242)
Local Capital	\$ (1,163,000)	\$ -	\$ (1,163,000)	\$ -	\$ (1,163,000)
Other	\$ 30,000	\$ -	\$ 30,000	\$ -	\$ 30,000
Total net transfers	\$ (1,442,242)		\$ (1,442,242)		\$ (1,442,242)
Forecast reserve use					
Use of restricted reserves	\$ 623,535		\$ -		\$ -
Use of unrestricted reserves	\$ 113,787		\$ 255,667		\$ 670,641
Total appropriation	\$ 737,322		\$ 255,667		\$ 670,641
Forecast reserves					
Restricted reserves, beginning of year	\$ 1,856,928		\$ 1,233,393		\$ 1,233,393
Restricted reserves, end of year	\$ 1,233,393		\$ 1,233,393		\$ 1,233,393
Unrestricted reserves, beginning of year	\$ 1,672,101		\$ 1,558,314		\$ 1,302,647
Unrestricted reserves, end of year	\$ 1,558,314		\$ 1,302,647		\$ 632,006
End of year unrestricted reserves as %age of expense	1.39%		1.14%		0.54%

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.

MECC'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.

The chart below shows a potential target reserves amount reaching 2.5% of expenditures by June 2025. The blue boxes show forecast reserves with current assumptions and service levels. The budget setting process for the upcoming school years will consider changes to assumptions and service levels to achieve the desired targeted reserves amount.



Special Purpose Funds

Overview

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

Schedule	Page	Overview
3	34	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	35-37	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2023.

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	-	356,577	356,577	-
Learning Improvement	-	327,549	327,549	-
Scholarships and bursaries	437,718	184,999	150,269	472,448
School generated funds	1,209,233	2,971,757	2,846,797	1,334,193
Strong Start	-	128,000	128,000	-
Ready, Set, Learn	-	31,850	31,850	-
OLEP	-	394,000	381,256	12,744
CommunityLINK	-	647,037	647,037	-
Classroom Enhancement Fund – Overhead	-	722,660	722,660	-
Classroom Enhancement Fund – Staffing	-	6,564,492	6,564,492	-
Classroom Enhancement Fund – Remedies	-	181,784	155,009	26,775
First Nation Student Transportation	42,355	82,377	97,578	27,154
Mental Health in Schools	-	52,000	52,000	-
Changing Results for Young Children	-	6,750	3,433	3,317
Seamless Day Kindergarten	1,630	139,663	141,293	-
Early Childhood Education Dual Credit Program	70,743	61,000	60,456	71,287
Student and Family Affordability	-	925,658	734,994	190,664

Fund	Surplus from previous year \$	Grants & revenue received \$	Expenses \$	Surplus at end of year \$
Just B4	-	25,000	220	24,780
Early years to Kindergarten	-	19,000	8,308	10,692
Early Care and Learning	-	175,000	175,000	-
Integrated Inquiry Project	-	880,000	13,648	866,352
Other grants	6,495	22,412	8,683	20,224
Total	1,768,174	14,899,565	13,607,109	3,060,630

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 funds staff from community organisations who work with our vulnerable students to improve their educational performance.

Grant funding has not increased in line with inflation in previous years. To maintain a reasonable level of service, the Board contributed an additional \$295,870 from the operating fund to provide these services.

Classroom Enhancement Funds

The grants from the three Classroom Enhancement Funds totalled \$7,468,936. The MECC 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:

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

The MECC calculates the grant based on initial forecasts provided to the MECC 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 Board 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 Board's funding. They fund over 10% of the Board'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 Board, are also reflected as a special purpose fund as a related entity. The company facilitates the Board's delivery of its forestry career education program.

The company generates most 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. Little harvesting was done this year. Silviculture expenditure related to planning for future harvests and the reforestation of previously logged areas continued to occur.

A review of the tax status of the company led to \$253,000 of tax refunds for the company, forming the bulk of the company's revenue for the year.

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

The company ended the year with \$720,067 in reserves. This is forecast to be more than sufficient to cover the expenses of the company until the next round of harvesting.

Student and family affordability fund

MECC provided the Board with \$925,658 of funding to assist families with affordability issues. This assisted with the costs of a meals program for vulnerable students, and specific allocations to offset other costs for families at the discretion of school principals. \$190,664 of the fund remains at the year-end, which schools will utilise next year to continue offsetting costs for families.

Early learning and child care funds

MECC provided several new targeted grants associated with early learning and child care. These new funds include:

- Just B4, funding for pre-school programs
- SEY2KT, funding to strengthen the transition between early years programs to kindergarten.
- Early Care and Learning, funding for the position of District Principal of Early Learning
- Integrated Inquiry Project, funding for the provision of a wide range of early learning and child care initiatives.

Several of these grants were only announced later in the school year, and so much of the funding remains unspent at the year-end.

These funds are in addition to the targeted seamless day kindergarten, strong start, ready set learn, and changing results for young children grants. This amounts to a total of eight different targeted grants related to early learning and child care totalling \$1.4 million.

Capital Fund

Overview

The capital fund, including the local capital fund, accounts for assets owned by the Board 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 Board purchases an asset using operating funds, then the Board treats the cost of the asset as a transfer from the operating fund to the capital fund.

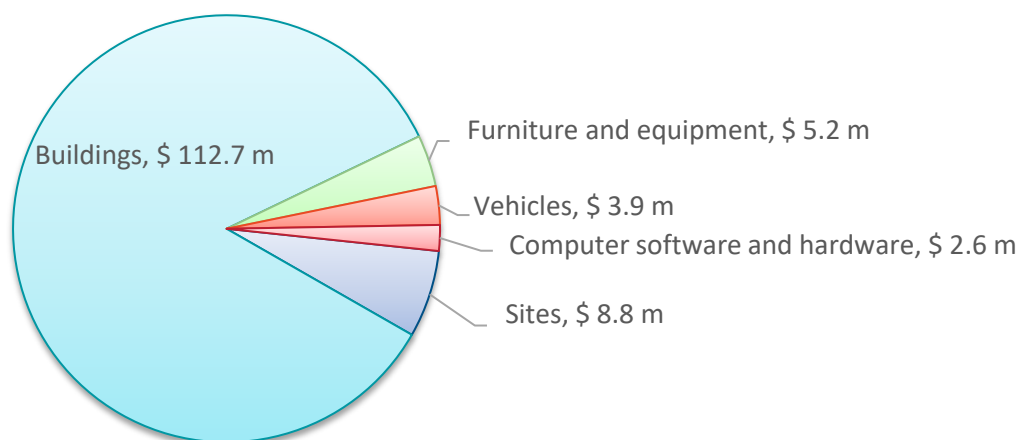
MECC does not provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, photocopiers, classroom renovations or district administration buildings. The only source of funding available for these assets is typically operating 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	38	Summarises amortization, local capital balances, and transfers to the capital fund from other funds.
4A	39	Outlines - the cost of assets acquired during the year. - the amortization of assets by asset class. - the original cost of assets owned by the Board, 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	40	Outlines costs to date on construction that is still in progress. The construction of the four new child care facilities was still in progress at the end of last year, with \$2,262,029 spent up to that point. This project was completed during the year, so the balance is no longer within work-in-progress.
4C	41	Accounts for targeted funding already spent on the acquisition of capital assets.
4D	42	Accounts for funding received which is targeted towards capital asset purchases and which has yet to be spent.

Capital assets

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

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



The Board has \$133 million invested in its capital infrastructure.

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

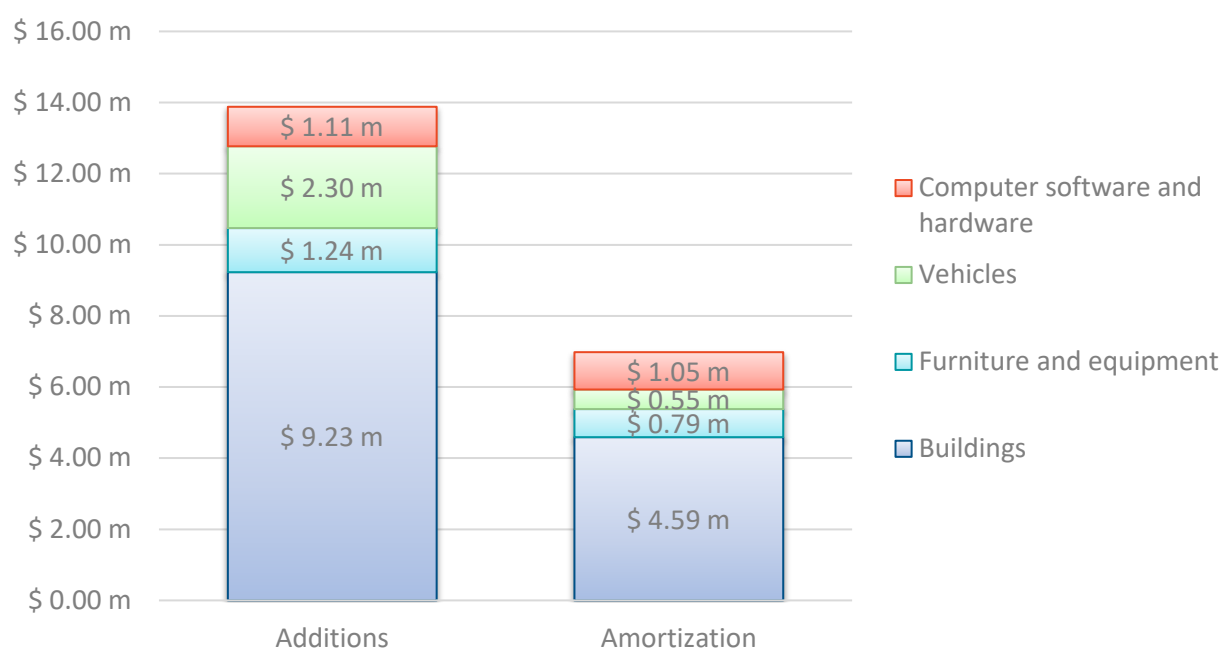
The school buildings comprise the vast majority of the Board's capital assets.

The Board 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 Board 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.

Building additions include \$4.5 million related to the new child care facilities at Mission Hill Elementary, Ellison Elementary, Harwood Elementary and Alexis Park Elementary.

Deferred capital revenue

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

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

The Board completed \$8.0 million of grant funded capital projects during the year. This includes the purchase of propane and electric busses, major HVAC upgrades, the ongoing renovation of Charles Bloom Secondary School, four child care facilities, a new school playground and various other projects.

The \$8.0 million of capital grants that the Board 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 \$4.8 million in the year to June 30, 2023, to reflect this amortization.

Historically, the MECC has provided targeted funding for major school renovations and replacements and buses. MECC 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, 2023 is \$101.4 million (Schedule 4C). As the net book value of capital assets is \$133.3 million (schedule 4A), this indicates the Board 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 MECC. In doing so, the Board must strike a balance between ensuring the Board 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 Board 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	80,363	845,000	802,671	122,692	The technology department use this allocation to purchase student and staff computers, servers, and the infrastructure required for the computers to work. In addition, a large project to replace and improve wireless access points throughout the school district is underway. This project will require about \$1 million of this funding over the next few years.
Maintenance, custodial and transportation equipment and vehicles	291,436	188,000	246,100	228,839	The Board 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 balance remains in local capital to facilitate the anticipated purchase of a large new delivery truck to replace the aging vehicle currently used.
Photocopier replacement	168,163	63,093	54,756	176,500	The Board 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. Some of these copiers are nearing the end of their useful life, experiencing increased downtime. This fund will be used more in the coming years to replace those copiers.
School classroom improvements	-21,528	100,000	27,173	51,299	This fund allows for the ongoing upgrade and replacement of projectors in classrooms.
Finance enterprise resource planning ('ERP') software	302,698	-	96,996	205,702	The Board deployed the Finance module element of the replacement ERP software in April of 2021. The Board is working towards deploying the HR and Payroll module in November 2023.
Electric bus acquisition	534,135	-	527,260	6,875	The Board received delivery of and paid for the previously ordered electric busses during the year. This fund was

Purpose	Opening balance	Transferred in	Assets purchased	Remaining amount	Notes
					used as planned to offset the additional costs that were not funded through targeted grants.
Facility improvements	1,190,493	-1,190,493	-	-	The Board set aside amounts in previous school years to fund future facility improvements. In December 2022, the Board approved using the remaining funds to acquire and install modular classrooms. This was transferred to the portable acquisition allocation below.
Learning commons creation	343,231	-	28,846	314,385	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 Board should best spend this funding to achieve this goal. This funds the improvements to school facilities consistent with the recommendations of the committee.
Portable acquisition	492,360	1,190,493	861,993	820,860	The remaining amount is allocated to installing two modular classrooms at Beirsto and Vernon Secondary School, and to move a modular classroom from Alexis Park to the Dorothy Alexander centre.
School shop equipment replacement	17,376	30,000	-	47,376	The Board allocates \$30,000 a year to the replacement of school shop equipment. Further purchases will be made in the upcoming year.
Total	3,398,727	1,226,093	2,650,292	1,974,528	Agrees to schedule 4, page 38 of the financial statements