

# Financial Statement Discussion and Analysis

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*Year ended June 30, 2021*

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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, 2021. Management prepare this analysis based on currently known facts, decisions, and conditions.

Users of this document should read this in conjunction with the District's consolidated financial statements for the year ended June 30, 2021 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 8,500 students. These services include an international program, a French immersion program, a Montessori program, distributed learning courses, an Aboriginal focus, opportunities for trades training and secondary apprenticeships, numerous sports, and specialty academies.

The District's mission is:

*To inspire and develop lifelong learners who can communicate, think creatively, problem-solve, collaborate, and understand their personal and social responsibilities.*

The financial statements illustrate, in financial terms, how the District allocated and consumed resources during the year to June 30, 2021.

## **Summary**

Some key points identified in this document are:

***Enrolment decreased, but overall revenue increased.***

The number of funded and international students decreased for the previous year because of the pandemic, resulting in less revenue. An increase in targeted funding and grant increases for wage increases of union members offset this decrease.

***Additional targeted funding from the Province offset the additional costs resulting from the pandemic.***

The Provincial government provided two targeted grants totalling \$3.9 million. This was sufficient to offset the additional costs of the pandemic during the school year. The District fully spent these grants in the year as required by the Provincial government.

The District has \$277,780 of accumulated surplus set aside to offset the cost of any pandemic impact in the next school year (2021/22).

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

The Districts' annual operating revenues are \$91,730,064. The contingency reserve represents 1.3% of that amount. This is at the bottom of the 1% to 4% expectation set by the Ministry of Education's financial management working group. This suggests that the Board is allocating as much funds as prudently possible for the educational opportunities of students, maintaining the contingency reserve at a low balance.

***The District has set aside \$1.6 million of surplus to balance the 2021/22 budget***

Using surplus of \$1.6 million to balance the 2021/22 budget raises the possibility of the Board having to make reductions in service for the subsequent year's budget should the District need to draw down this available surplus as currently planned.

***Funds have been set aside for the Long Range Facility Plan.***

At June 30, 2021, the District has \$1.9 million set aside to fund capital projects recommended by the Long Range Facility Plan that is near completion.

## Management report and Independent Auditors' Report

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

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

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

## Composition of the Financial Statements

The two key audited statements are:

- A **statement of financial position** (page 5), which summarises the assets and liabilities at June 30th. This provides an indication of the financial health of the District.
- A **statement of operations** (page 6), which summarises the revenues received and expenses incurred during the twelve months between July 1 and June 30. This provides an indication of the funding received by the District and how 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 together, with the financial statements.

Schedule 1 (page 29) illustrates the sum of the funds.

Schedule 2 (page 30) provides detail on the **Operating Fund**.

The Operating Fund accounts for the District's operating grants and other operating revenues. Legislation requires that the District present a balanced budget for the Operating Fund, whereby budgeted expenditure does not exceed the total of budgeted revenue and any surplus in the operating fund carried forward from previous years.

Schedule 3 (page 35) provides detail on the **Special Purpose Funds**.

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

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

- The capital assets of the District, including buildings, furniture, computers and equipment.
- Grants directed by agreement with a third party for the purchase of capital assets.
- Funds restricted by the Board for future capital asset purchases (local capital).

## Statement of Financial Position

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

## Cash and cash equivalents

At June 30, 2021, 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 reasons. The District had not collected some amounts by the year-end, which is normal.

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

|   | June 30,<br>2020 | June 30,<br>2021    |  |
|---|------------------|---------------------|--|
| Due from the Ministry of Education ('MoE').                 | \$ 377,887       | <b>\$ 1,351,007</b> | This relates to capital costs incurred on the BX Elementary addition that had yet to be reimbursed by the MoE. The increase from the prior year reflects the level of construction activity prior to the fiscal year-end.  |
| Due from Okanagan Indian Band ('OKIB')                      | 299,698          | <b>1,107,041</b>    | 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.   |
| Other – employee health and dental benefits program surplus | 340,676          | <b>870,467</b>      | 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. |

|   | June 30,<br>2020 | June 30,<br>2021    |  |
|---|------------------|---------------------|--|
| Other –<br>miscellaneous<br>receivables | 335,385          | <b>383,150</b>      | Relates to sales tax rebates and various other costs that the School District recovers from third parties. |
| Total accounts<br>receivable            | \$ 1,353,646     | <b>\$ 3,711,665</b> |  |

## 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, 2020 | June 30, 2021        |
|--|---------------|----------------------|
| Trade and other amounts payable                    | \$ 3,606,919  | <b>\$ 3,931,916</b>  |
| Wages payable – teachers' 12 month instalment plan | 1,321,451     | <b>1,389,805</b>     |
| Pension contributions payable                      | 1,210,242     | <b>1,292,016</b>     |
| Payroll taxes payable                              | 1,871,529     | <b>1,894,375</b>     |
| Accrued vacation pay                               | 962,530       | <b>1,120,264</b>     |
| Other accrued liabilities                          | 393,509       | <b>994,623</b>       |
| Due to Okanagan Labour Relations Council           | 268,254       | <b>316,143</b>       |
| Total accounts payable and accrued liabilities     | \$ 9,634,434  | <b>\$ 10,939,142</b> |

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 at June 30. The amount of \$3.6 million indicates an average gap between receiving the service, supply or asset and paying for it of about 1.5 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 increased due to a large construction related invoice accrued this year.

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 \$2.4 million represents international student fees received prior to June 30, 2021 for tuition in the 2021/22 school year. This is a substantial increase from the previous year's figure of \$1.3 million. This reflects the recovery of the International Program after the pandemic.

## 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, 2020 | June 30, 2021     | Commentary   |
|---|---------------|-------------------|--|
| Scholarships and bursaries – balances administered by the District and amounts awarded but not yet claimed  | \$ 370,970    | <b>\$ 413,737</b> | 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   | 1,160,262     | <b>1,191,758</b>  | This represents amounts raised in 2020/21 for activities to occur in the next school year. It equates to about 75% of amounts collected in the year.   |
| Official Languages in Education Protocol ('OLEP') – funding targeted towards teaching French, primarily through French Immersion  | 52,147        | <b>16,998</b>     | Schools put in place additional supports during the school year utilising surplus funding from the previous year.  |
| Classroom enhancement funds – funding targeted towards meeting the requirements of the restored teacher collective agreement language regarding class size and composition. | 44,244        | -                 | The 2020 balance relates to amounts allocated for the provision of remedies to teachers that were not utilised by the end of the school year, primarily due to the pandemic. Remedy costs were greater than expected in the 2021 school year, so funding was about \$17,000 less than is sufficient to cover the associated costs. The District covered this shortfall using the operating fund. |
| First Nation Student Transportation – funding targeted towards removing education barriers related to transportation for First Nation students living on reserve.           | 87,483        | <b>73,985</b>     | Funding allocated for transportation assistance and transportation to / from extra-curricular activities was not utilised.   |

|                              | June 30, 2020 | June 30, 2021       | Commentary   |
|------------------------------|---------------|---------------------|--|
| Other unspent targeted funds | 4,794         | <b>38,098</b>       | The District spent the majority of funds held over from the previous year. |
| Total deferred revenue       | \$ 1,719,900  | <b>\$ 1,734,576</b> |  |

## Deferred capital revenue and tangible capital assets

The deferred capital revenue balance is closely linked to the tangible capital asset balance. Tangible capital assets are things owned by the District that have a lifespan of more than one year. This includes school buildings and sites, furniture, busses and most computer equipment.

Specific grants provided by the Ministry of Education fund the majority of the District's capital expenditure, such as the construction of new schools. Once an asset is built or acquired and is in use, the cost of that asset is amortized over the expected life of that asset. Any grants targeted towards the acquisition of that asset are also amortized over the expected life of that asset.

After allowing for amortization, the District has \$125,862,796 of tangible capital assets. Of this, \$96,453,653 (being the deferred capital revenue balance) of assets were purchased with targeted grants. Operating revenues and other non-targeted funding funded the remainder.

This inclusion of deferred capital revenue is not consistent with generally accepted accounting principles. The inclusion of this balance is a requirement of the Provincial Government. Note 2 to the financial statements explains this in more detail.

The capital fund section, included later in this document, provides a more detailed explanation of the accounting for capital assets and associated grants.

## Employee future benefits

The employee future benefits liability of \$3,874,818 accounts for amounts or benefits earned by current employees during past service.

About 87% of this amount accounts for retirement benefits. Support staff and certain members of school and district administration are entitled to a one-time payment from the District on their retirement. The amount of payment depends on years of service and final salary.

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

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

Actuaries calculate the total liability amount based on the District's number of employees, age, length of service, contract terms, and established actuarial assumptions. They also review and update these

estimates every four years. The most recent review of estimates led to an increase in the estimated liability that has yet to be recognised. The actual estimated obligation is \$507,163 greater than the balance reflected on the statement of financial position. The District will recognise an additional annual expense of about \$60,000 over the next eight years to reflect this increase. Accounting standards require this accounting method.

## Net debt

This is the total of the District's financial assets and liabilities. It implies that the District has a net debt of \$85.7 million. The deferred capital revenue liability of \$96.5 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 \$10.8 million.

This revised net financial assets balance is primarily comprised of the accumulated operating fund surplus of \$5.9 million and local capital fund balance of \$3.2 million. The use of these amounts is outlined below.

## Accumulated surplus

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

|  | June 30, 2020        | June 30, 2021        |
|--|----------------------|----------------------|
| Operating fund   | \$ 5,176,022         | \$ 5,932,543         |
| Special purpose funds  | 441,563              | 429,907              |
| Capital fund – local capital (amounts available to spend on future capital asset purchases)  | 2,903,971            | 3,175,605            |
| Capital fund – invested in tangible capital assets (being the cost of assets owned by the district, net of amortization and targeted grants) | 28,430,798           | 30,741,660           |
| <b>Total accumulated surplus</b>   | <b>\$ 36,952,354</b> | <b>\$ 40,279,715</b> |

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

## Statement of Operations

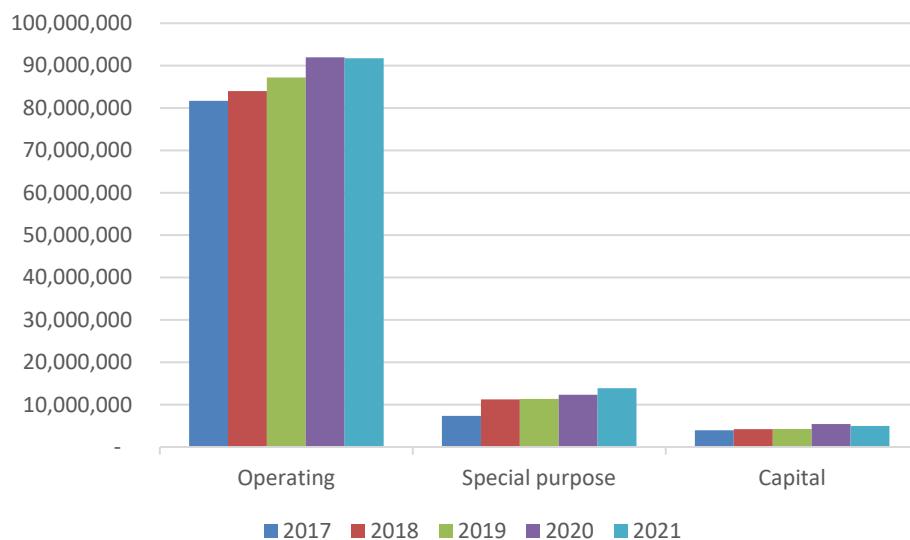
The consolidated statement of operations on page 6 is the sum of the revenues and expenses of the District's various funds.

| Year to                                     | June 30, 2020 | June 30, 2021        |
|---|---------------|----------------------|
| Revenue                                     |               |                      |
| Operating fund (Schedule 2, page 29)        | \$ 91,955,356 | <b>\$ 91,730,064</b> |
| Special purpose funds (Schedule 3, page 34) | 12,351,119    | <b>13,891,428</b>    |
| Capital fund (Schedule 4, page 38)          | 5,429,982     | <b>4,956,014</b>     |
| Total revenue (Statement of Operations)     | 109,736,457   | <b>110,577,506</b>   |
| Expenses                                    |               |                      |
| Operating fund                              | 86,837,522    | <b>87,769,865</b>    |
| Special purpose funds                       | 11,578,149    | <b>12,602,865</b>    |
| Capital fund                                | 7,266,618     | <b>6,877,415</b>     |
| Total expense                               | 105,682,289   | <b>107,250,145</b>   |
| Surplus for the year                        | \$ 4,054,168  | <b>\$ 3,327,361</b>  |

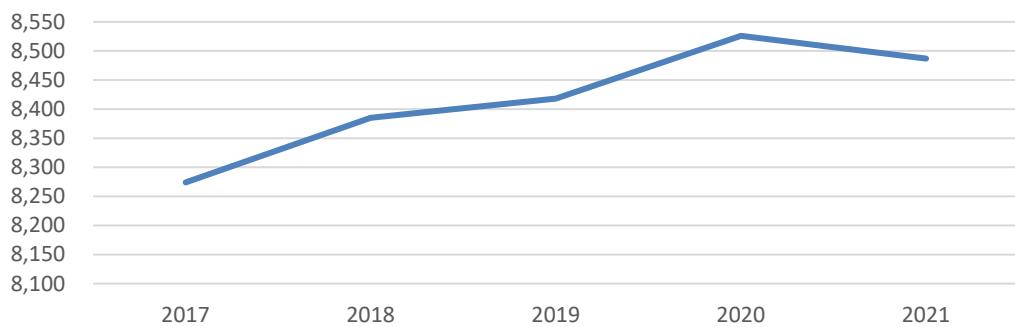
Revenue has increased steadily over the previous five years, in particular special purpose (targeted) revenue, which has nearly doubled since 2017.

The impact of the pandemic on international tuition fee revenue and enrolment in 2020/21 put a stop to 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.

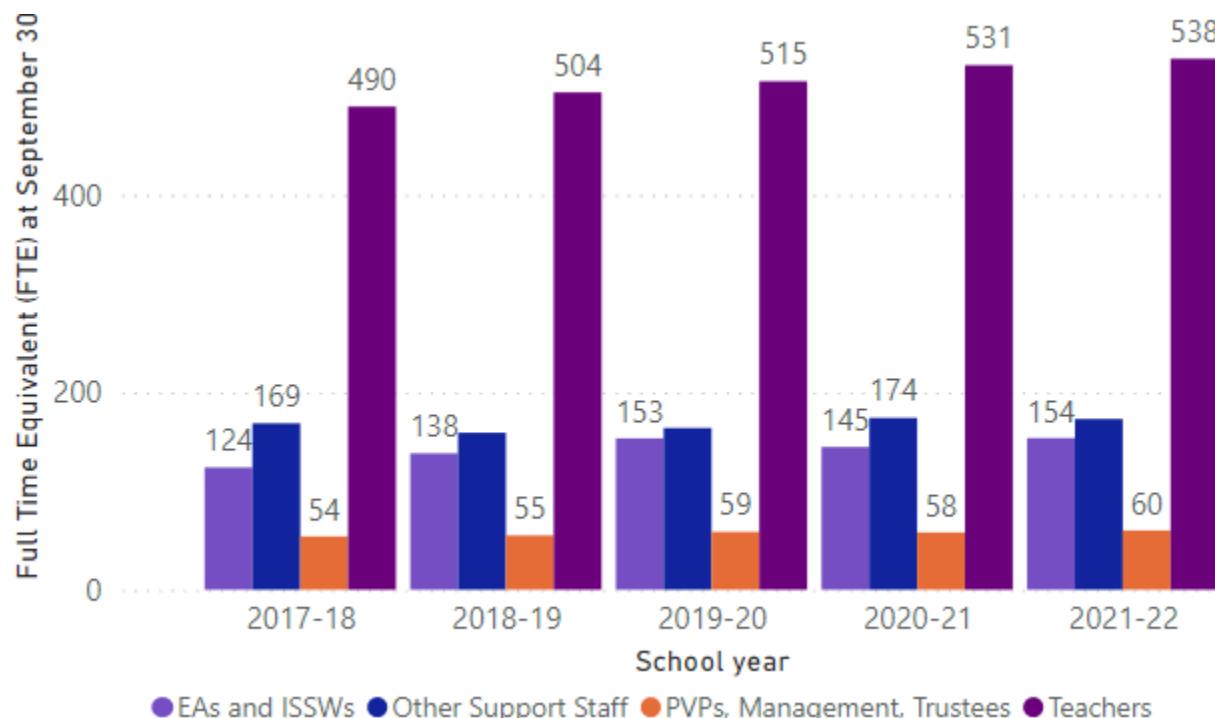
**Chart: Enrolment (FTE) over past five years**

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

**Table: Revenue per full-time equivalent student**

| Fund                   | 2017          | 2018          | 2019          | 2020          | 2021          |
|------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Operating</b>       | 9,875         | 10,018        | 10,357        | 10,785        | 10,808        |
| <b>Special purpose</b> | 888           | 1,339         | 1,347         | 1,449         | 1,637         |
| <b>Capital</b>         | 478           | 504           | 505           | 637           | 584           |
| <b>Total</b>           | <b>11,241</b> | <b>11,862</b> | <b>12,209</b> | <b>12,871</b> | <b>13,029</b> |

The majority (82%) of the School District's total expense is on salaries and benefits (note 13, page 26 of the financial statements).

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

2021-22 figures represent positions that are currently filled. FTE will likely be greater at September 2021 than represented here.

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

The FTEs of EAs (Education Assistants) and ISSWs (Indigenous Student Support Workers) as at September 30, 2020 was less than the previous year and less than expected for the upcoming 2021-22 school year. This reflects a dip in the number of students with special needs designations at the beginning of the school year.

Other support staff comprise bus drivers, maintenance staff, custodians, school secretaries, clerical staff, and noon hour and bus supervisors. FTE increased in 2020-21 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.

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

## Operating Fund

### Overview

The following schedules in the financial statements report operating fund transactions. The schedules show columns with figures for the amended budget, year to June 30, 2021 and year to June 30, 2020.

| Schedule  | Page  | Overview  |
|-----------|-------|---|
| <b>2</b>  | 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. |
| <b>2A</b> | 30    | Outlines in more detail the operating revenues earned by the District.  |
| <b>2B</b> | 31    | Summarises salaries by employee group and other operating costs.  |
| <b>2C</b> | 32-33 | 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 30 breaks down operating revenue by source.

95% of the District's operating revenue is from Provincial Ministry of Education ('MoE') and direct funding from the Okanagan Indian Band through a Local Education Agreement ('LEA').

The MoE provides the majority (\$85.4 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 \$85.4 million is available on the MoE website:

<https://www2.gov.bc.ca/assets/gov/education/administration/resource-management/k12funding/20-21/20-21-sd22-june-2021.pdf>

The table below compares revenue earned against budget for the year ended June 30, 2021.

|                                | Actual \$  | Budget \$  | Variance \$ | Commentary   |
|--------------------------------|------------|------------|-------------|--|
| Provincial grants - MoE        | 87,304,896 | 86,328,088 | 976,808     | <p>The increase in enrolment in distributed learning (online courses) and 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.</p> <p>The District created additional education assistant positions to support these students.</p> <p>In addition to the enrolment variances, the MoE announced a 'holdback' related grant totalling \$277,000 later in the school year after the budget had been set.</p> |
| Other Government grants        | 321,329    | 317,864    | 3,465       | These grants were reasonably consistent with budget  |
| International fees             | 2,532,963  | 1,562,175  | 970,788     | The pandemic significantly curtailed the international program in the first half of the school year. Management prepared the amended budget prudently, based on known international student enrolment. Actual enrolment in the latter half of the year greatly exceeded these expectations, with international enrolment almost returning to pre-pandemic levels.  |
| LEA funding from First Nations | 1,107,042  | 970,380    | 136,662     | An increase in the number of OKIB students living on reserve drives this variance.   |
| Fees                           | 174,554    | 160,000    | 14,554      | This primarily represents fees charged to families for transportation to and from school. Actual fees are close to budget.   |
| Other revenues                 | 70,249     | 24,303     | 45,946      | The Board received various grants and revenues during the year that management did not anticipate during the budget creation.  |
| Rentals and leases             | 6,093      | 6,000      | 93          | 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 during the year due to   |

|                   | Actual \$         | Budget \$         | Variance \$      | Commentary  |
|-------------------|-------------------|-------------------|------------------|---|
|                   |                   |                   |                  | the pandemic. The revenue reflected here relates to renting facilities as voting places for the Provincial Government elections held during the year. |
| Investment income | 212,938           | 250,000           | -37,062          | Interest rates were lower, on average, than expected.   |
| <b>Total</b>      | <b>91,730,064</b> | <b>89,618,810</b> | <b>2,111,254</b> |   |

## International program

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

The chart below illustrates this fee revenue, broken out between the associated expense and overall contribution to the District's other activities.

*Chart: International fee revenue and expenditure*



This chart illustrates the impact of the pandemic on international tuition fee revenue (which equals expense plus profit). Despite this fall in revenue, the profit realized from the program was similar to previous years.

In previous years, the district assigned additional teaching blocks to schools to accommodate the international students. This year, a decline in regular enrolment meant there

was sufficient space available in existing blocks to enrol the international students without adding blocks. This meant that the incremental cost of enrolling the international students was substantially lower than previous years, and so the program achieved a profit.

The Board transferred this profit of \$684,241 to the local capital fund to contribute towards facility improvements. This practice is consistent with previous years.

## 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, 2021. It compares the proportion of expenditure to the average of all school districts in the Province for the year to June 30,

2020. The 2019/20 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                          | 2020/21<br>% of total | 2019/20<br>Prov. Av.<br>% of total | Comments   |
|-----------------------------------|-----------------------|------------------------------------|--|
| <b>Instruction</b>                | 83.5%                 | 82.4%                              | 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.  |
| <b>District Administration</b>    | 3.6%                  | 4.0%                               | Expenditure on district administration is less than the previous year's Provincial average. This may indicate that the District has a relatively efficient administration structure. It may also indicate that this function is under resourced, leading to weaknesses in service delivery and missed opportunities. |
| <b>Operations and Maintenance</b> | 10.6%                 | 11.8%                              | 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.             |
| <b>Transportation</b>             | 2.3%                  | 1.8%                               | This expenditure is greater than the Provincial average due to the wider geographic distribution of schools in the District and one of the lowest walk limits in the Province.   |
| <b>Total</b>                      | <b>100.0%</b>         | <b>100.0%</b>                      |  |

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

| Function                          | 2020/21 \$ | Budget \$  | Variance \$ | Comments  |
|-----------------------------------|------------|------------|-------------|---|
| <b>Instruction</b>                | 73,588,279 | 76,305,104 | -2,716,825  | See commentary below this table.  |
| <b>District Administration</b>    | 3,091,274  | 3,447,616  | -356,342    | One management position remained unfilled during the year. About \$71,000 of professional development funding jointly administered with CUPE remained unspent at the end of the year. Departments also achieved various other cost savings.   |
| <b>Operations and Maintenance</b> | 9,153,702  | 9,548,166  | -394,464    | Management diverted some maintenance resources to capital projects during the year, such as the BX Elementary project. This reclassifies the associated expense as a capital asset purchase. Utility costs were also less than forecast, with some utility costs attributed to the special purpose Federal Safe Return to School grant. |
| <b>Transportation</b>             | 1,936,610  | 2,023,139  | -86,529     | Transportation salaries and benefits were consistent with budget. This variance relates to timing differences with the purchase of  |

| Function     | 2020/21 \$        | Budget \$         | Variance \$       | Comments  |
|--------------|-------------------|-------------------|-------------------|---|
|              |                   |                   |                   | supplies, with an order of supplies placed but not fulfilled by the year-end. |
| <b>Total</b> | <b>87,769,865</b> | <b>91,324,025</b> | <b>-3,554,160</b> |   |

The following differences in costs against budget lead to the variance of \$2.7 million in instruction costs:

| Variance \$      | Narrative   |
|------------------|---|
| 735,356          | 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. |
| - 277,251        | International program costs greater than budgeted due to enrolment in the International program (with associated revenue) being greater than anticipated. Homestay costs and agent recruitment fees drive this variance.  |
| 731,067          | School budgets not utilised, carried forward as restricted funds to next year.  |
| 736,158          | Targeted Aboriginal Education funding not utilised, carried forward as restricted funds to next year.   |
| 780,000          | Variances in benefit assumptions. There was a substantial decrease in staff usage of extended health and dental benefits as the pandemic restricted access to paramedical services (physiotherapy, massage) and dental services.  |
| 11,495           | The net amount of various other variances from budget.  |
| <b>2,716,825</b> | <b>Total</b>  |

## Staff

The District spent 89%, or \$76.7 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 \$397,988 of capital assets during the year directly from the operating fund, about \$58,000 less than budgeted.

The Board transferred \$2,835,690 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

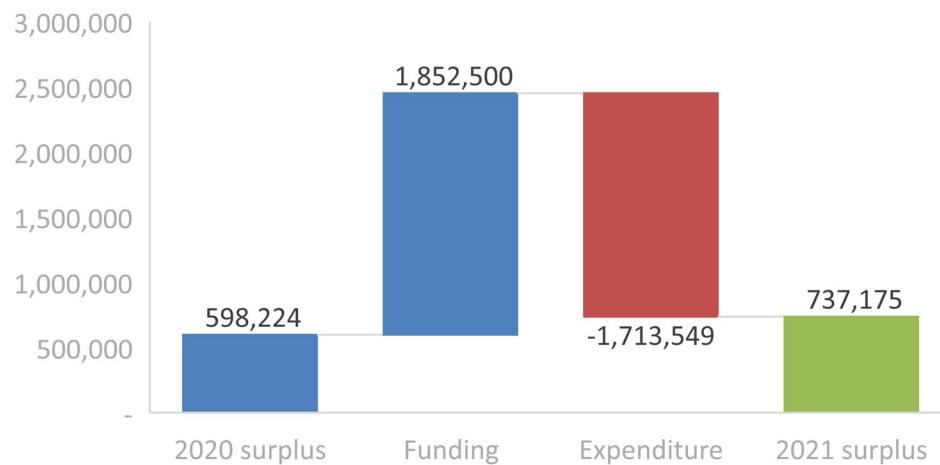
The operating surplus for the year to June 30, 2021 was \$756,521. Schedule 2 on page 29 of the financial statements shows the calculation of this amount. This surplus increased the operating fund balance from \$5,176,022 at the beginning of the year to \$5,932,543 at June 30, 2021.

Note 9, 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, 2020    | June 30, 2021     |
|---|------------------|-------------------|
| Indigenous Education commitments                    | \$ 598,224       | <b>\$ 736,158</b> |
| Union commitments                                   | 694,115          | <b>857,857</b>    |
| School budget balances                              | 716,070          | <b>746,240</b>    |
| Trustee travel                                      | 18,836           | <b>18,074</b>     |
| Department budget balances                          | 87,605           | <b>47,271</b>     |
| Appropriated by budget bylaw and budget allocations | 2,061,172        | <b>2,063,887</b>  |
| Address learning impacts of pandemic                | -                | <b>277,780</b>    |
| Contingency reserve                                 | 1,000,000        | <b>1,185,276</b>  |
| <b>Total operating surplus</b>                      | <b>5,176,022</b> | <b>5,932,543</b>  |

### Indigenous Education commitments

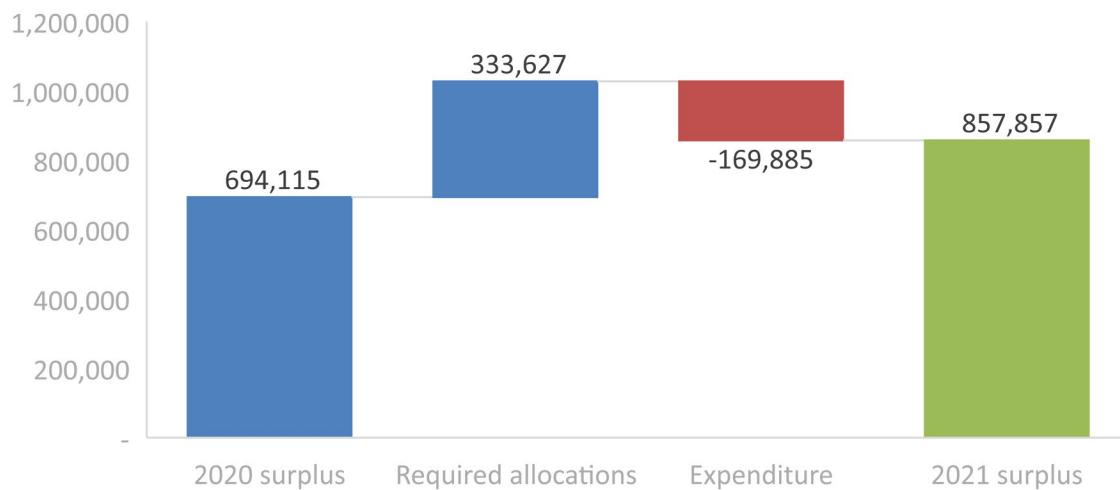
The board receives funding from the MoE which Provincial policy states the District must spend on the provision of Indigenous education programs and services.



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.



Annual expenditure was less than the contractually required allocation, leading to an even larger surplus at the year-end. \$754,837 (88%) of this surplus relates to the teachers' educational leave fund.

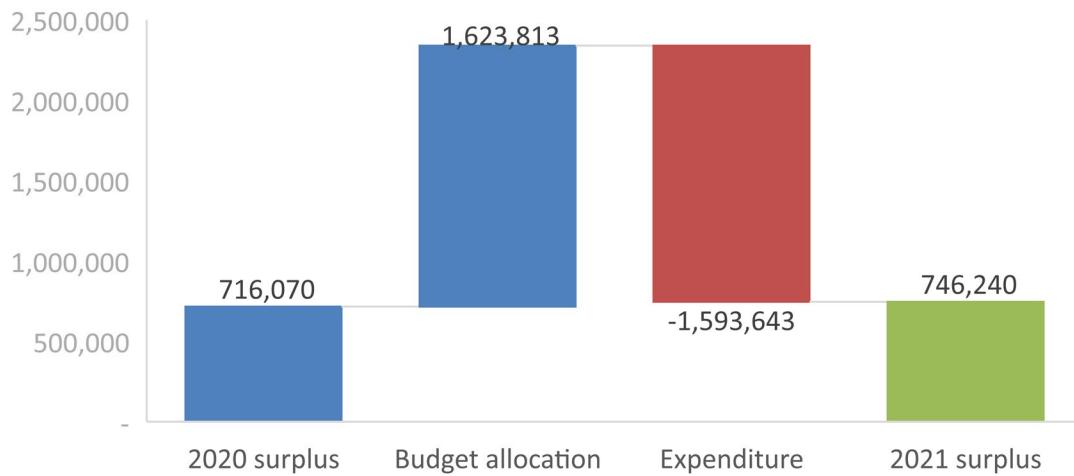
### School budget balances

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 47% 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 and budget allocations**

The board carried forward \$2,061,172 of funds from the prior year for allocation in future years. The budget adjustment plan for next school year adopted by the board in April 2021 identified the following costs that the board will fund using the available surplus:

| Initiatives for one year:                                  |                     |
|--|---------------------|
| School psychologist 1.0 FTE                                | \$ 108,000          |
| Enhanced cleaners to December 2021 (Covid)                 | 120,000             |
| School administration time (0.1 FTE per Elementary school) | 151,200             |
| Literacy teachers  | 108,000             |
| Total one-year costs                                       | 487,200             |
| Amount needed to balance 2021/22 budget                    | 1,576,687           |
| <b>Total budget bylaw appropriation</b>                    | <b>\$ 2,063,887</b> |

Using surplus of \$1.6 million to balance the 2021/22 budget raises the possibility of the Board having to make reductions in service for the subsequent year's budget should the available surplus be drawn down.

#### **Address learning impacts of pandemic**

The MoE announced an additional grant of \$277,780 towards the end of the fiscal year. The purpose of this grant is to address the learning impacts of the pandemic. The late announcement and distribution of the grant led to the district not spending it before the year-end.

#### **Contingency reserve**

The Board has restricted \$1,184,259 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 \$91,730,064. The contingency reserve represents 1.3% of that amount. This is at the bottom of the 1% to 4% expectation set by the Ministry of Education's financial management working group. This suggests that the Board is allocating as much funds as prudently possible for the educational opportunities of students, maintaining the contingency reserve at a low balance.

## Special Purpose Funds

### Overview

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

| Schedule  | Page  | Overview   |
|-----------|-------|--|
| <b>3</b>  | 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. |
| <b>3A</b> | 56-36 | Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2021.  |

The following table summarises some of the information presented in schedule 3A.

| Fund                                  | Surplus from previous year \$ | Grants & revenue received \$ | Expenses \$ | Surplus at end of year \$ |
|---------------------------------------|-------------------------------|------------------------------|-------------|---------------------------|
| Annual facility grant                 | -                             | 356,510                      | 356,510     | -                         |
| Learning Improvement                  | -                             | 309,422                      | 309,422     | -                         |
| Scholarships and bursaries            | 370,970                       | 159,798                      | 117,031     | 413,737                   |
| School generated funds                | 1,160,262                     | 1,594,399                    | 1,562,903   | 1,191,758                 |
| Strong Start                          | -                             | 128,000                      | 128,000     | -                         |
| Ready, Set, Learn                     | -                             | 34,300                       | 34,300      | -                         |
| OLEP                                  | 52,147                        | 165,175                      | 200,324     | 16,998                    |
| CommunityLINK                         | -                             | 645,902                      | 645,902     | -                         |
| Classroom Enhancement Fund – Overhead | -                             | 696,607                      | 696,607     | -                         |
| Classroom Enhancement Fund – Staffing | -                             | 5,510,156                    | 5,510,156   | -                         |

| Fund                                  | Surplus from previous year \$ | Grants & revenue received \$ | Expenses \$       | Surplus at end of year \$ |
|---------------------------------------|-------------------------------|------------------------------|-------------------|---------------------------|
| Classroom Enhancement Fund – Remedies | 44,244                        | 61,596                       | 105,840           | -                         |
| First Nation Student Transportation   | 87,483                        | 102,305                      | 115,803           | 73,985                    |
| Mental Health in Schools              | -                             | 52,000                       | 52,000            | -                         |
| Changing Results for Young Children   | -                             | 6,000                        | 6,000             | -                         |
| Safe Return to School                 | -                             | 640,018                      | 640,018           | -                         |
| Federal Safe Return to Class          | -                             | 3,275,928                    | 3,275,928         | -                         |
| Other grants                          | 4,794                         | 45,039                       | 11,735            | 38,098                    |
| <b>Total</b>                          | <b>1,719,900</b>              | <b>13,783,155</b>            | <b>13,768,479</b> | <b>1,734,576</b>          |

## School generated funds

School generated funds account for fees and contributions raised at the school level. Examples of such fees and contributions include school supply fees paid by parents and caregivers; school trip fees; PAC contributions; graduation celebration fundraising; cafeteria revenue, vending machine revenue and athletics fees. The schools target these funds for the purpose that the fee payers or donors intended.

Fees and contributions are significantly less than in the previous year. This reflects fewer school field trips, theatre activities, and refunds for previous year's field trips that schools had to cancel.

## 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 \$208,000 from the operating fund to provide these services.

## Classroom Enhancement Funds

The grants from the three Classroom Enhancement Funds totalled \$6,268,359. The MoE 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:

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

The MoE calculates the grant based on initial forecasts provided to the MoE 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.

## **Safe Return to School and Federal Safe Return to Class funds**

The Provincial and Federal governments provided a total of \$3.9 million of grants targeted to the purpose of addressing the cost impact of the pandemic. They required that school districts spend the funds during the fiscal year.

The Board approved spending plans for these funds in the fall of 2020. The district acquired the services and assets anticipated by those spending plans during the year using these funds. The district fully spent the funds by the year-end as required.

## **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. This was not one of those years, meaning only small-scale harvesting incidental to the delivery of the forestry program occurred. Silviculture expenditure related to planning for future harvests and the reforestation of previously logged areas still occurred.

As is normal in such a year, revenues were a little less than costs.

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.

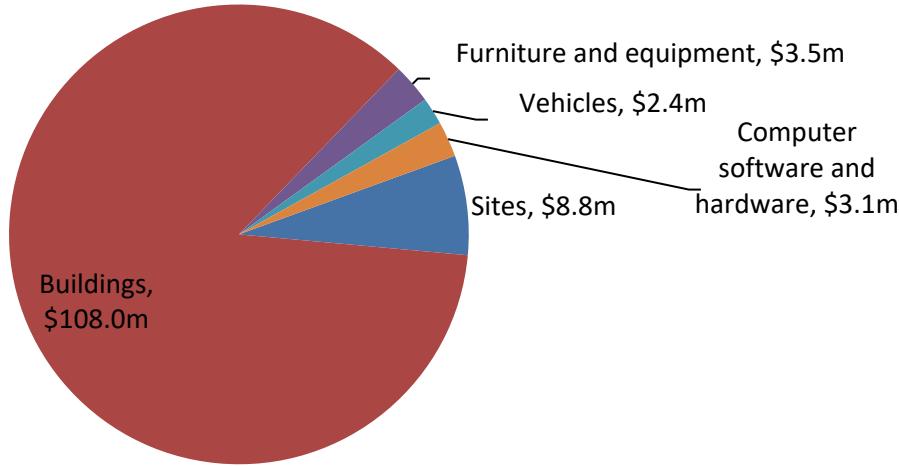
The Province does not provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, photocopiers, classroom renovations or district administration buildings. The only source of funding available for these assets is typically 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        | 38   | Summarises amortization, local capital balances, and transfers to the capital fund from other funds.  |
| 4A       | 39   | Outlines <ul style="list-style-type: none"> <li>the cost of assets acquired during the year.</li> <li>the amortization of assets by asset class.</li> <li>the original cost of assets owned by the District, by asset class</li> <li>the total amortization of each asset class. This is an estimate of the value of the wear-and-tear of assets over their lifetime.</li> <li>the net book value of assets, being the cost less amortization.</li> </ul> |
| 4B       | 40   | Outlines costs to date on construction that is still in progress at June 30, 2020. The only major capital project in progress at June 30, 2020 was the BX Elementary School addition.   |
| 4C       | 41   | Accounts for targeted funding 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 District.

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



The District has \$126 million invested in its capital infrastructure.

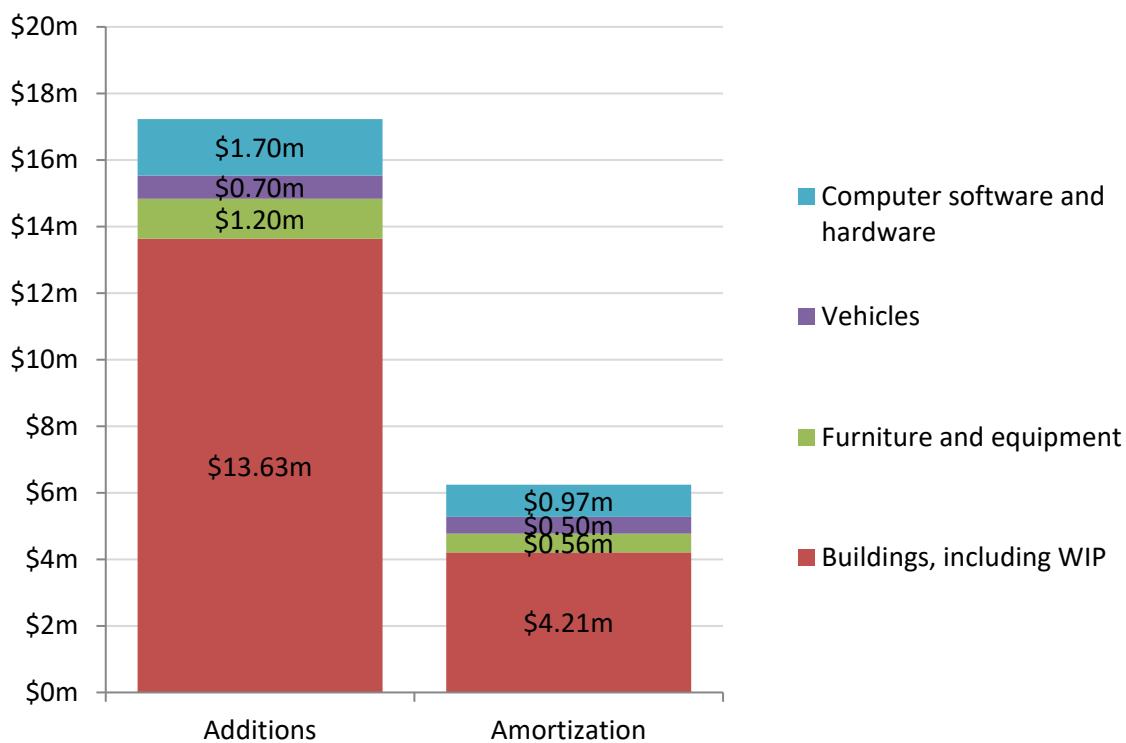
The original cost (not current market value) of the land that the District's schools are located on is \$8.8m.

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

The District also has significant investment in vehicles (primarily school buses), furniture and equipment (school furniture, shop equipment etc.) and computer software and hardware, including servers and staff computers.

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

**Chart: Asset additions compared to asset amortization**

The majority of the building addition relates to the addition at BX Elementary.

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

### Deferred capital revenue

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

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

Schedule 4D illustrates that the District received \$11,439,381 of grants in the year to June 30, 2021 from the Ministry of Education in the form of bylaw capital. This includes the capital portion of the annual facilities grant.

The District received \$632,631 of insurance proceeds from the MoE. This relates to a flood at Seaton Secondary School, and the District used these proceeds to offset the associated costs.

The District completed \$10.8 million of grant funded capital projects during the year. This includes the purchase of busses, geothermal field installations, HVAC upgrades, a playground and the BX elementary addition.

The \$10.8 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 \$7.3 million in the year to June 30, 2021 to reflect this amortization.

Schedule 4D also shows that the District started the year with \$428,997 of Ministry of Education Restricted Capital. This was targeted grants remaining from projects completed in previous years. The MoE required that the Board contribute this capital funding to the BX Elementary project.

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 are occurring mainly in the 2021/22 school year, when the District will spend these funds.

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, 2021 is \$95.1 million (Schedule 4C). As the net book value of capital assets is \$125.9 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  |
|---|-----------------|----------------|------------------|------------------|--|
| <b>Technology</b>   | 128,460         | 845,000        | 1,389,083        | -415,623         | 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.  |
| <b>Maintenance, custodial and transportation equipment and vehicles</b> | 67,060          | 188,000        | 83,109           | 171,951          | 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.   |
| <b>Photocopier replacement</b>  | 74,664          | 52,336         | 5,100            | 121,900          | 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. As this amount varies, and the budget accounts for it in schools' photocopy charge budget, the budget does not explicitly recognise this as a transfer to local capital. |
| <b>School classroom improvements</b>                                    | 97,726          | 100,000        | 183,233          | 14,493           | The District spent about \$183,233 on providing projectors in classrooms during the year, drawing down on previous years' carry forward allocations. This is an ongoing project, with an annual budget allocation of \$100,000.  |

| Purpose  | Opening balance | Transferred in | Assets purchased | Remaining amount | Notes  |
|--|-----------------|----------------|------------------|------------------|--|
| <b>Finance enterprise resource planning ('ERP') software</b> | 400,000         | -              | 68,664           | 331,336          | The District deployed the Finance module element of the replacement ERP software in April of 2021. The District will deploy the HR and Payroll module in 2022, utilising the remainder of this budget.   |
| <b>Electric bus acquisition</b>                              | 300,000         | 500,000        | 265,865          | 534,135          | <p>The District acquired two electric school busses during the year using grant funding and local capital. The Board has allocated further funding to local capital to facilitate the future acquisition of electric busses.</p> <p>The Budget Adjustment Plan for the 2021/22 school year ('the BAP') approved by the Board on April 21, 2021 required the transfer of \$500,000 of surplus to local capital to allow the District to replace older school busses to with electric busses instead of regular petroleum fueled busses. The amended 2020/21 budget does not reflect this transfer as the Board approved the transfer later in the school year when a reasonable estimate of year-end surplus was available.</p> <p>The BAP can be found on the school district website: <a href="https://sd22.bc.ca/wp-content/uploads/2021_22-Approved-Budget-Adjustment-Plan-April-21-2021.pdf">https://sd22.bc.ca/wp-content/uploads/2021_22-Approved-Budget-Adjustment-Plan-April-21-2021.pdf</a></p> |
| <b>Facility improvements</b>                                 | 855,139         | 1,085,354      | -                | 1,940,493        | <p>The Board set aside \$855,139 in the previous school year to fund future facility improvements, of which \$35,000 the Board then allocated to fund the creation of an outdoor learning space at Beairsto.</p> <p>The BAP also approved the transfer of \$436,113 of surplus to local capital to fund facility improvements. This will help provide the means to perform any capital projects identified by the long-range facilities plan that is currently in development.</p> <p>Profits from the International Program are unpredictable. This makes them suited towards setting aside for capital funds. Since the International Program was established, profits have primarily been utilised to fund the updating of the School District's</p>  |

| Purpose                                  | Opening balance  | Transferred in   | Assets purchased | Remaining amount | Notes  |
|--|------------------|------------------|------------------|------------------|--|
|  |                  |                  |                  |                  | technology infrastructure, and the completed Board Office renovation and portable replacement project. The BAP approved the transfer of the profit from the International Program to local capital. The forecast profit at the time of preparation of the BAP was \$500,000. The actual profit for the year is \$684,241, which is included in the amount identified for transfer here.                            |
| <b>Beairsto Outdoor Learning Area</b>    | -                | 35,000           | 4,079            | 30,921           | The project commenced during the year, utilising some of the \$35,000 set aside for this purpose.  |
| <b>Learning commons creation</b>         | 370,000          | -                | -                | 370,000          | 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 five years, as the District makes improvements to school facilities consistent with the recommendations of the committee. |
| <b>Portable acquisition</b>              | 594,752          |                  | 541,456          | 53,296           | The District acquired and installed four portable classrooms during the year using funds allocated in the previous year.   |
| <b>School shop equipment replacement</b> | 16,170           | 30,000           | 23,465           | 22,705           | The Board allocated \$30,000 a year to the replacement of school shop equipment.   |
| <b>Total</b>                             | <b>2,903,971</b> | <b>2,835,690</b> | <b>2,564,054</b> | <b>3,175,607</b> | Agrees to schedule 4, page 38 of the financial statements  |

## **Long Term Facility Plan**

The District's Long Term Facility Plan was finalised on June 17, 2016. It can be found at <http://www.sd22.bc.ca/District/FacilityPlan/Pages/default.aspx>

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

The plan also identified the need to develop options for the District's Alternate Programs. These programs include vLearn, Open Door, ALP (housed at the Dorothy Alexander Centre), and Crossroads. It is very unlikely that the District will obtain grant funding to acquire or construct new space, meaning local capital is the most likely source of funding should capital investment be required.

An update of the Long Term Facility Plan is underway. Management expect to complete this in the fall of 2021. Included within local capital is \$1.9 million that the Board may use to fund recommendations of the updated plan.