



**Central Okanagan
Public Schools**
Together We Learn

Financial Statement Discussion and Analysis

For the Year Ending June 30, 2023



Financial Statement Discussion and Analysis

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Introduction

This report is a financial statement discussion and analysis of the financial performance of Central Okanagan Public Schools (School District No. 23 (Central Okanagan)) for the fiscal year ended June 30, 2023. It is based on currently known facts, decisions, or conditions. This should be read in conjunction with the District's audited financial statements. The preparation of this financial statement discussion and analysis is management's responsibility.

The District:

- lives on the unceded Traditional Territory of the Okanagan People.
- serves more than 235,000 citizens living in 4 municipalities - Peachland, West Kelowna, Kelowna, Lake Country, and the Regional District of Central Okanagan.
- is the fifth largest district in the province and serves over 24,500 students.
- serves 50 schools/sites - 32 elementary, 8 middle, 5 secondary, 1 alternative school, 3 learning centres and 1 online learning (K-12).
- has 7 Board of Education Trustees.
- continues to welcome an increased number of immigrant families and English Language Learners (ELL) into the Central Okanagan.
- continues to welcome international students and is proud that more Indigenous students are self-identifying.

Vision

Together We Learn.

Purpose

To educate students in a safe, inclusive, equitable and inspirational learning environment where each learner develops the attributes and competencies to flourish in a global community.

Our Overarching Goal

Our learners will develop foundational skills and core curricular competencies so that they can be empowered to follow their passions and strengths and thrive holistically as resilient and engaged global citizens.

Cultural Values

- **Honesty** is the building block for relationships and the basis for trust. It is the absence of falsehood and the action of full disclosure. It is the ultimate test of moral strength. When honesty is present, integrity will also be apparent.
- **Respect** is "to consider worthy of high regard". Being respectful is an attitude of honouring people and caring about their rights.
- **Responsibility** is being accountable for our actions and their consequences. When we demonstrate responsibility, we are doing our best to meet the expectations of others and ourselves.
- **Equity** empowers each learner to thrive, holistically.
- **Empathy** is a feeling of concern, compassion and understanding of another's situation or feelings.

Financial Statement Composition Overview

The two key audited statements are:

- **Statement of Financial Position** - summarizes the combined assets and liabilities at June 30th. This provides an indication of the financial health of the District.
- **Statement of Operations** - summarizes the combined revenues received and expenses incurred during the twelve months between July 1 and June 30. This provides an indication of the funding received by the District and how that funding was spent.

A Statement of Changes in Net Financial Assets (Debt), Statement of Cash Flows and the notes to the financial statements are also audited and provide further analysis of the District's finances.

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. These schedules provide more detail specific to each of the three funds (Operating, Special Purpose and Capital funds). The balances in these schedules are consistent, when combined together, with the financial statements. These schedules are comprised of:

- **Schedule 2: Operating Fund** – accounts for the District' grants and other operating revenues as well as the District's operating expenses. As the District must present a balanced Operating Fund budget, any surplus is carried forward to future years.
- **Schedule 3: Special Purpose Fund** – accounts for grants and other contributions whereby spending is for specific activities. As these are targeted funding, any unspent funds are accounted as deferred revenue, not accumulated surplus.
- **Schedule 4: Capital Fund** – accounts for the District's investment in capital assets, local capital as well as bylaw capital, other provincial capital, other capital, land capital and Ministry of Education and Child Care restricted capital.

Summary of Significant Events

Capital Projects

During the year, the District managed several large capital projects.

École Dr Knox Middle School offers a full range of educational programs for grades seven to nine. The existing nominal operating capacity of the school is 800 students. The 2022/2023 enrolment was 965 students. It is projected that the number of students will continue to increase over the next ten years.

School District No. 23 (Central Okanagan) executed the Capital Project Funding Agreement for the addition to École Dr. Knox in July of 2022, the project has an overall budget of \$23.4 million and the project team is within budget.

The scope of the project is to construct a 300 capacity, two-story expansion onto École Dr. Knox Middle School. This will increase the student capacity from 800 up to 1100 students.

Construction will include a connection to the existing facility at the main floor at the multipurpose space and on the second floor by constructing an elevated walkway to connect the upper floor of the existing building with the upper floor of the addition.

The expansion will include instructional spaces to support Art, Foods, Technology Education, Inclusive Education, Counselling along with General Instruction. There will also be inclusive washrooms to support all users across each floor of the expansion.

To reduce energy consumption and greenhouse gas emissions, the project will increase the number of onsite wells in support of the designed geothermal mechanical system.

The project moved into construction in April 2023 and is forecasted to be ready to welcome students back for the 2024/2025 school year.

École George Pringle Elementary School was demolished during the year. The demolition of the elementary school proceeded on budget in December 2022 with the contractor forecasted to finalize their scope in Fall 2023. The District has been approved to construct a new 1200 student capacity secondary school in the rapidly growing area of West Kelowna. Currently, Mount Boucherie Secondary School is the District's only secondary school serving over 1760 students in West Kelowna. The new École George Pringle Secondary School will support 21st Century Learning promoting creativity, communication, and collaboration and alleviate the student pressure at Mount Boucherie Secondary School and allow the District to redistribute students better throughout the area. The construction of the new school will allow the District to reclaim valuable sports field area and site space by reallocating the seventeen portables, which are at Mount Boucherie Secondary School, to other school locations to accommodate ongoing student growth throughout our District.

The project team is working through the procurement process with the shortlisted Design Build proponents. The final Design Builder is forecasted to be selected in early 2024 and the anticipated



construction start is planned for spring of 2024. The new École George Pringle Secondary School is targeted to welcome new students for the 2027/2028 school year.

The new secondary school will offer programs to support Arts, Science, Music, Drama, Indigenous Education, Automotive, Woodworking, Metal work, Technology, Nutrition, Physical Education and General Instruction, as well as Outdoor Learning, Multipurpose, Gathering, Counselling, Administration and Support spaces. The Neighbourhood Learning Centre initiative will provide a dedicated Indigenous space within the school and a standalone childcare facility to support infant and pre-school care.

The project design will include Greenhouse Gas reduction strategies such as a Geoexchange system, ground source heat pumps, and condensing hot water heaters. Project energy reduction strategies include the use of LED fixtures and lighting control, building automation, demand control ventilation, heat recovery ventilation, improved building envelope.

Additional Capital Projects

- Continued construction of seven childcare spaces Anne McClymont Elementary, Black Mountain Elementary, Ellison Elementary, École Hudson Road Elementary, George Elliot Secondary, North Glenmore Elementary and École Okanagan Mission Secondary. The plan is to have all seven childcare spaces commence operations between August 1, 2023, and spring of 2024.
- On-going ventilation upgrades include Mount Boucherie Secondary School, Rose Valley Elementary, École Glenrose Elementary, and Peachland Elementary.
- Completed electrical upgrade at École H.S. Grenda Middle School.
- Purchased replacement buses and one electric vehicle for use by the Operations Department
- Disposed of property at 580 Doyle Street.
- Reopened two elementary schools – École Bellevue Creek Elementary School in the Mission and Webber Road Elementary School in West Kelowna.

Indicators of Financial Health

The following highlights some of the more significant financial health indicators of the District.

Financial Assets

	(in millions)			
	2023	2022	Variance	Variance
<u>Financial & Non Financial Assets</u>	\$	\$	\$	%
Cash And Cash Equivalents	52.7	54.4	(1.7)	-3%
Accounts Receivable	13.8	5.4	8.4	156%
Portfolio Investments	13.8	13.4	0.4	3%
Tangible Capital Assets	360.6	344.9	15.7	5%
Prepaid Expenses	0.4	0.6	(0.2)	-33%
Supplies Inventory	0.3	0.2	0.1	50%
Total Financial & Non Financial Assets	441.6	418.9	22.7	5%

Cash & Cash Equivalents – Statement 5 (Cash Flow) provides information regarding cash inflows from operations and investments and outflows that pay for District activities. The District requires a strong cash balance in order to pay for current liabilities, including trade accounts payable and wages payable. Included in the cash balance of \$52.7M at June 30, 2023, are restricted funds relating to summer savings and deferred salary leave plans (\$11.47M), school generated funds (\$4.69M) and restricted cash for Ministry of Education and Child Care (MOECC) deposits (\$19.16M). Every year in July and August, the monthly funding from the MOECC drops significantly so additional cash funds are required to carry the District through the summer.

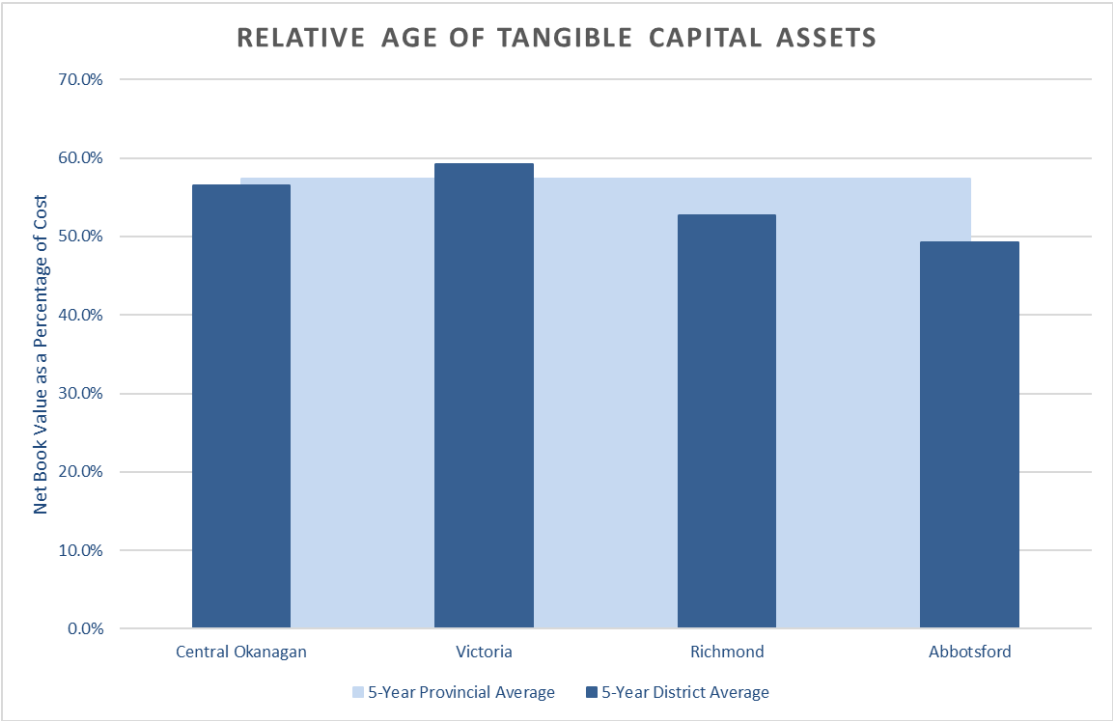
Accounts Receivable – A significant change in Accounts Receivable is related to an outstanding balance from the Ministry of Child and Family Development (\$10.39M) for the construction of new childcare spaces at seven district locations as noted above.

Portfolio Investments – Fluctuates as the market changes. In 2023, interest rates ranged from 1.31% to 4.98% (2022 range - 1.31% to 4.95%).

Tangible Capital Assets – During the year, land was sold on Doyle Street, and École George Pringle Elementary was demolished for future use of the land for a new high school. Construction of several new childcare spaces commenced resulting in significant additions to WIP.

During the year, the Office of the Comptroller General (OAG) instructed the District to retroactively assess legal liabilities that exist for the removal and disposal of asbestos and other environmentally hazardous materials within the District owned buildings that will undergo major renovations or demolition in the future. The associated costs have been reported as an increase in the carrying value of the associated tangible capital asset. Accumulated amortization has been recorded as \$25.9M.

The District's tangible capital asset net book value (cost less amortization) compared to the tangible capital assets historical cost (cost when purchased) it is noted that the percentage illustrates the relative age of the asset. A high percentage indicates newer assets. The concern with a low ratio is that capital assets may not be replaced on a regular basis, which may be an indication of potential health and safety issues, or a significant cost in the future to replace capital assets. As illustrated in the graph below, the District's five-year average for buildings only (buildings account for over 80% of the District's total assets) of 56.5% is on par with the provincial average of 57.3% and just over the average of comparable size FTE districts at 54.1%. This indicates the District is maintaining its buildings in a timely fashion.



Prepaid Expenses – Prepayment of software & other licenses for multiple years.

Supplies Inventory – Central Stores maintains an inventory on hand for schools to access. Fluctuations are in relation to supply and demand at the school sites.

Financial Liabilities

	(in millions)			
	2023	2022	Variance	Variance
	\$	\$	\$	%
Financial Liabilities				
Accounts Payable	21.1	17.5	3.6	21%
Unearned Revenue	4.2	4.1	0.1	2%
Deferred Revenue	5.6	4.4	1.2	27%
Deferred Capital Revenue	267.7	252.3	15.4	6%
Employee Future Benefits	11.3	10.7	0.6	6%
Asset Retirement Obligation	25.8	25.8	0.0	0%
Other Liabilities	13.8	13.4	0.4	3%
Total Financial Liabilities	349.5	328.2	21.3	6%

Accounts Payable – the increase in accounts payable at the end of the year relates to progress billing and builder lien holdbacks for the current capital projects (École George Pringle Elementary, École Dr. Knox Elementary addition, and the seven childcare spaces). There was also an increase in accounts payable due to the transition to the new Finance system, Sparkrock, on June 1, 2023. There was a delay in processing invoices and expenses as District staff underwent this transition.

Unearned Revenue – This represents fees collected in fiscal 2023 from International Education students coming in the 2024/2025 school year.

Deferred Revenue – Special Purpose Funds remaining balances (i.e., Classroom Enhancement Fund (CEF), Community Link, Learning Improvement Fund (LIF), Student and Family Affordability Fund, Early Learning Capacity Building Fund, Early Childhood Education, Mental Health in Schools Fund, Seamless Day Fund, School Generated Funds, Annual Facilities Grant (AFG) underspend) etc. to be spent in future years.

Deferred Capital Revenue – The current year balance has increased due to the addition of significant work in progress (WIP) during the year for facility improvements on École George Pringle Elementary School (\$4.78M), École Dr. Knox Elementary (\$1.96M) and the seven new childcare spaces (\$15.58M).

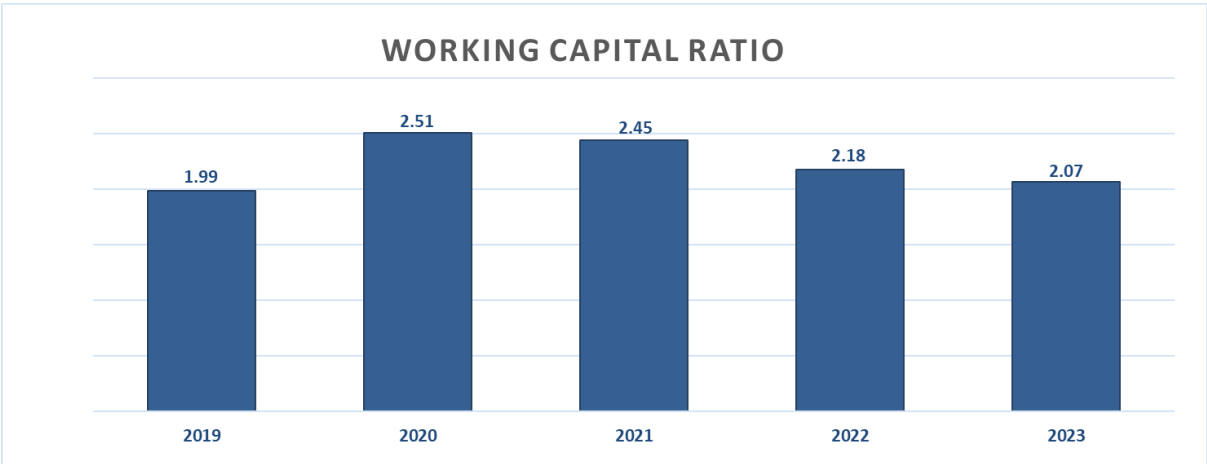
Employee Future Benefits – Relates to retirement payments to employees for years of service.

Other Liabilities – Includes accrued wages payable, employer health tax and other employee benefits.

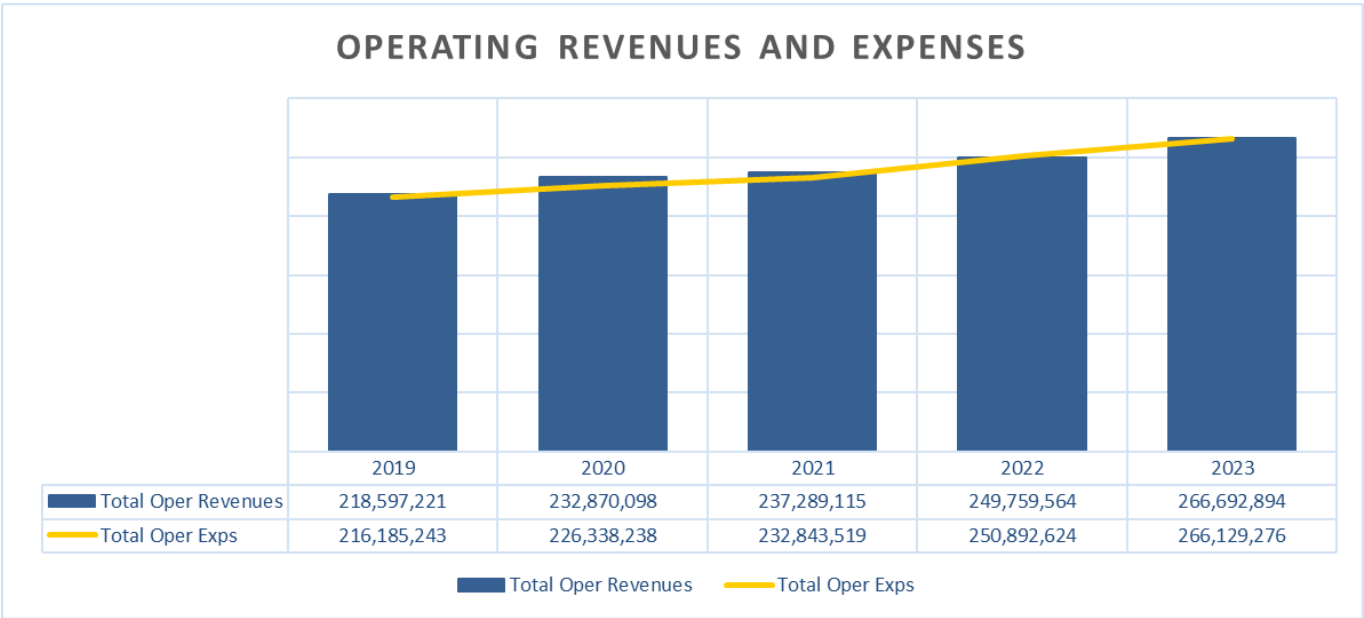
Asset Retirement Obligation – During the year, the Office of the Comptroller General (OAG) instructed the District to retroactively assess legal liabilities that exist for the removal and disposal of asbestos and other environmentally hazardous materials within the District owned buildings that will undergo major renovations or demolition in the future. The estimate of the obligation is \$25.9M.

Analysis of Financial Health

Working Capital Ratio – also called the current ratio, is a liquidity ratio that measures a District's ability to pay off its current liabilities with current assets. A working capital ratio greater than one is desirable as it means that the District has the ability to pay current liabilities as they are due. A working capital ratio of less than one (1) indicates that the District would have to borrow to meet short-term obligations. The working capital ratio is calculated as current assets divided by current liabilities. The District's working capital ratio continues to be healthy and well above one.

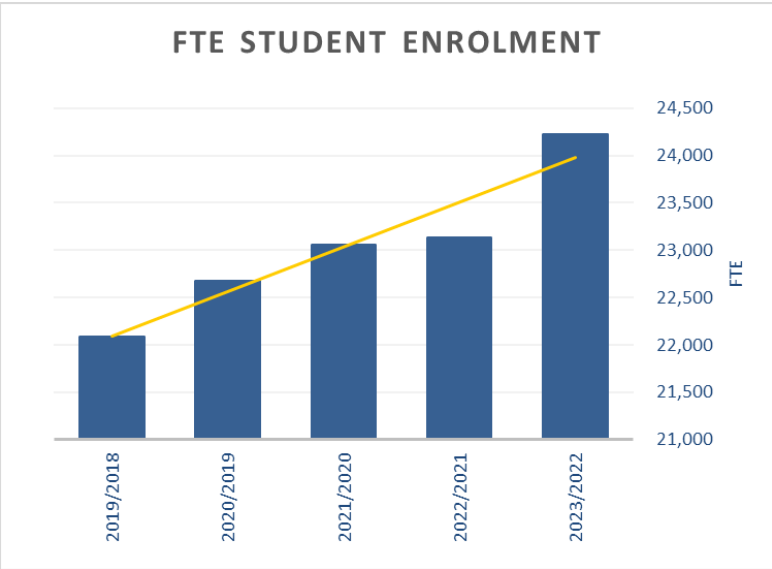


Operating Revenue & Expenses – the following chart illustrates the District's operating revenue and expenses over a five-year period. In fiscal 2023 (per Schedule 2 of the audited financial statements), the District experienced an operating surplus of \$563K for the year. There was a modest unrestricted surplus of \$1.29M.



Revenue Overview

The District has seen exponential growth in student enrollment which is in line with the overall population growth in the Central Okanagan as this region is noted as one of the fastest growing regions in Canada.

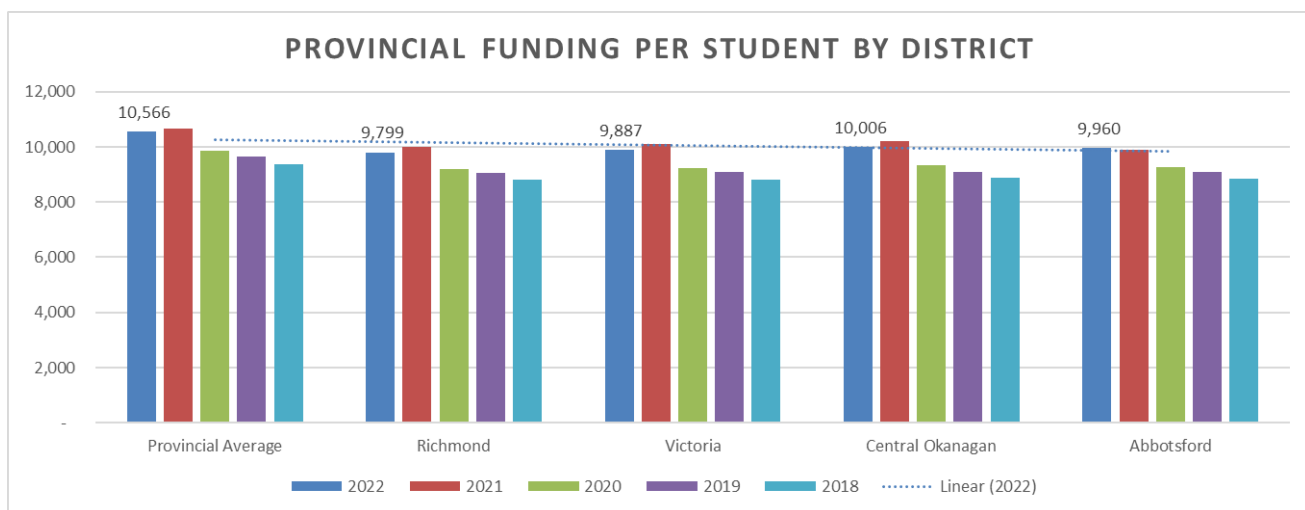


Provincial Grants – Revenue is highly reliant on funding from the Provincial government, which is tied directly to student enrolments. Student enrollment fluctuates year to year which directly influences Annual Operating Grant Revenue. In 2023, 91% of total revenues were from the Ministry of Education and Child Care through Provincial Operating Grants.

In the current year, it was noted that there was an increase in operating grants due to additional student growth which was over and above the growth accounted for in the 2022/2023 Annual Budget. There was an overall increase of \$6.15M received as a result of the changes in total enrolment and funding received.

There was also Labor Settlement funding received (\$9.2M) for negotiated wage increases for staff which included a 3.24% negotiated increase for teachers, 3.24% plus \$.25 per hour negotiated increase for CUPE staff plus negotiated labour market adjustments for some CUPE groups. A 4%, fully funded, grid increase for excluded staff, District principals, principals, and vice principals.

The District receives less funding, on average, per FTE student compared to other comparable size districts and the province average. This differential occurs because there are specialty grants provided to districts that address factors unique to specific districts such as geographical differences, special education enrolment and salary differentials.



Tuition and Federal Grants – Enrolment in the International Education Student program remains strong with a total of 430 FTE enrolled in 2022/2023 (415 in 2021/2022). This program continues to fund enhancements throughout the District including additional teachers to reduce class size and to support middle and secondary schools as well as additional discretionary funding for schools.

With the increase in refugee and immigrant families to the Central Okanagan, the District continues to apply for and receive approval for additional Settlement Worker in Schools (SWIS) funding (\$500K) from the federal government to support this growth. As well, in the 2022/2023 school year, schools applied for \$300K of Jordan Principle funding to provide products, services and supports to Indigenous students as they need them.

Other Revenue – Budgeted amounts of transportation revenue, included in Other Revenue, were based on actual revenue for the period year due to uncertainty regarding final ridership and subsidized fees. Actual figures include an approximate increase by 100 riders than budgeted, as well as an increase in transportation fees of \$50 per year per ride.

Rentals and Leases – During the year, the community rental rates increased (Non-profit organizations increased by 5%, For-Profit organizations increased by 10%) and pre-school and after-school rental rates increased by 5%. In addition, the number of hours rented to the community increased by approximately 10% compared to the previous year.

The following graph compares the 2022/2023 Amended Budget for Operating Revenue to the actual Operating Revenue received in the 2022/2023 school year.

Expenditure Overview

British Columbia's Consumer Price Index (CPI) rose 2.8% year over year in June 2023 which significantly impacted the costs of goods and services noted in this fiscal year. In addition, the aftermath of COVID-19 exposed risks associated with organizations dependent on inputs from these regions due to the global lockdowns, rapid increase in demand for goods and the heavy reliance on foreign suppliers to produce these goods. This mismatch between supply and demand resulted in global supply chain disruptions, supply shortages and increasing costs to the end-user.

Contract negotiations for both COTA and CUPE were finalized in the spring of 2023 resulting in 3.24% negotiated increase for teachers, 3.24% plus \$.25 per hour negotiated increase for CUPE staff plus negotiated labour market adjustments for some CUPE groups and a 4%, fully funded, grid increase for excluded staff, District principals, principals, and vice principals.

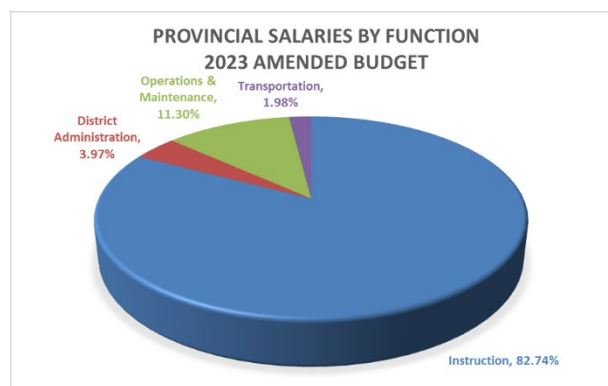
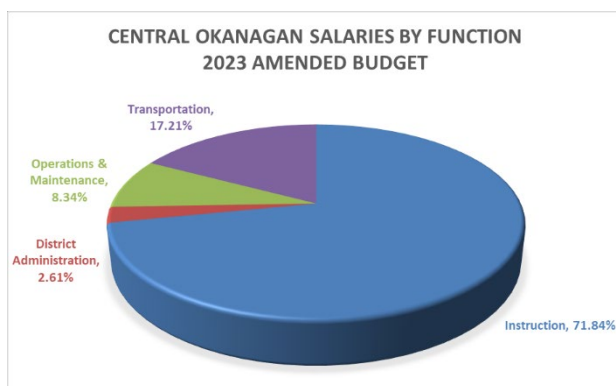
Since the COVID-19 pandemic, employee illness costs continue to trend higher than budget every year. This has resulted in additional illness days being added to the budget each year.

Market conditions in the Central Okanagan have increased exponentially over inflation, i.e., in 2013, roofing was approx. \$22 sq foot, in the current year it is \$38 sq foot (73% increase). The District is experiencing this cost escalation in many areas including utilities, diesel and natural gas costs, repairs and maintenance and food costs.

The demand for technology hardware, software and system utilization continues at a rapid pace across all areas of our business. During the fiscal year, the District began to implement a new ERP system, Sparkrock, to run the day-to-day operations. It is expected this ERP implementation will be fully operational during the 2023/2024 fiscal year. The District also continued to focus resources on adding technology to the classrooms to support education and enhance learning.

The overall composition of operating expenses has not significantly changed from the previous year. 83% of the District's operating expenses are dedicated to salaries and benefits. Benefits include the employer portion of CPP and EI, payments for the employer health tax, WorkSafeBC, and pension plan contributions, and dental and health benefits. Increased staffing resulted in increased benefit costs.

As illustrated in the chart below, Instruction remains the largest expenditure for the District, with the majority made up of salaries and benefit costs for teachers. This is consistent with the Provincial composition. Transportation is highly dependent on the size of the District, the number of bus drivers required to service the area and the access to alternative public transportation.



Other specifics noted below regarding events and transactions that occurred in Fiscal 2023 impacting the variance from what was included in the Amended Budget.

Instruction

- 4 additional FTE's for teachers were added over the prior year (\$356K) due to student growth.
- Teacher illness and replacement cost was \$1.8M higher than budgeted, due to increased viral illness and societal changes after the COVID-19 pandemic where employees are advised to stay at home when ill.
- 2 additional FTE resource teachers were added over the previous year (\$170K) due to student growth.
- 16 CEAs were budgeted to manage increased SPED student FTE. As the District continues to grow in special needs students, more CEAs are required to manage the needs of the students. The District grew 152 student FTE between Sept F22 and F23 and another 120 students in February 2023.
- As noted in other departments, the increasing costs for services and supplies was noted due to inflation. In particular, there was a large increase in food costs related to the Community Link Fund.

Operations and Maintenance

- An accounting write down was required (\$996K) for the demolition of École George Pringle Elementary & the sale of Doyle Street, which was not previously budgeted for.

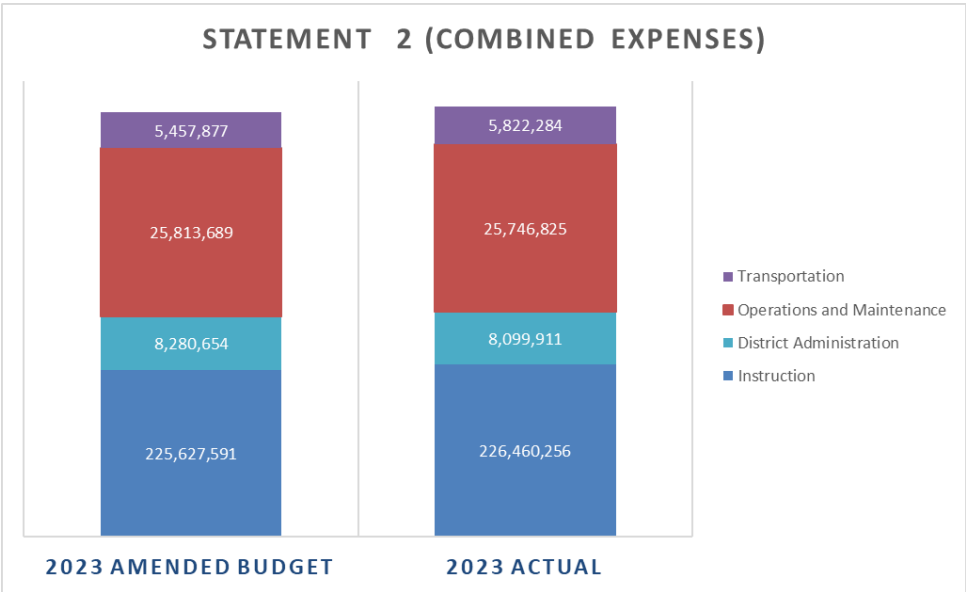
Transportation

- One new bus route was added in the year (\$67K).
- The District recovered \$368K more in field trips from schools over the previous fiscal year.
- Transportation added modules to the routing software (Trasversa) to better track routes, manage field trips and recoveries (\$147K). As well, overall cost escalation for services and supplies has resulted in increased costs over budget most notable, bus parts (\$154K) and diesel/natural gas (\$87K).

District Administration

Actual costs were below budgeted amounts for numerous staffing challenges – there were several vacant positions (HR Advisor, HR Managers, District Principal of Human Resources and Payroll Clerks). Although the actual expenses were below budgeted, when compared to the prior year's actuals, the District saw rising costs.

- Due to the District Administration staffing shortages noted above, there was an increase in contract services by \$93K during the year.
- Overall cost escalation for services and supplies has resulted in increased costs over prior year.



Reserves Overview

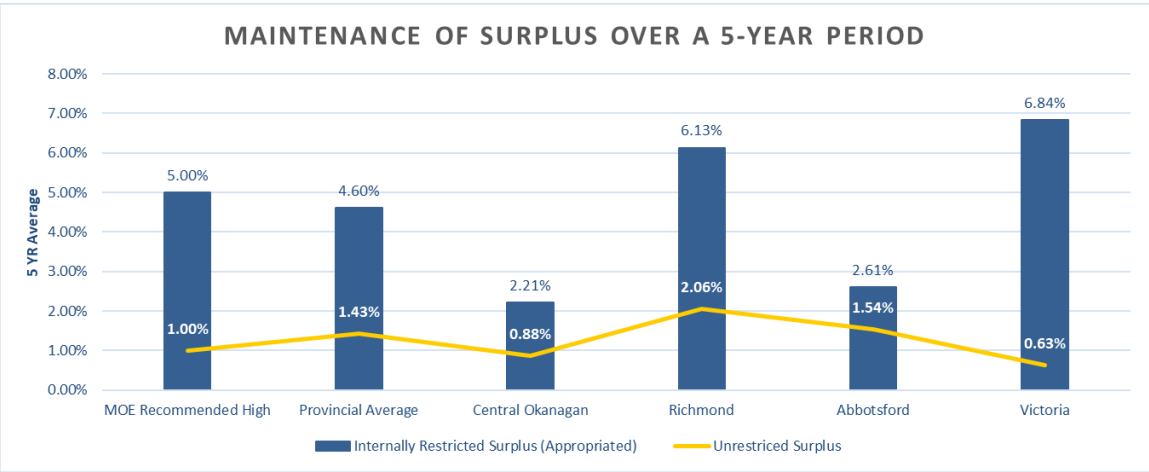
The District uses fund accounting to track revenues and expenditures. There are three funds that are reported in the District's financial statements:

OPERATING FUND	SPECIAL PURPOSE FUND	CAPITAL FUND
This fund includes revenues and expenditures related to the daily operations of the District	This Fund is restricted for a specific purpose and includes restricted school generated funds. These funds do not report a surplus as revenues are only recognized when the related expenditure occurs. If a deficit is noted within the fund, it is transferred to the Operating Fund or Capital Fund depending on the nature of the expenditure.	This fund includes financial activities for tangible capital assets. The Ministry of Education and Child Care provides capital funding which is accounted for using the deferral accounting methodology whereby capital revenue is recognized over the life of the related asset to match the amortization expense recorded in the financial statements. Thus, the revenue reported in the financial statements does not match the actual capital funding received in a year.

The Board of Education is responsible for ensuring the District is protected financially from forecasting risk and unforeseen circumstances.

Changes in Surplus – one of the key indicators of the financial health of an organization is the accumulated operating surplus. This indicator takes Accumulated Surplus from Operations (District's accumulated revenue in excess of expenses over time) and is compared to expenditures to determine the District's ability to react to emergent situations and the ability to fund special initiatives.

The Ministry recommends ranges of 2.5-5% for internally restricted surplus and 0.5-1% for unrestricted surplus. As illustrated in the graph below, when compared to the Province and other Comparable size District's, Central Okanagan is maintaining an unrestricted surplus within the acceptable range while the internally restricted surplus is slightly below the acceptable range. This will continue to be monitored in the next fiscal year.



For the 2023 fiscal year, the District's internally restricted surplus, as a percentage of total operating expenses, is .87% (2022 - 1.68%) and the unrestricted surplus, as a percentage of total operating expenses, is .48% (2022 - 0.17%). Both are well below the Ministry recommended ranges listed above.

Conclusion

Overall, as of June 30, 2023, the District has stable financial health when evaluated against comparable sized districts and the Province. This is illustrated throughout this report, including a working capital ratio above one and a high percentage in changes in capital assets indicating the District's maintains new assets however due to unfunded inflationary costs incurred as a result of the aftermath of the COVID-19 pandemic, the District's 2023 internally restricted and unrestricted surpluses are well below the recommended Ministry ranges.

This stable financial health can be contributed to sound financial management, planning and governance while managing the aftermath of a global pandemic and rising operating costs due to inflation.