

**Central Okanagan
Public Schools**

Together We Learn

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the Year Ending

June 30, 2021



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, 2021. It is based on currently known facts, decisions, or conditions. This should be read in conjunction with the District's financial statements. The preparation of this financial statement discussion and analysis is management's responsibility.

The District:

- lives on Okanagan Territory.
- serves 195,000 citizens living in 4 municipalities - Peachland, West Kelowna, Kelowna, Lake Country, and the Regional District of Central Okanagan.
- is the 5th largest district in BC with approximately 23,640 students.
- has 45 schools - 31 elementary, 8 middle, 5 secondary, and 1 alternative school (operating on 4 campuses).
- has 7 Board of Education Trustees.
- has an increasing number of immigrant families residing in the Central Okanagan.
- welcomes more English Language Learners (ELL) and international students and is proud that more Indigenous families are self-identifying.

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.

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.

Vision

Together We Learn.

Cultural Values

The core values of empathy, equity, honesty, responsibility, and respect support our mission to educate students in safe, inspirational, inclusive learning environments where each student develops the knowledge, skills, attributes, and competencies to be a lifelong learner and a healthy productive member of our global society.

- Empathy is a feeling of concern, compassion and understanding of another's situation or feelings.
- Equity is addressing differences with understanding and designing learning to provide access to opportunities for all.
- 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.
- Responsibility is being accountable for our actions and their consequences. When we demonstrate responsibility, we are doing our best to meet the expectations of ourselves and others.
- Respect is "to consider worthy of high regard". Being respectful is an attitude of honoring people and caring about their rights.

Financial Statement Composition Overview

The two key audited statements are:

- **Statement of Financial Position** - summarizes the combined assets and liabilities on 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 audited financial statements are in a format prescribed by the Ministry of Education. 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, 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 grant 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 and are carried forward.
- **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 restricted capital.

Summary of Significant Events

COVID-19 Pandemic

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020 and has had a significant financial, market and social dislocating impact worldwide. Under direction of the Provincial Health Officer, all schools suspended in-class instruction in March 2020 and the District remained open to continue to support students and families in a variety of ways. On September 10, 2020, the Province of BC directed schools to welcome students back to classrooms under Stage 2 of the provincial K-12 Restart Plan. Students at Central Okanagan Public Schools completed the 2020-2021 school year on June 29, 2021.

The ongoing impact of the pandemic continues to present uncertainty over future cash flows, may have a significant impact on future operations including decreases in revenue, impairment of receivables, reduction in investment income and delays in completing capital project work. As the situation is dynamic and the ultimate duration and magnitude of the impact are not known, an estimate of the future financial effect on the District is not practicable at this time.

Capital Projects

During the year, the District managed several large capital projects including:

- Ventilation upgrades at A.S. Matheson Elementary and South Rutland Elementary schools.
- Continued construction of H.S. Grenda Middle School, to be opened in September 2021.
- Completed multiple Annual Facilities Grant (AFG) capital assignments.
- Installed an electric bus charging station.
- Built two new playgrounds at North Glenmore Elementary and Chief Tomat Elementary schools.

INDICATORS OF FINANCIAL HEALTH

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

Combined Assets & Liabilities (STATEMENT 1-Current Year Compared to Prior Year)

Financial Asset Summary

	(In millions)		
	2021	2020	\$ Diff
<u>Financial Assets</u>			
Cash & Cash Equivalents	60.4	42.1	18.4
Accounts Receivable	4.1	3.2	0.9
Portfolio Investments	14.5	14.2	0.3
Tangible Capital Assets	345.6	326.9	18.7
Prepaid Expenses	0.4	0.4	(0.1)
Supplies Inventory	0.2	0.2	0.0
Total Financial Assets	425.2	387.0	38.2

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 to pay for current liabilities, including trade accounts payable, wages payable and the teacher summer savings plan.

Included in the cash balance of \$60M at June 30, 2021 are restricted funds received from the Ministry of Children & Family Development (\$8.4M) to fund new childcare spaces at 7 school locations, teacher summer savings and deferred salary leave plans (\$10.37M), school generated funds (\$3.4M) and restricted cash being held by the Ministry of Education (\$23.4M), operating holdback funds of \$721K received and carried forward into fiscal 2022. These funds are to be used to assess learning impacts to students due to the COVID pandemic.

The monthly funding from the Ministry of Education drops significantly from July through October each year so additional cash funds are required to carry the District through these four months.

Accounts Receivable – similar to last year Ministry of Education Certificate of Approval (COA) funds were requested on June 30, 2021, for the completion of H.S. Grenda Middle School. Long term receivables from schools, relating the construction of playgrounds and other minor facility improvements, increased in 2021 by \$175,000 over last year.

Portfolio Investments - Fluctuates as the market changes.

Tangible Capital Assets –Additions to Tangible Capital Assets relates mostly to the construction and equipping of H.S. Grenda Middle School and the District's computer refresh program.

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

Supplies Inventory - Central Stores maintains an inventory on hand for schools to access.

Financial Liability Summary

	(In millions)		
	2021	2020	\$ Diff
<u>Liabilities</u>			
Accounts Payable	19.5	14.8	4.7
Unearned Revenue	3.6	1.6	1.9
Deferred Revenue	3.8	3.8	(0.0)
Deferred Capital Revenue	257.5	229.7	27.8
Employee Future Benefits	10.5	10.2	0.4
Other Liabilities	11.6	9.3	2.3
Total Financial Liabilities	306.5	263.4	37.1

Accounts Payable – With an increase in International Education student FTE next year, the corresponding homestay deposits have increased (\$1.25M), teacher summer savings and deferred salary leave plans (\$10.37M), as well, an increase in progress and builder lien holdback invoices related to the construction of H.S. Grenda Middle School.

Unearned Revenue – This represents fees collected in 2020/2021 from International Education students coming in the 2021/2022 school year. Last year, due to the COVID-19 pandemic and the uncertainty of border closures and travel restrictions we saw a decrease in International Education students attending the 2020/2021 school year.

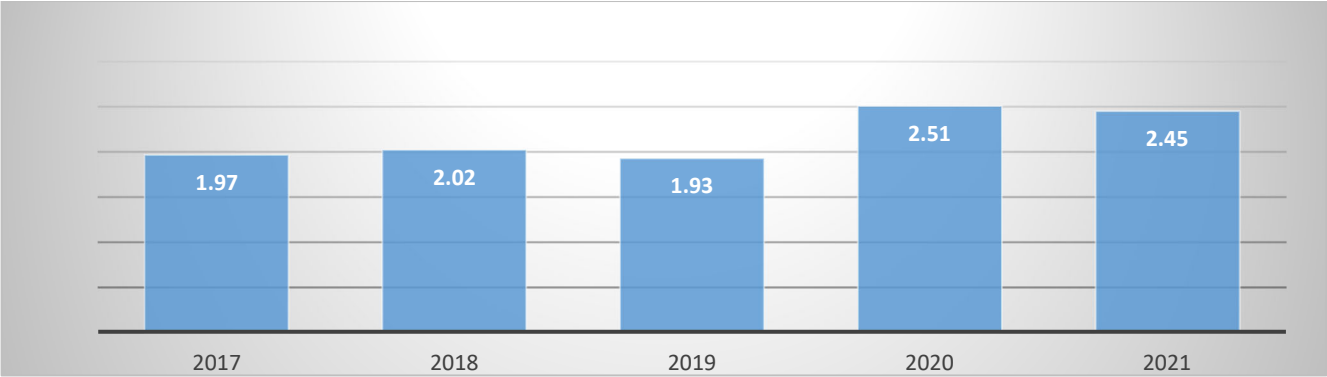
Deferred Revenue - Special Purpose Funds remaining balances (i.e., Classroom Enhancement Fund (CEF), Community Link, Learning Improvement Fund (LIF), school generated funds, Annual Facilities Grant (AFG) underspend) to be spent in future years.

Deferred Capital Revenue – The difference relates to the transfer of costs for the completion of Canyon Falls Middle School to deferred capital revenue (from work in progress), land capital increase (\$2.1M) in site acquisition charges plus \$8.4M received from the Ministry of Children & Family Development fund new childcare spaces at 7 school locations.

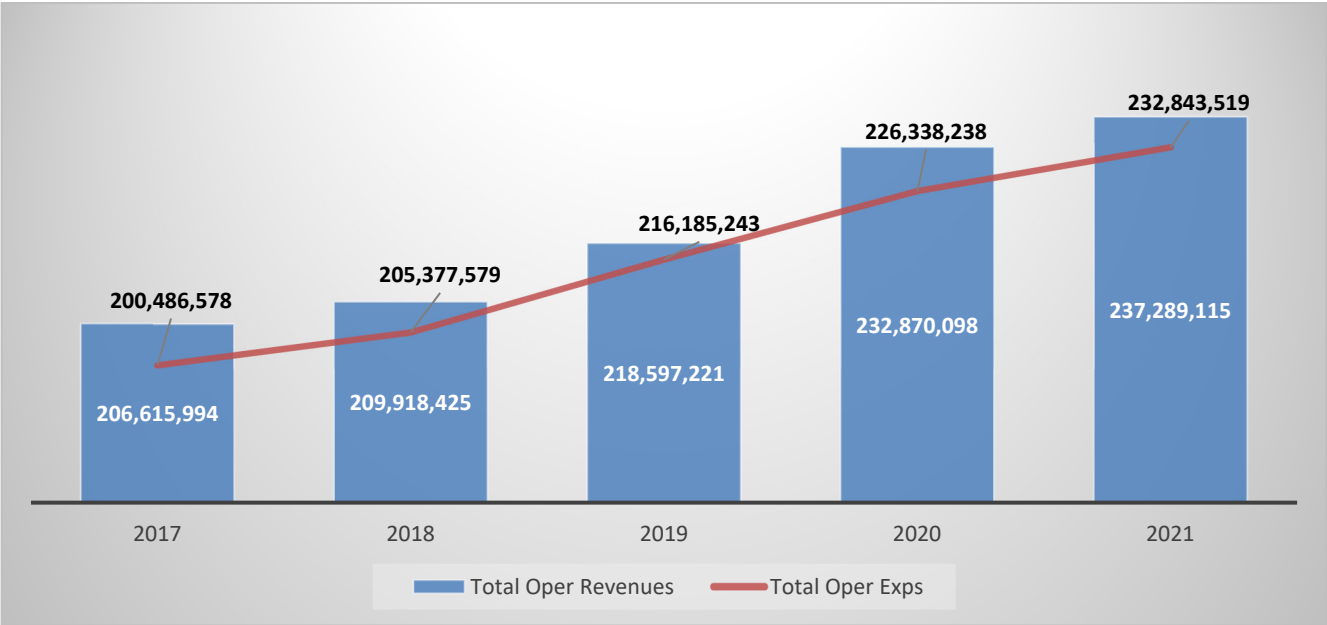
Employee Future Benefits - Relates to retirement payments to employees for years of service.

Other Liabilities - Various payroll related accruals higher in the current year due to increased work force, union and excluded staff grid increases

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 (1).



Operating Revenue & Expenses Trend – the following chart illustrates the District's operating revenue and expenses over a five-year period. This data shows a constant upward trend in both revenues and expenses. Revenue is mainly impacted by enrolment changes while expenses are primarily affected by staffing and collective agreement commitments.



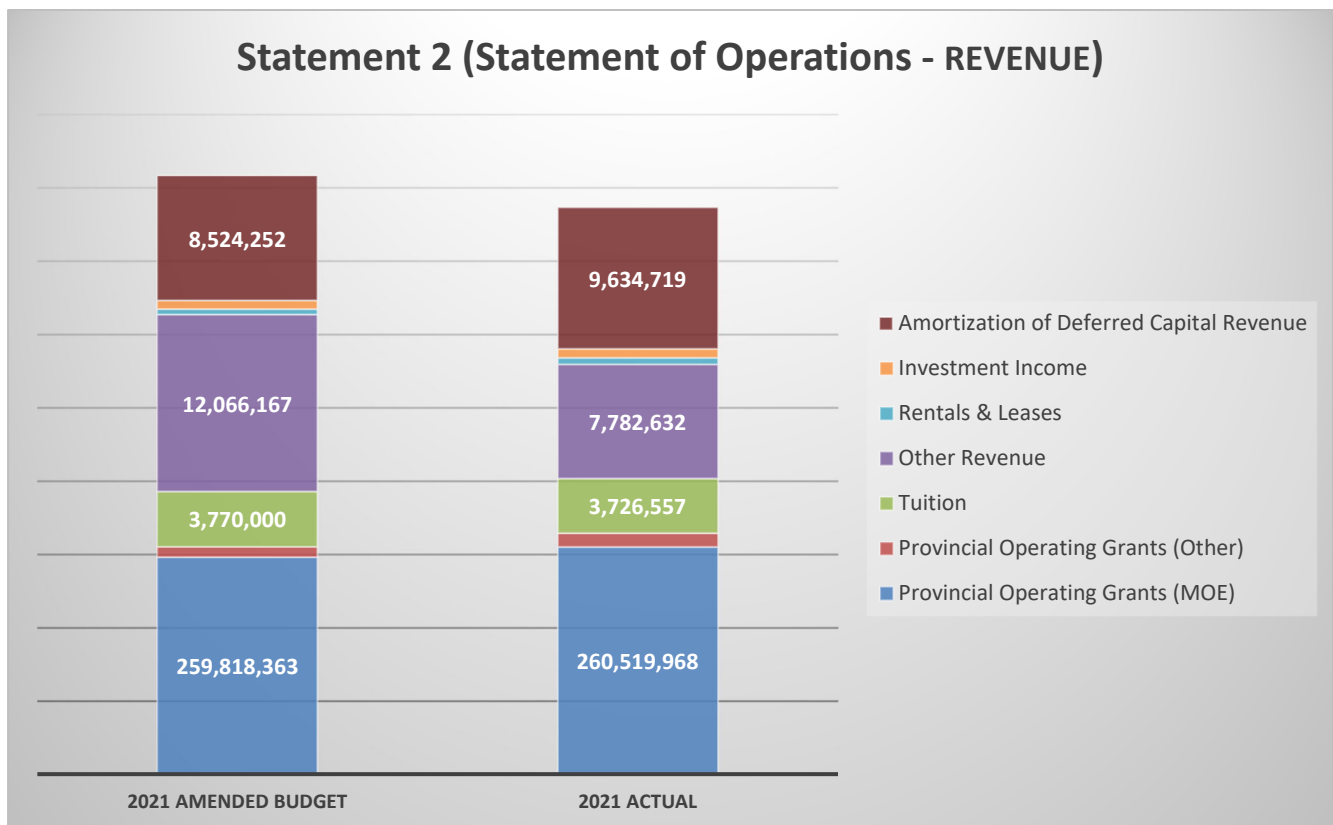
Combined Revenue & Expenses Trend (STATEMENT 2-Actual Compared to Amended Annual Budget)

REVENUE

Provincial Grants -The Ministry of Education provincial grant funding is slightly higher than the Amended budget because the District received \$721K of operating holdback funds. These funds are to be used to assess learning impacts to students due to the COVID pandemic in the upcoming school year.

Other Revenue – The Amended budget for school generated funds was \$7.8M, due to the COVID pandemic, \$3.9M less school fees were collected during the 2021 school year for field trips, travel, student activity fees, cultural performances, athletics etc.

Amortization – Amortization of deferred capital revenue is calculated using an amortization tool provided by the Ministry of Education. The actual amortization is \$990K higher than budgeted.



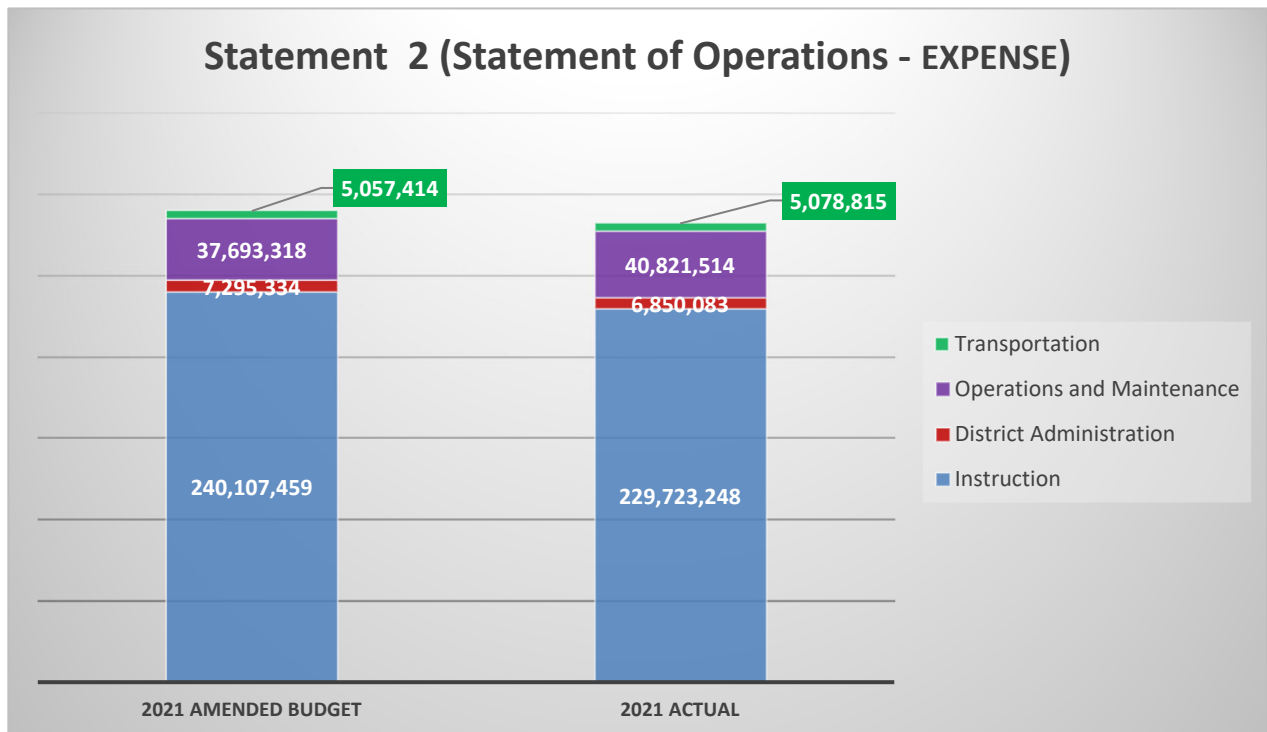
EXPENSES

Instruction

- When completing the Amended budget (Sch 3A only), federal and provincial spending related to Safe Return to Class was not segregated between Instruction, District Administration, Operations & Transportation. The audited financial statements reflect this change resulting in \$3.9M of costs originally budgeted for in Instruction being reclassified to District Administration, Operations & Maintenance and Transportation.
- Due to the COVID pandemic, less was spent on TOC release, field studies, travel, professional development, resources, photocopying etc. As well, \$3.9M less school spending occurred during the 2021 school year for field trips, travel, student activity fees, cultural performances, athletics etc.

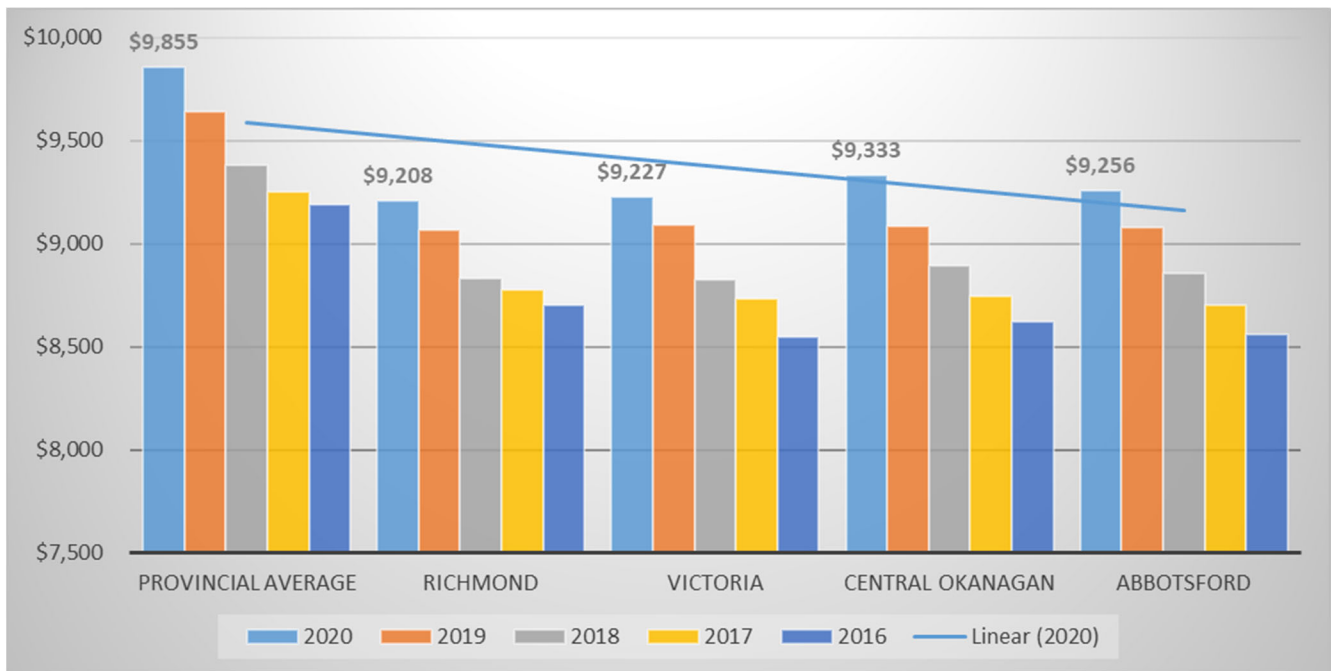
Operations and Maintenance

- When completing the Amended budget (Sch 3A only), federal and provincial spending relating to Safe Return to Class funding was not segregated between Instruction, District Administration, Operations & Maintenance and Transportation. The audited financial statements reflect this change resulting in \$3.1M of costs originally budgeted for in Instruction being reclassified to Operations and Maintenance.



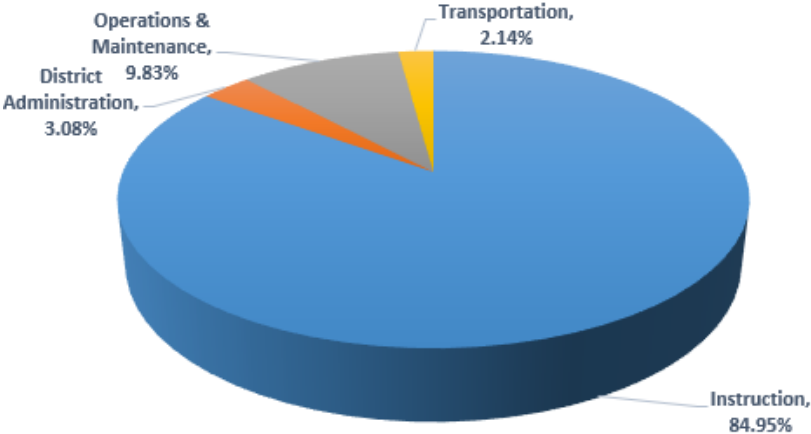
Ministry Operating Grant Funding per Student – The chart below indicates what our District receives in funding, on average, per FTE student compared to other comparable size districts and the province.

The information shows that our District receives less funding per FTE student than the provincial average. This differential occurs because there are specialty grants provided to districts that address factors unique to specific districts i.e., geographical differences, special education enrolment and salary differentials.

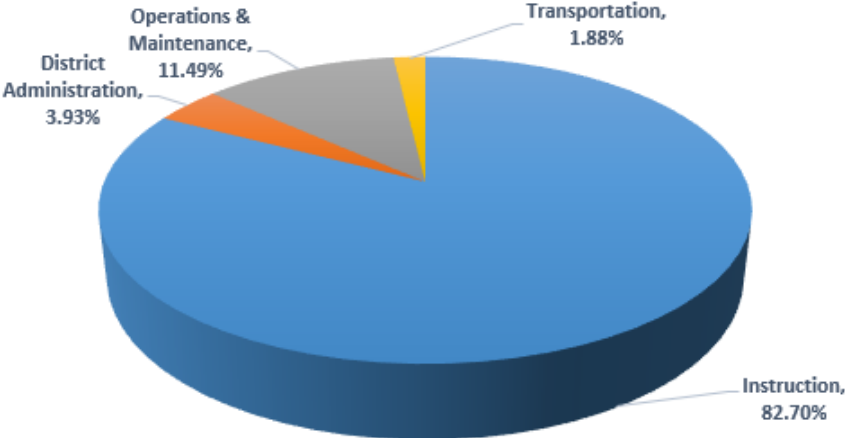


Operating Expenses by Function – The graphs below compare our District's operating expenses by function to the provincial average. As illustrated, Central Okanagan Public Schools dedicates almost 85% of the budget to instruction and only 3% to district administration. This is compared to the provincial average of 83% for instruction and almost 4% district administration.

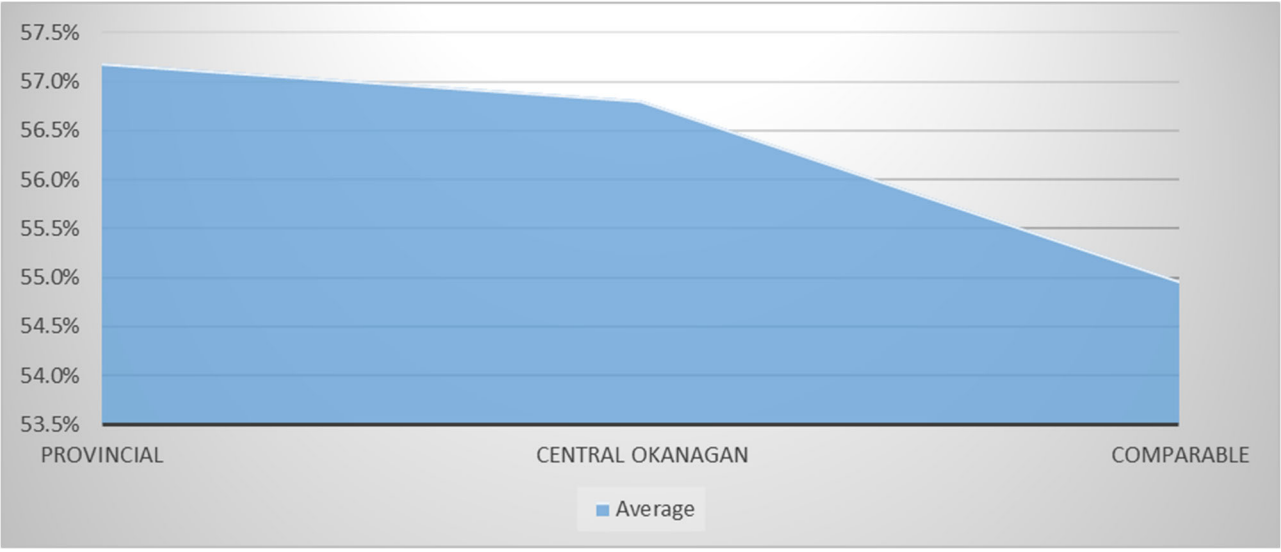
Central Okanagan (2021 Amended Budget Data)



Provincial (2021 Amended Budget Data)

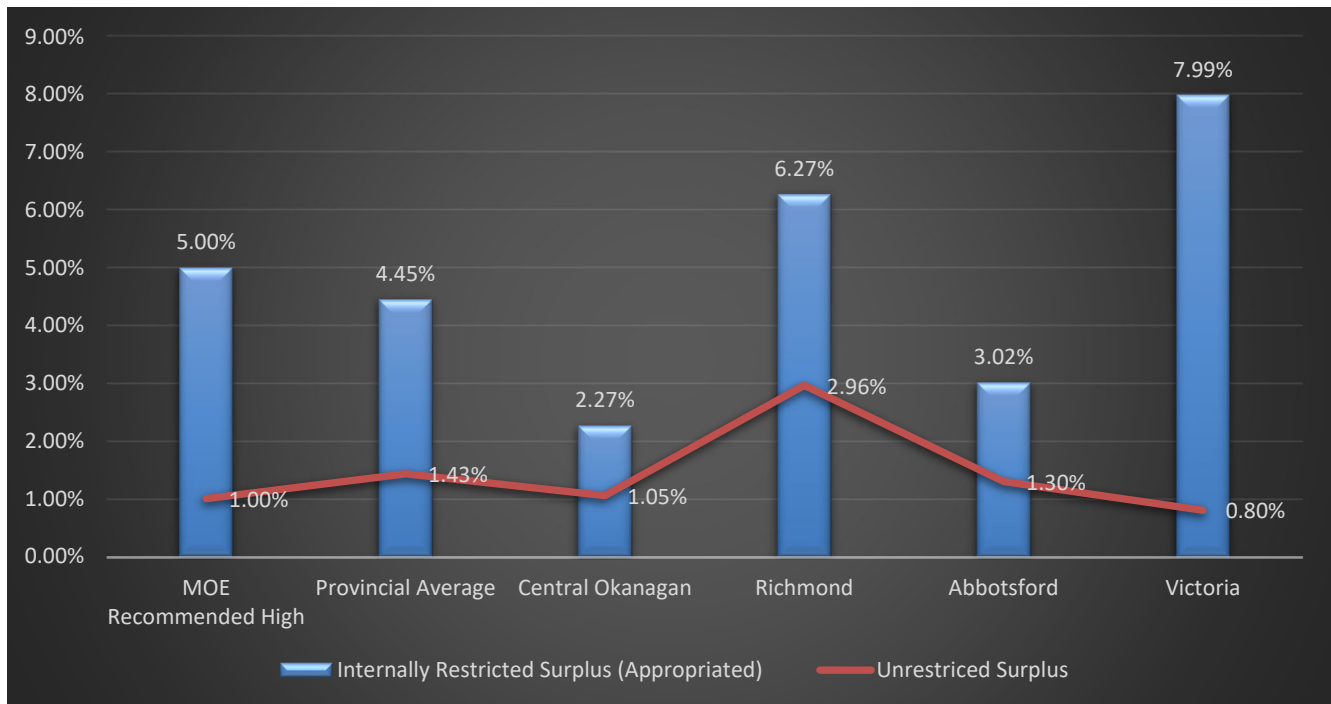


Changes in Capital Assets – If you compare the District's capital asset net book value (cost less amortization) to the capital assets historical cost (cost when purchased), the percentage illustrates the relative age of the asset. A high percentage indicates newer assets whereas a lower percentage indicates older 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 56.8% is on par with the provincial average of 57.2% and just over the average of comparable size FTE districts at 55.0%. This indicates the District is maintaining its buildings in a timely fashion.



Changes in Surplus Compared to Operating Expenses – 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.

When compared to the province, comparable size districts and the Ministry recommended ranges (2.5-5% for internally restricted surplus and .5-1% for unrestricted surplus), using a three-year average, the District is maintaining both an internally and unrestricted surplus within the acceptable range.



Overall Financial Health

Overall, as of June 30, 2021, the District has strong financial health when compared to comparable districts and the province. This is illustrated throughout this report, including a working capital ratio above one, a high % in changes in capital assets indicating the District's maintains new assets in a timely fashion and the average unrestricted and internally restricted surpluses remaining within the recommended Ministry ranges. This strong financial health can be contributed to sound financial management, planning and governance of the District.