

**Central Okanagan
Public Schools**

Together We Learn

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the Year Ending

June 30, 2022



Financial Statement Discussion and Analysis

Table of Contents

Description	Page
<u>Introduction</u>	
- The District	3
- Vision and Purpose	
- Overarching Goal	
- Cultural Values	
<u>Financial Statement Composition Overview</u>	
- Statement of Financial Position	4
- Statement of Operations	
- Schedule 2 - Operating Fund	
- Schedule 3 - Special Purpose Fund	
- Schedule 4 - Capital Fund	
<u>Summary of Significant Events</u>	4
<u>Financial Health Indicators</u>	
- Combined Assets & Liabilities	5
- Working Capital Ratio	
- Operating Revenue & Expenses Trend	
- Combined Revenue & Expenses Trend	
- Operating Funding per Student	
- Operating Expenses per Student	
- Changes in Capital Assets	
- Changes in Surplus Compared to Operating Expenses	
<u>Conclusion</u>	14

Introduction

This report is a financial statement discussion and analysis of the financial performance of Central Okanagan Public Schools (aka School District No. 23 (Central Okanagan) for the fiscal year ended June 30, 2022. 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 Okanagan Territory;
- serves 200,000 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 over 24,000 students.
- has 54 schools/sites - 33 elementary, 8 middle, 5 secondary, and 1 alternative school, 3 learning centres and 1 online learning (K-12).
- 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.

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. Each Central Okanagan Public Schools student (K-12) will provide evidence of being a learner, thinker, innovator, collaborator, and contributor.

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 ourselves and others.
- **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. 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's 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.
- **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 continues to have 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. Parents were given the choice to send their children back to school on a gradual and part-time basis for the month of June 2020 under new health and safety guidelines. 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.

The ongoing impact of the pandemic presents 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:

- On-going ventilation upgrades including Peachland, South Rutland, and Glenrosa Elementary schools and École KLO Middle School.
- Completed construction of École H.S. Grenda Middle School.
- Completed multiple Annual Facilities Grant (AFG) assignments, including electrical upgrade at Mount Boucherie Secondary School.
- Commenced construction of new childcare spaces at seven District locations.
- Built two new playgrounds at South Kelowna School and Watson Road Elementary School.
- Purchased land in the Wilden area for a future school site.
- 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.

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

FINANCIAL ASSETS

	(in millions)		
	2022	2021	Variance
Financial & Non Financial Assets	\$	\$	\$
Cash And Cash Equivalents	54.4	60.4	(6.0)
Accounts Receivable	5.4	4.1	1.3
Portfolio Investments	13.4	14.5	(1.1)
Tangible Capital Assets	344.9	338.3	6.6
Prepaid Expenses	0.6	0.4	0.2
Supplies Inventory	0.2	0.2	0.0
Total Financial & Non Financial Assets	418.9	417.9	1.0

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 \$54.4M at June 30, 2022 are restricted funds relating to summer savings and deferred salary leave plans (\$10.79M), school generated funds (\$3.83M) and restricted cash for Ministry of Education and Child Care (MOECC) deposits (\$19.57M). 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 – Changes in accounts receivable include ventilation funding (\$356K) not received at year end and a decrease in the current year's capital bylaw draw due to the completion of École H.S. Grenda Middle School. Also, in Accounts Receivable this year is a receivable from Canada Revenue Agency (CRA) for a duplicate for source deduction payment in the amount \$2.57M.

Portfolio Investments - Fluctuates as the market changes.

Tangible Capital Assets – During the year, \$31.2M Work in Progress (WIP) costs were transferred to Buildings relating to the completion of École H.S. Grenda Middle School. Land was purchased (\$7.07M) in the Wilden area for future school construction. Construction of several new childcare spaces commenced resulting in \$2.0M being added to WIP. The District also added \$1.56M to its Refresh Program to upgrade computer equipment.

In May of 2021 the Office of the Comptroller General (OAG) directed all school districts to apply the half-year rule method of amortization beginning in the fiscal year an asset is placed into service. This directive applies to both past and future purchases. Prior to this directive, the District did not recognize amortization in the first partial service year. The District has made a retroactive adjustment to recognize amortization of all assets and deferred capital contributions beginning in the first year of services. The impact of this adjustment to the prior year opening balance of accumulated capital asset amortization was an increase of \$7,380,018.

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

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

FINANCIAL LIABILITIES

	(in millions)		
	2022	2021	Variance
Financial Liabilities	\$	\$	\$
Accounts Payable	17.5	19.5	(2.0)
Unearned Revenue	4.1	3.6	0.5
Deferred Revenue	4.5	3.8	0.7
Deferred Capital Revenue	252.3	252.4	(0.1)
Employee Future Benefits	10.7	10.5	0.2
Other Liabilities	13.4	11.6	1.8
Total Financial Liabilities	302.5	301.4	1.1

Accounts Payable – the decrease in accounts payable at the end of the year relates to progress billing and builder lien holdbacks being significantly reduced with the completion of École H.S. Grenda Middle School.

Unearned Revenue – This represents fees collected in fiscal 2022 from International Education students coming in the 2022/2023 school year.

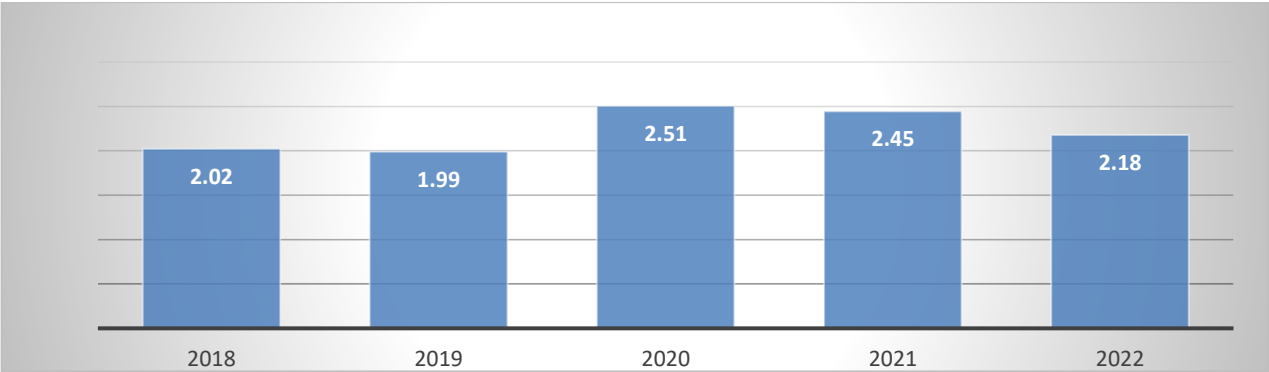
Deferred Revenue - Special Purpose Funds remaining balances (i.e., Classroom Enhancement Fund (CEF), Community Link, Learning Improvement Fund (LIF), school generated funds, Annual Facilities Grant (AFG) underspend) etc. to be spent in future years.

Deferred Capital Revenue – The prior year balance was reduced by the impact of the OAG directive to apply the half year rule method of amortization – see note above in Tangible Capital Assets. The amount of the adjustment to Deferred Capital Revenue was \$5,055,032.

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

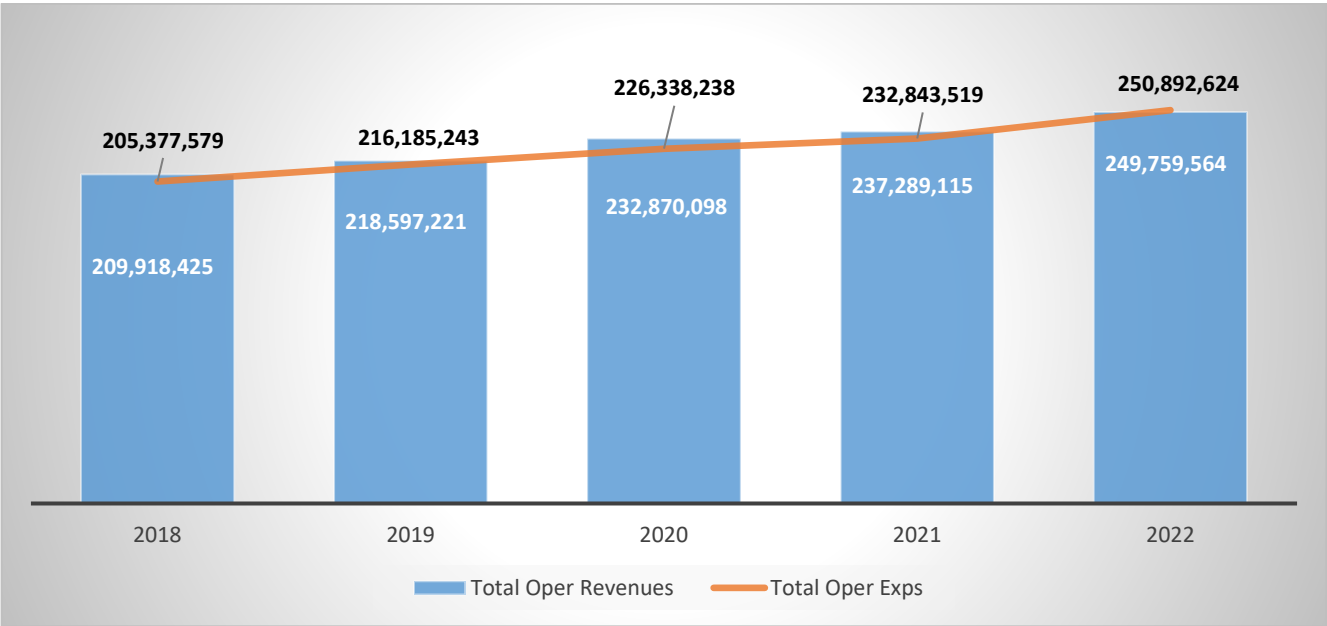
Other Liabilities - Includes accrued wages payable, employer health tax and other employee benefits.

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 – the following chart illustrates the District's operating revenue and expenses over a five-year period. In fiscal 2022 (per Schedule 2 of the audited financial statements), the District experienced an operating deficit of \$1.1M for the year. This deficit is the result of additional expenses relating to the COVID-19 pandemic and higher than usual inflationary costs. Pursuant to *Ministerial Order 033/09*, an annual deficit may be incurred in the operating fund however the deficit cannot be greater than the available surplus. This type of deficit does not require prior approval from the Minister.

To offset these additional expenses, the District has not committed as much funding to Local Capital. This has provided a modest unrestricted surplus of \$418,629.



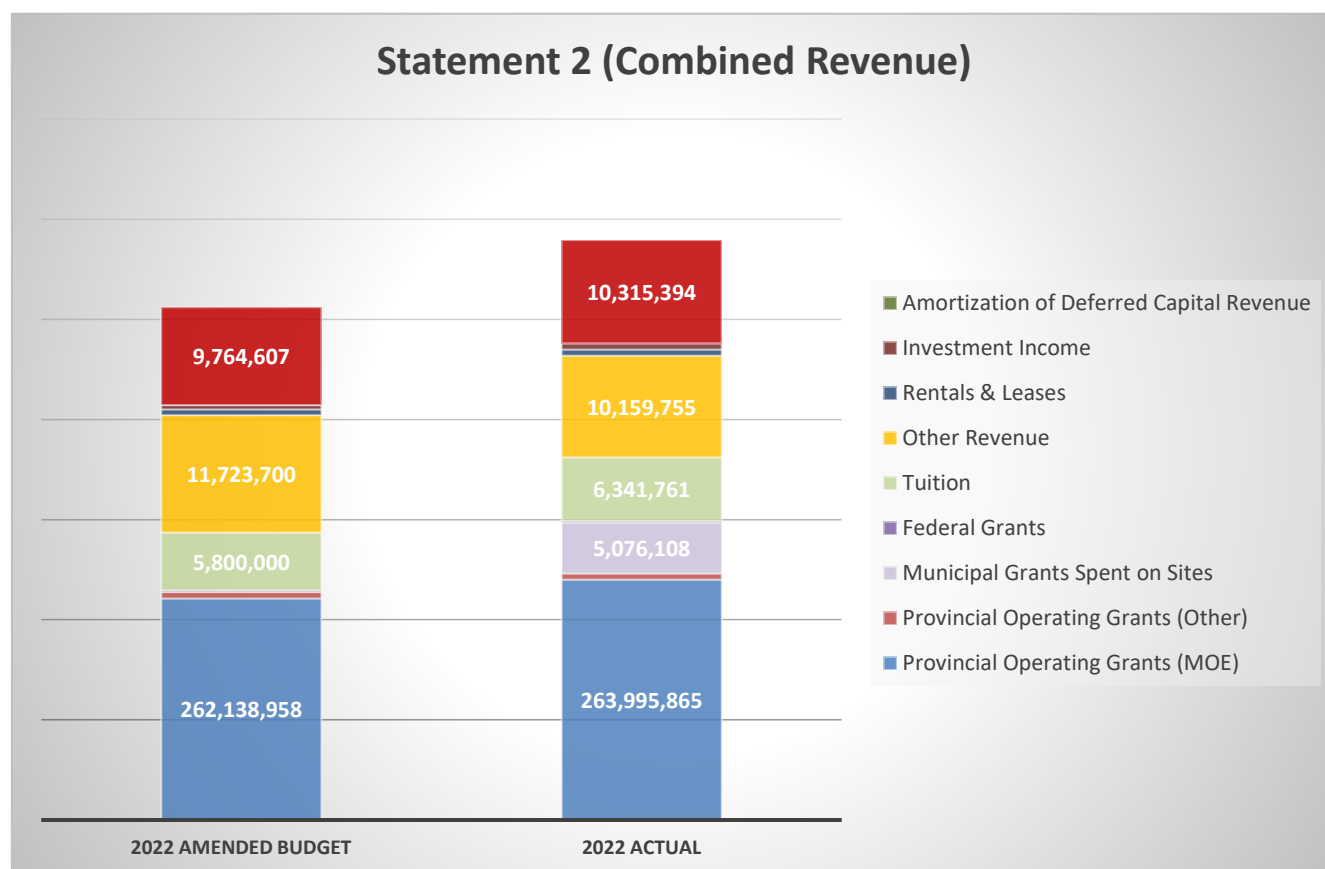
Combined Revenue & Expenses Trend (STATEMENT 2-Actual Compared to Amended Annual Budget)

REVENUE

Provincial Grants – Operating grant funding was approximately \$9.92M over prior year due to the increase in student FTE and per pupil rates. In addition, funding was received for summer learning programs introduced in fiscal 2022. As well, as no operating holdback (2021 - \$721,327) or teacher labour settlement (\$6,45,818) funding was received in the current year.

Tuition – The International Education Student FTE increased to 426 from 260 as travel restrictions relating to the COVID-19 pandemic were eased.

Other Revenue – Due to the COVID-19 pandemic, less school fees were collected for field studies, fundraising, graduation celebrations, other events etc. This resulted in an overall reduction in School Generated funds when compared to the Amended Budget.



EXPENSES

Instruction

Due to the COVID-19 pandemic, the District experienced higher than expected illness and replacement across all employee groups resulting in approximately \$1.3M of additional costs above the 2021/2022 Amended Budget. As well, the COVID-19 pandemic restrictions resulted in less being spent on teacher on call release, field studies, travel, professional development, and other related expenditures. COTA, CUPE and principals/vice-principals all received a 2% grid increase effective July 1, 2021. With the opening of École H.S. Grenda Middle School, additional staff was hired including administration and CUPE support staff. As well, additional staff was hired to address overall student growth in all areas including Inclusive Education, Indigenous Education, International Education, English Language Learners etc. In the prior year, the District received \$9.2M of Federal Safe Return to Class funding and \$1.7M Provincial Safe Return to School Grant funding however in the current year, only \$355K federally and \$557K provincially was provided. This funding was fully spent on custodial wages, benefits and supplies, teacher illness, utility costs and the purchase and installation of the Merv13 filters. School Generated Fund spending is \$1.96M less than budgeted, mostly due to COVID pandemic & related restrictions.

Operations and Maintenance

CUPE and senior management received a 2% grid increase effective July 1, 2021. Custodial wage and benefit costs were higher than budget and prior year due to the increased cleaning requirements as well as higher than expected vacancies. The District experienced higher than expensed utility costs (increased ventilation) that resulted in approximately \$460K of additional costs above the 2021/2022 Amended Budget.

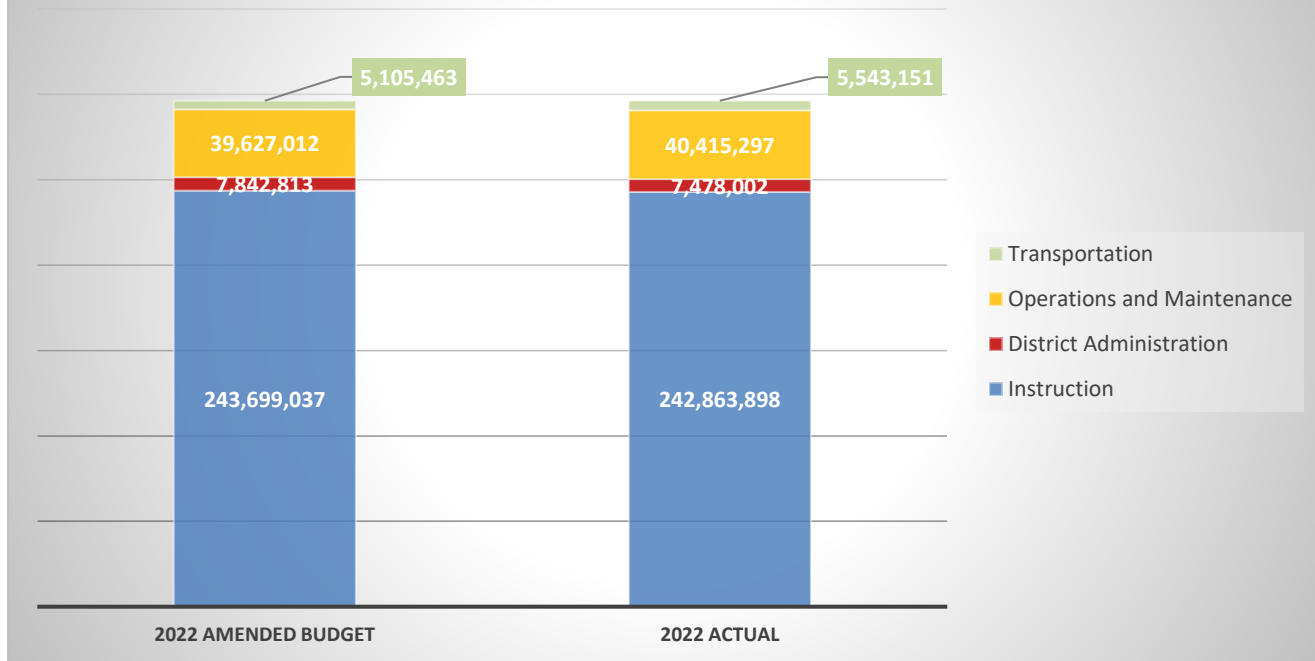
Transportation

CUPE and senior management received a 2% grid increase effective July 1, 2021. Due to the COVID pandemic, many of the District's bus drivers either retired or couldn't work because of compromised immune systems, As a result, more bus drivers were required that were not budgeted. Due to the COVID-19 pandemic, the District experienced higher than expected diesel and natural gas costs resulting in approximately \$220K of additional costs above the 2021/2022 Amended Budget.

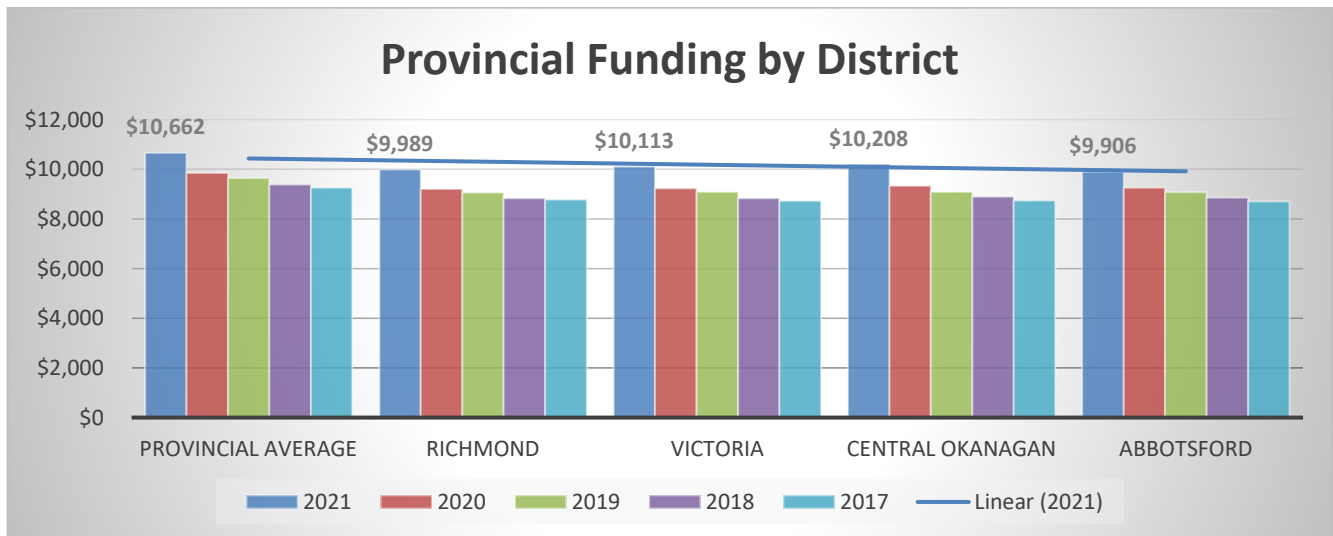
District Administration

Senior management received a 2% grid increase effective July 1, 2021. Due to the COVID-19 pandemic, less money was spent on TOC release, training costs, professional development and travel.

Statement 2 (Comined Expenses)

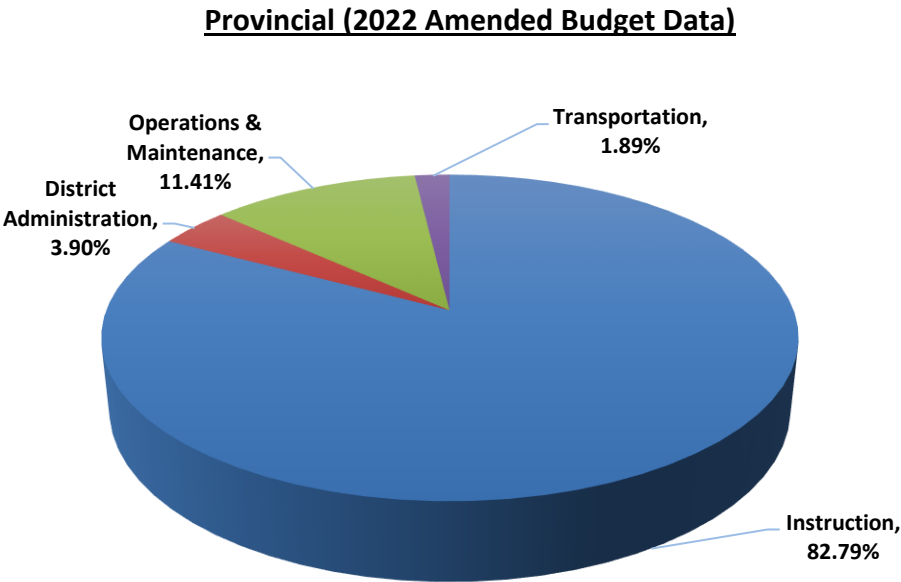
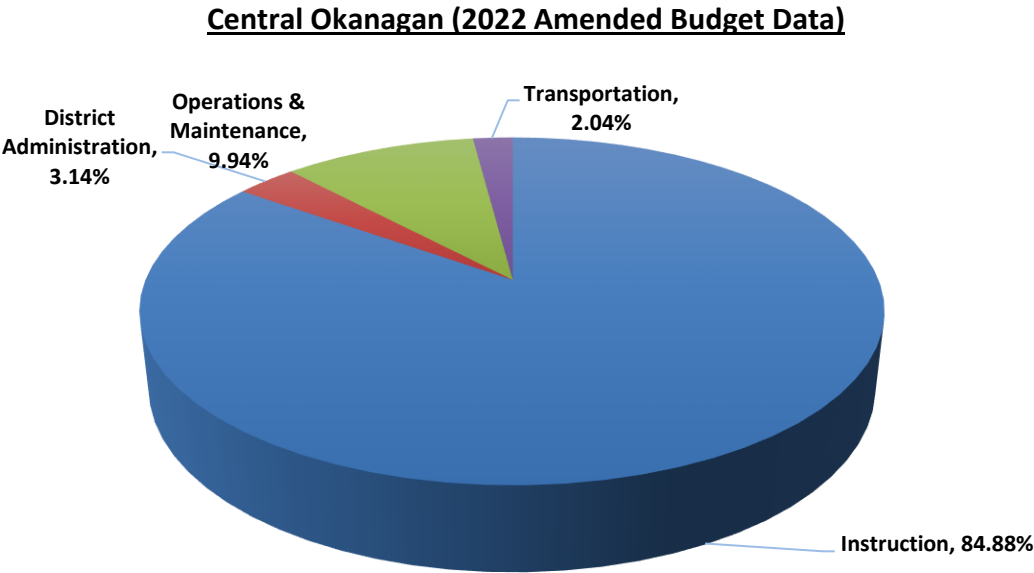


Ministry Operating Grant Funding per Student – The chart below indicates what our District receives in funding, on average, per FTE student compared to other comparable size districts and the province.

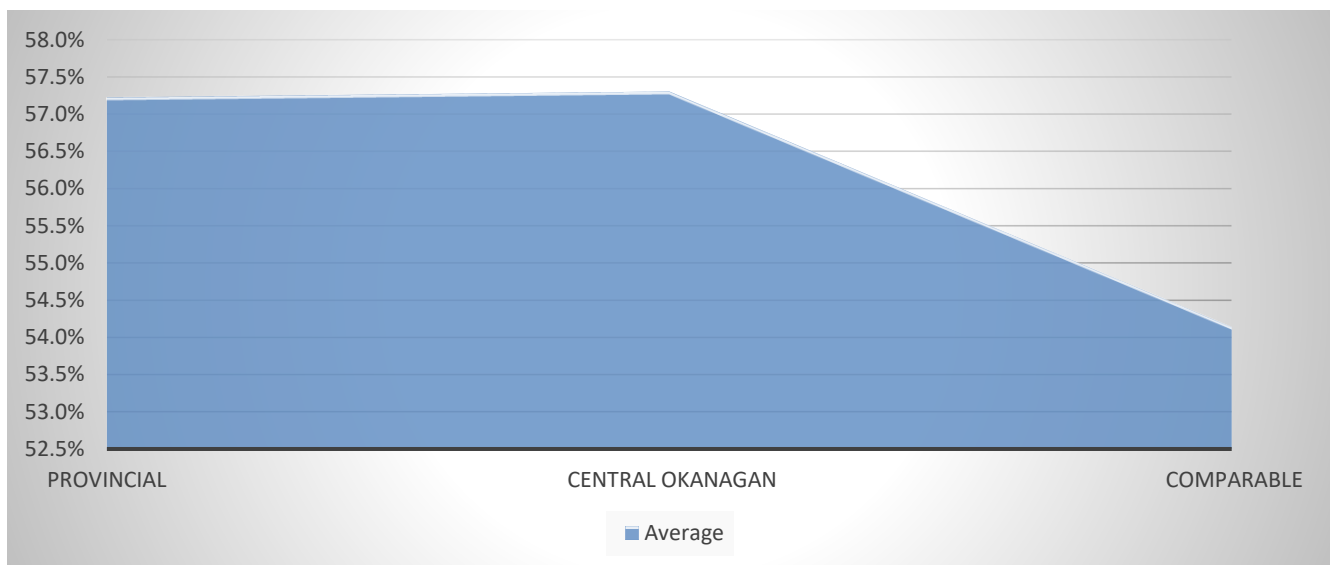


The information shows that our District receives less funding per FTE student than the provincial average. This differential occurs because there are specialty grants provided to districts that address factors unique to specific districts i.e. geographical differences, special education enrolment and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

Operating Expenses by Function – The majority of the District's operating expenses is dedicated towards salaries and benefits as illustrated in the chart below (84.9%). The balance of spending is related to Operations and Maintenance (9.9%), District Administration (3.1%) and Transportation (2.0%). This compares to the Provincial percentages of 82.8% for Instruction, 11.4% for Operations and Maintenance, 3.9% for District Administration and 1.9% for Transportation.

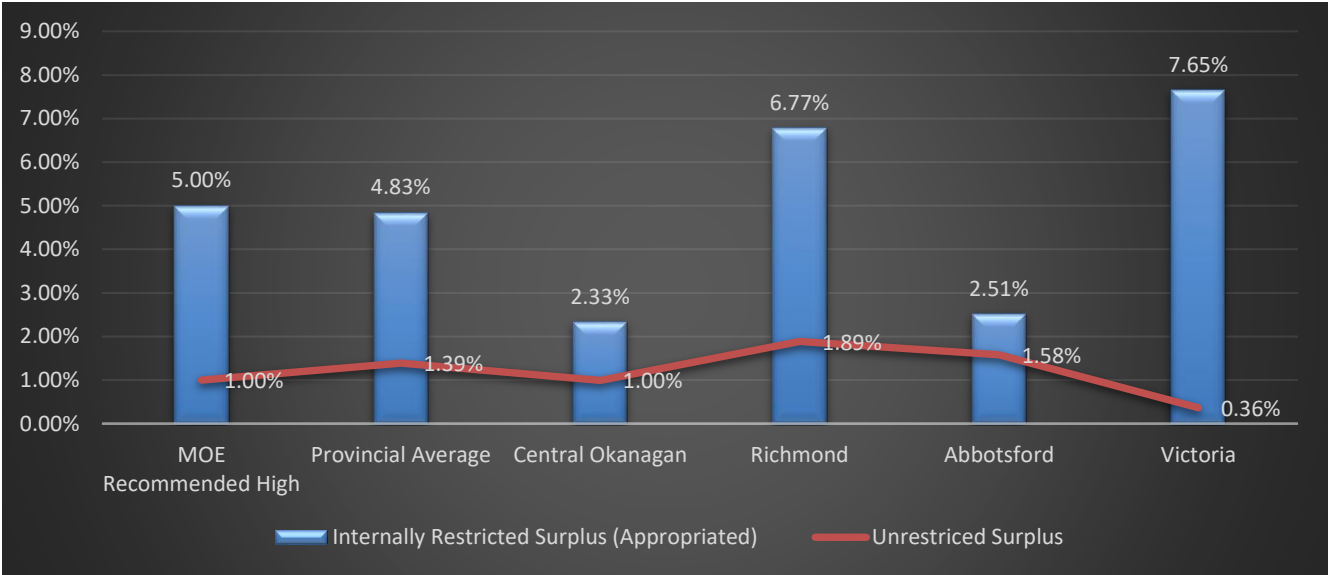


Changes in Capital Assets – If you compare the District's capital asset net book value (cost less amortization) to the capital assets historical cost (cost when purchased), the percentage illustrates the relative age of the asset. A high percentage indicates newer assets whereas a lower percentage indicates 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 57.3% is on par with the provincial average of 57.2% 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.



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.

As illustrated in the graph below, when compared to the province, comparable size FTE districts and the Ministry recommended ranges (2.5-5% for internally restricted surplus and .5-1% for unrestricted surplus), using a three-year average (2019-2021), the District is maintaining an unrestricted surplus within the acceptable range while the internally restricted surplus is slightly below the acceptable range.



For the 2022 fiscal year, the District's internally restricted surplus, as a percentage of total operating expenses, is 1.68% and the unrestricted surplus, as a percentage of total operating expenses, is .17%. Both are well below the Ministry recommended ranges listed above.

Overall Financial Health

Overall, as of June 30, 2022, 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 % in changes in capital assets indicating the District's maintains new assets however due to unfunded inflationary costs incurred because of the COVID-19 pandemic, the District's 2022 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 a global pandemic.