



**School District No. 5
(Southeast Kootenay)**

**Financial Statement
Discussion and Analysis**

For the Year Ended June 30, 2020

School District No. 05 (Southeast Kootenay)

Financial Statement Discussion & Analysis

For the Year Ended June 30, 2020

The following is a discussion and analysis of the Southeast Kootenay School District's financial performance for the fiscal year ended June 30, 2020. This report is a summary of the district's financial activities based on currently known facts, decisions, or conditions. The results of the current year are discussed in comparison with the prior year and budget. This report should be read in conjunction with the district's financial statements.

OVERVIEW OF THE SCHOOL DISTRICT

The Southeast Kootenay School District is located in the Southeastern corner of British Columbia. The entire district is on the lands of the Ktunaxa peoples. The District is comprised of the communities of Elkford, Sparwood, Fernie, Jaffray/South Country and Cranbrook.

The Southeast Kootenay School District serves more than 5,700 student FTE in: 17 neighbourhood schools (11 elementary schools, 2 middle schools, and 4 secondary schools); the Kootenay Discovery School; the Kootenay Education Services; the Kootenay Learning Campus (KLC), the Continuing Education program; and the International Student Program.

Strategic Planning guides the Board of Education and its employees and partners in delivering educational programs.

Board Vision: Students love to learn here, staff love to work here, families love to gather here;

Board Mission: Our students will graduate with dignity, purpose and options;

Board Values: Respect, Vision, Fairness, Collaboration, Integrity, Inclusion.

The Strategic Plan is organized around the following four themes under which detailed goals with measurable objectives have been developed:

- Engaging all Learners;
- Effective Communication;
- Inclusive Partnerships; and
- Advocacy.

UNDERSTANDING SCHOOL DISTRICT FINANCIAL PERFORMANCE

Annual surplus and accumulated surplus are key financial statement performance indicators; however, interpreting the meaning of these figures in BC school districts is complicated by the use of fund accounting and deferral accounting. The use of fund accounting means the financial statements of school districts are a consolidation of three separate funds (operating, special purpose and capital), and each of these funds differs with respect to the methods of accounting used and the legislative and other constraints on budgeting and financial results. This means financial performance can only be fully understood by reviewing each fund separately. Financial performance for each fund is reported in the supplementary schedules that follow the notes to the financial statements.

<p>Operating Fund</p> <p>2020 Revenues: \$65.1 million</p>	<p>Annual program revenues and expenditures are reported within the operating fund and special purpose fund (see below). Annual and accumulated surplus within the operating fund are important indicators of financial performance and financial health for school districts. This is because school districts are not permitted to budget for or incur an <u>accumulated</u> deficit position. This means when a school district has accumulated operating surplus available it can be used to budget for future expenditures and to reduce financial risk associated with unforeseen circumstances.</p>
<p>Special Purpose Fund</p> <p>2020 Revenues: \$6.1 million</p>	<p>The special purpose fund includes grants and school generated funds that are restricted for a specific purpose. Annual and accumulated surplus is always zero because revenues are recognized only as related expenditures occur (deferral method of accounting). If expenditures for a program within the special purpose fund exceed available revenues, the resulting deficit is transferred to the operating fund, reducing accumulated operating surplus.</p>
<p>Capital Fund</p> <p>2020 Capital Funding Received or Receivable: \$2.8 million</p> <p>2020 Capital Assets Purchased: \$1.94 million</p>	<p>The capital fund reports investment in and financing activities related to capital assets. Capital contributions (funding) from the Province are accounted for using the deferral method of accounting, whereby recognition of capital funding revenue is spread out over the life of the related capital assets to match with the amortization expense which reflects the use of the asset over its life. This means capital fund revenues are not a reflection of funding actually received in a given year. Also, capital revenues only offset amortization expense in the capital fund to the extent assets were funded by provincial capital grants. As many capital investments are funded by operating revenues (recorded as transfers of accumulated operating surplus to the capital fund), the capital fund normally reports an annual deficit.</p> <p>In short, capital fund revenues, expenses and annual deficit are not a meaningful indicator of annual financial performance.</p>

FINANCIAL HIGHLIGHTS

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. Parents were given the choice to send their children back to school on a gradual and part-time basis beginning June 1 with new health and safety guidelines. 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.

As reported in the Statement of Operations, for the year ended June 30, 2020 the district's revenues exceeded its expenses resulting in an annual surplus of \$2,302,419 (2019 - surplus of \$1,017,050). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

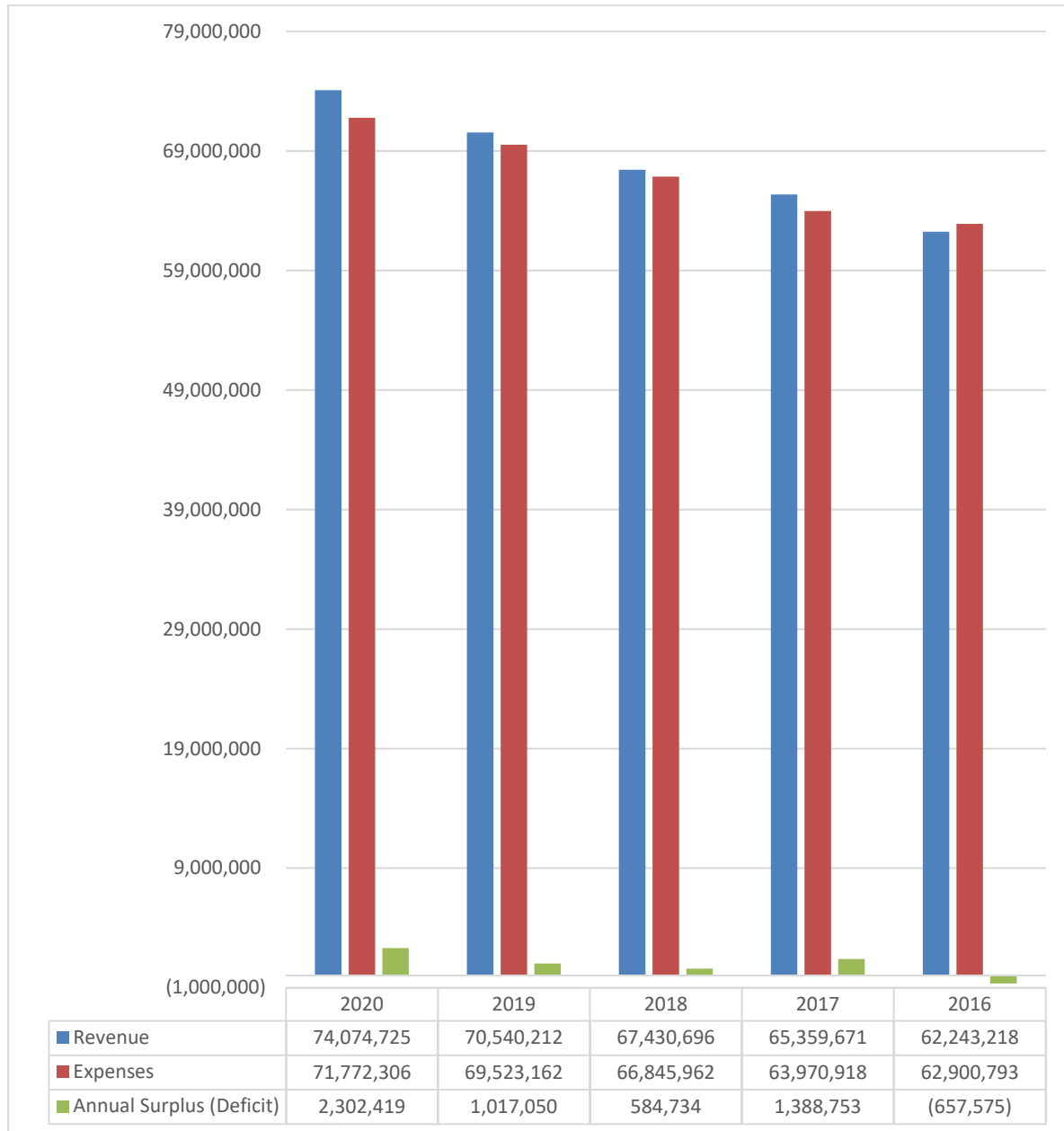
Annual Surplus (Deficit)	June 30, 2020	June 30, 2019
Operating Fund	1,523,132	(703,146)
Capital Fund	779,287	1,720,196
Combined	2,302,419	1,017,050

Financial Results for 2019-2020

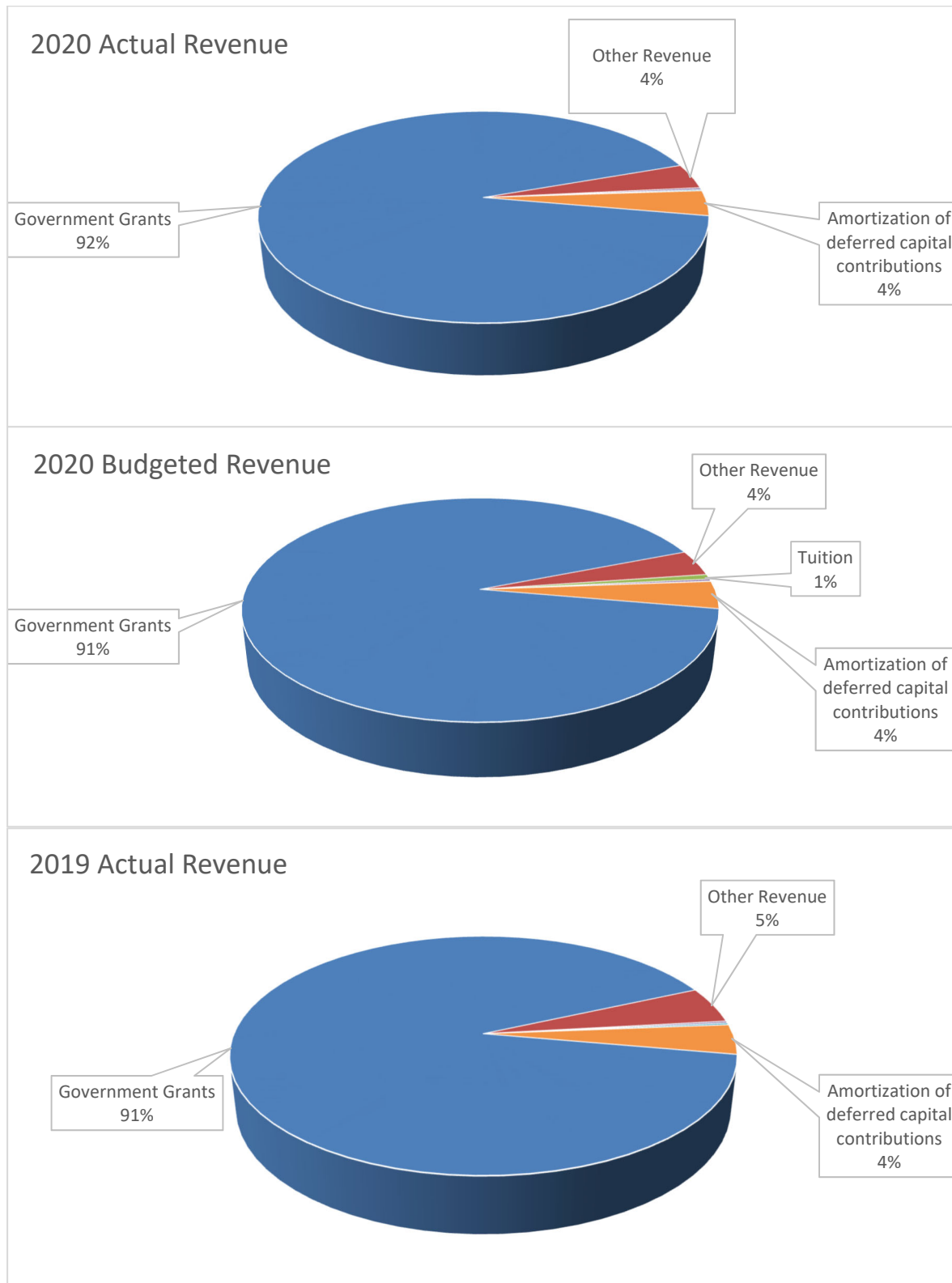
	Operating	SPF	Capital	Total
Revenues				
Provincial Grants	64,025,714	3,987,298	-	68,013,012
Other Revenue	780,456	2,073,857	-	2,854,313
Rentals and Leases	207,297	-	-	207,297
Investment Income	115,652	20,543	7,526	143,721
Amortization of Deferred Capital Revenue	-	-	2,856,382	2,856,382
Total Revenues	65,129,119	6,081,698	2,863,908	74,074,725
Expenses				
Instruction	51,886,492	5,954,494	-	57,840,986
District Administration	2,207,180	-	-	2,207,180
Operations and Maintenance	6,602,399	-	-	10,011,441
Transportation and Housing	1,709,916	2,783	-	1,712,699
Amortization of Tangible Capital Assets	-	-	3,409,042	-
Total Expenses	62,405,987	5,957,277	3,409,042	71,772,306
Surplus (Deficit)	2,723,132	124,421	(545,134)	2,302,419
Net Transfers to/(from) other Funds				
Local Capital	(1,200,000)	(124,421)	1,324,421	-
Total Net Transfers	(1,200,000)	(124,421)	1,324,421	-
Total Surplus for the year	1,523,132	-	779,287	2,302,419
Surplus beginning of the year	4,712,828	-	17,751,827	22,464,655
Accumulated Surplus	6,235,960	-	18,531,114	24,767,074

Looking at the operating fund, the annual surplus of \$1,523,132 resulted in an increase to accumulated operating surplus from \$4,712,828 at the beginning of the year to \$6,235,960 as at June 30, 2020. This growth exceeded budget and the forecast expectation that accumulated operating surplus would remain stable or grow modestly. This occurred because overall revenues were higher and service and supplies expense were lower than budget and forecast.

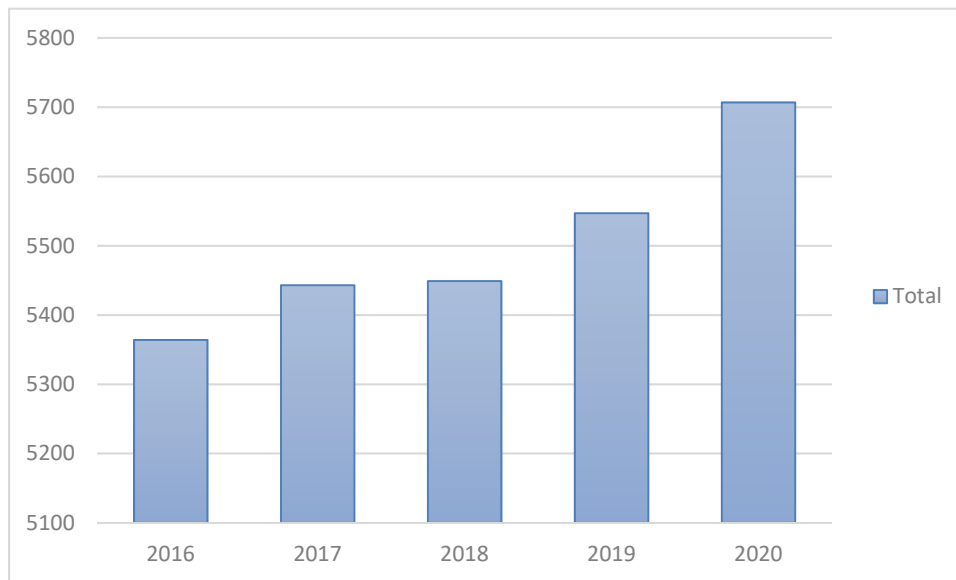
TOTAL REVENUE, EXPENSES, AND ANNUAL SURPLUS



REVENUE ANALYSIS



Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2020, the district invested \$4.7 million in capital additions that were funded by: Provincial capital funding (\$2.6 million); and the operating fund (\$2.1 million). Capital additions during the year included the following projects:

Project	Invested in 2019/20	Completion Date
Kootenay Learning Campus	\$1.5m	September 2019
District Annual Maintenance – Various	\$1.3m	Ongoing
Fernie Secondary Boiler Upgrade	\$0.6m	September 2019
Fernie Secondary Roof	\$0.5m	September 2019
Bus Replacement Program	\$0.3m	Fall 2019

Significant Financial Events

- Class Size and Composition Language** - Following a ruling by the Supreme Court of Canada, in the fall of 2017 all school districts in the Province restored class size and composition language that had been previously removed from the teachers' contract in 2002. This restoration was a significant undertaking in the Southeast Kootenay School District and involved hiring more than 25 teachers, developing new administrative processes and the creation of additional classroom space. During 2019/20, the district received \$2.8 million (2018/19 - \$2.8 million) in funding through the Classroom Enhancement Fund (CEF) for teaching positions and for other overhead costs related to the contract restoration. Funding for restoration (CEF) and the related costs are reported in the special purpose fund.

- **School Capacity Constraints** – with the restoration of class size language and enrolment growth, Isabella Dicken Elementary School (Fernie) is well above capacity. Over the past 3-4 years, growth has been accommodated by installing portable classrooms and the site now houses 10 portable classrooms. To accommodate future growth the district is reviewing several options to meet the long term needs of the community, which have cost implications for both the capital plan (capital fund) and the operating fund.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT

In this section, actual results are compared to the prior year and budget (where applicable) in more detail. For the statement of operations, the analysis is performed for each of the three funds.

Statement of Financial Position (All Funds)

The table below includes explanations for significant variances in the statement of financial position relative to the prior year.

	2020	2019	Analysis of Variance
Cash	13,659,370	11,981,487	Increased by \$1.678 million due to increased accumulated surplus and the timing of cash receipts and disbursements.
Due from Province – Ministry	628,990	375,000	Increased by \$0.25m due to increased capital funding receivable at year end, specifically AFG funds.
Accounts Payable and Accrued Liabilities	6,050,439	5,800,615	Increased by \$0.25 million due to increased trade accounts payable.
Deferred Capital Revenue	60,149,382	59,638,065	Increased by \$0.5 million due to capital funding received (\$3.4m) offset by amortization of capital funding revenue (\$2.9m).
Tangible Capital Assets	77,605,668	76,322,871	Increased by \$1.3 million due to capital investment (\$4.7m) offset by amortization of capital assets (\$3.4m).

Statement of Operations

	Annual Budget 2019/20	Actual 2019/20	Actual 2018/19 (Restated)
Revenues	71,715,145	74,074,725	70,540,212
Expenses and fund transfers	71,169,216	71,772,306	69,523,162
Annual Operating Surplus (Deficit)	545,929	2,302,419	1,017,050
Opening Accumulated Surplus	22,464,655	22,464,655	21,447,605
Closing Accumulated Surplus	23,010,584	24,767,074	22,464,655

Operating Fund Revenues

A high level summary of operating fund revenues is presented below and explanations of significant variances follows. A more detailed presentation of operating revenues is presented in schedule 2A following the notes to the financial statements.

	Annual Budget 2019/20	Actual 2019/20	Amended Budget 2018/19	Actual 2018/19
Grant Revenue	61,461,085	64,025,714	57,811,074	59,729,364
Tuition Revenue (International Program)	519,610	-	-	-
Other Revenue	361,284	780,456	655,396	922,063
Rentals and Leases	200,000	207,297	200,000	178,982
Investment Income	33,965	115,652	40,000	112,970
Total Revenues	62,575,944	65,129,119	58,706,470	60,943,379

Grant Revenues:

Budgeted grant revenues in 2019/20 were \$2.56 million greater than 2019/20 budgeted revenues primarily due to FTE increase in fall enrolment and inflationary increases to funding rates.

Actual 2019/20 grant revenues exceeded 2019/20 budget by \$2.6 million due to:

- the increased operating grant exceeded budget by \$1.5 million;
- new funding of \$0.25 million for the incremental cost of Support staff wage increase;
- receipt of one-time grants of \$0.62 million for the teachers' labour settlement funding.

Tuition Revenues:

This budget line was for Other School District/Education Authorities (International Students Revenue), but was reallocated to Tuition for International and Out of Province Students. Actual revenue is part of the other revenue.

Other Income:

As noted above budget for international students was reallocated to Tuition revenue rather than under Other Revenue. Decrease is mainly related to lower international students' revenue and decrease in SGF fund revenue than budgeted.

Decrease from prior year actual is mainly due to one-time funding of \$100K for BCPSEA benefit reserve in 2019 which was not received in 2020. Also, there was a decrease in revenue from SD#6 for international students from \$447K to \$379K, and a decrease in funding from First Nations for Indigenous Students. Also, under special purpose funds, the revenue was down for SGF approximately \$460K due to Covid-19 school closure since March 2020.

Investment Income:

Actual investment income in 2019/20 exceeded budget as investment income budget is conservative. Investment income decreased from prior year actual mainly due to decrease in interest rate from 2.95% to 1.45% as of March 2020 due to Covid-19, Whereas in 2019 the interest was at 2.95% for the full year.

Operating Fund Expenses

Expenses in the financial statements are presented both by object (category of expense) and by function (program). Operating fund expenses are presented below using each method with explanations of significant variances following. A more detailed presentation of operating expenses is presented in schedules 2B and 2C following the notes to the financial statements.

Analysis of Variances by Function

Operating Fund Expenditure by Function	Annual Budget 2019/20	Actual 2019/20	Annual Budget 2018/19	Actual 2018/19
Instruction	51,284,326	51,886,492	47,734,487	49,317,061
District Administration	2,167,930	2,207,180	2,109,382	2,318,542
Operations and Maintenance	6,600,372	6,602,399	6,493,983	6,260,461
Transportation	1,823,316	1,709,916	1,868,618	1,750,461
Fund transfer	700,000	1,200,000	500,000	2,000,000
Total	62,575,944	63,605,987	58,706,470	61,646,525

Instruction – instruction expense is consistent with budget. The variance relative to prior year is \$2.6 million higher. This is mainly due to higher enrollment, meaning more teachers, plus 2% increase in wages for Teachers. Also, higher number of special need students required more EAs in current year.

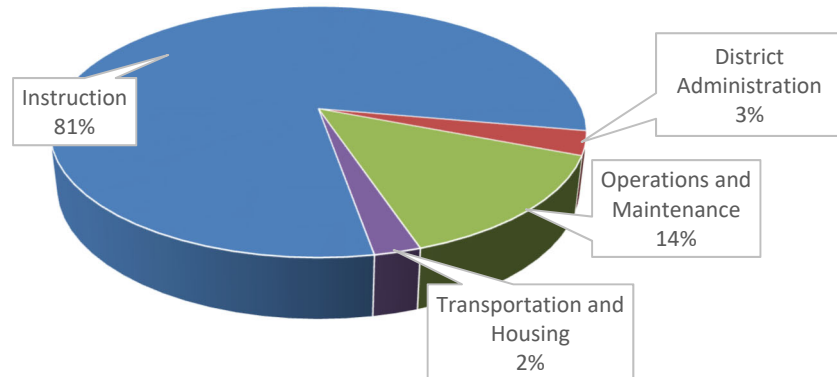
District Administration – district administration expense is comparable to both budget and prior year actual. Slight decrease from prior year mainly due to lower overall expenses due to Covid-19 from March to June 2020, meaning less substitute salaries, and lower services and supplies expenses.

Operations and Maintenance and Fund Transfer – Fund transfers primarily represent operations and maintenance expenditures that meet the criteria for capitalization. The operations and maintenance expense relative to budget is very comparable. A higher fund transfer relative to budget (\$0.5) for the purchase of capital assets.

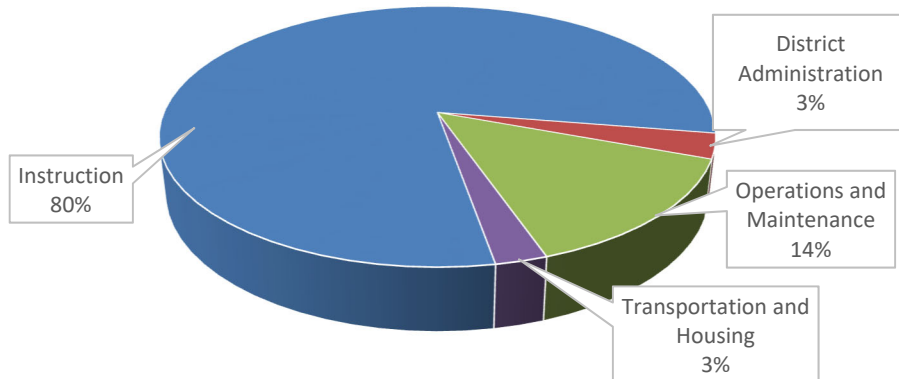
Relative to prior year, operations and maintenance expense increased by \$0.4 million. This is mainly due to increase of maintenance activities such as painting, deep cleaning of schools in May and June of 2020 during Covid-19. This work is typically completed in July and August during school summer holidays.

Operating Expenses Analysis

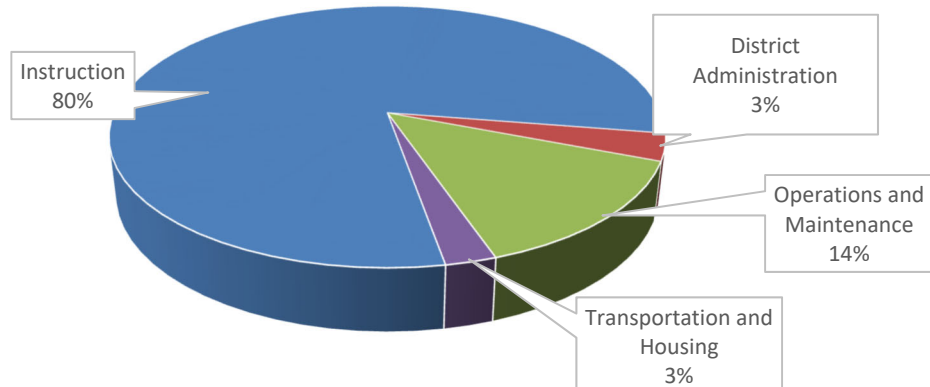
2020 Actual Expenses



2020 Budgeted Expenses



2019 Actual Expenses



Accumulated Operating Surplus

Understanding the components of accumulated operating surplus is necessary for understanding how much of the balance relates to multi-year funding of programs (surplus carry-forwards) and how much of the balance is available to reduce financial risk associated with unforeseen expenditures or to fund additional expenditures in the future. The components of closing accumulated surplus are presented in the table below:

	June 2020	June 2019	Change
Total Accumulated Surplus (per financial statements)	\$6,235,960	\$4,712,828	\$1,523,132
School Initiatives (multi-year funding)	(1,636,001)	(1,352,909)	(283,092)
District Initiatives (multi-year funding)	(3,916,856)	(2,897,655)	(1,019,201)
Total Internally Restricted	(5,552,857)	(4,250,564)	(1,302,293)
Contingency Reserve (Unappropriated Surplus)	\$683,103	\$462,264	\$220,839

Statement of Operations by Fund – Special Purpose Fund

	Annual Budget 2019/20	Actual 2019/20	Annual Budget 2018/19	Actual 2018/19
Provincial Grants	3,963,893	3,987,298	4,157,435	4,145,045
Other Revenues	2,316,719	2,094,000	2,451,811	2,557,871
Expenditures	(5,918,045)	(5,957,277)	(6,244,148)	(6,501,412)
Fund transfers	(362,567)	(124,421)	(365,098)	(201,504)
Annual Surplus (Deficit)	-	-	-	-

Budgeted grants in 2019/20 were lower than budgeted grants in 2018/19 due primarily to decreases to the Classroom Enhancement Fund (CEF) in 2019/20 relative to 2018/19. Actual provincial grants are comparable to budgeted amounts.

Detailed information on the special purpose fund is presented in schedules 3 and 3A following the notes to the financial statements.

Statement of Operations by Fund – Capital Fund

	Annual Budget 2019/20	Actual 2019/20	Annual Budget 2018/19	Actual 2018/19
Revenues	2,858,589	2,856,382	2,842,062	2,893,917
Expenses	(3,375,227)	(3,409,042)	(3,544,234)	(3,375,225)
Fund Transfers (capital assets purchased in other funds)	<u>1,062,567</u>	<u>1,324,421</u>	<u>865,098</u>	<u>2,201,504</u>
Change in Accumulated Surplus	545,929	779,287	162,926	1,720,196
Opening Accumulated Surplus	<u>17,751,827</u>	<u>17,751,827</u>	<u>16,031,631</u>	<u>16,031,631</u>
Closing Accumulated Surplus	18,297,756	18,531,114	16,194,557	17,751,827

It is expected that revenues and expenses in the capital fund will be predictable and consistent, as they reflect the recognition of capital funding (as revenue) and the usage of capital assets over their life (as amortization expense). Fund transfers from the operating fund and special purpose fund were greater than budget and the prior year as there were more expenditures that met the criteria for capitalization as an asset.

During the year ended June 30, 2020, the district invested \$4.7 million in capital additions. Further details are presented in the Financial Highlights section.

Within the capital fund the following two balances are important as they represent funds available for future capital investment:

- Local Capital Reserve – this balance forms part of accumulated surplus in the capital fund and represents funds available for investment in capital assets at the discretion of the Board of Education. These funds are generated primarily from proceeds of disposition of assets that are allocated to the School Board and allocation of lease revenue attributable to asset renewal.
- MEd Restricted Capital – this balance forms part of the deferred capital revenue balance in the capital fund and represents funds available for investment in capital assets at the discretion of the Ministry of Education. These funds are generated primarily from capital project savings and proceeds of disposition of assets that are allocated to the Minister of Education pursuant to the *School Act*.

The table below presents the June 30, 2020 closing balances in Local Capital and MEd Restricted Capital and what portion of the balances remains uncommitted for future capital investment.

	Local Capital	MEd Restricted Capital
Balance at June 30, 2020	311,022	365,599
Committed for future investment	311,022	-
Uncommitted Balance	-	365,599

The local capital balance represents amounts relating to the installation of two additional portables at Isabella Dicken Elementary School.

Detailed information on the capital fund is presented in schedules 4 to 4D following the notes to the financial statements.

CONTACTING THE SCHOOL DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District’s stakeholders with a general overview of the School District’s finances and to demonstrate the School District’s accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Office of the Secretary Treasurer at 250-417-2054.