

**Central Okanagan
Public Schools**

Together We Learn

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

**the Year Ending
June 30, 2019**



Financial Statement Discussion and Analysis

Table of Contents

Description	Page
<u>Introduction</u>	3
<ul style="list-style-type: none">- The District and Overarching Goal- Mission and Vision Statement- Cultural Values	
<u>Financial Statement Composition Overview</u>	4
<ul style="list-style-type: none">- Statement of Financial Position- 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>	5
<ul style="list-style-type: none">- Combined Assets & Liabilities- 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>	13

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, 2019. 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 180,000 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 22,000 students;
- has 44 schools - 31 elementary, 7 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 Aboriginal families are self-identifying;

Our Overarching Goal

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

Mission Statement

To educate students in a safe, inspirational learning environment where each student develops the knowledge and skills to be a lifelong learner and a healthy productive member of our global society.

Vision Statement

Central Okanagan Public Schools is a progressive leader in education, which sets the standard for educational excellence and ensures that each student has opportunities to succeed.

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.
- **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 honouring people and caring about their rights.
- **Empathy** is a feeling of concern, compassion and understanding of another's situation or feelings.
 - While recognizing individual situations and differences, **Fairness** is ensuring impartiality where everyone plays by the same rules.

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' 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

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

- Completion of Canyon Falls Middle school.
- Preliminary work on H.S. Grenda Middle school.
- Multiple dust collector replacements;
- Multiple Annual Facilities Grant (AFG) assignments;

In July 2018, the District sold the Winfield Elementary site for \$1,875,000. Where the Ministry of Education funds the original purchase, proceeds on disposal are split 75% to the Ministry of Education Capital Reserve and 25% to the District. The District's net gain on disposal was \$209,745.

Subsequent to June 30, 2019, the District disposed of its interest in a 6 acre parcel of land located in the Kettle Valley neighbourhood of Kelowna, BC for \$650,000. This interest was originally transferred to the District as satisfaction in full for the balance of school site acquisition charges owed to the District for the development of this land.

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

Cash & Cash Equivalents - Statement 5 (Cash Flow) provides information on how the District's cash is spent each year. The District's cash balance is high however it is required for several reasons including: Payment of current liabilities (\$9.6M), summer savings & deferred salary leave plans (\$8.8M); restricted cash for MOE deposits (\$14M), restricted school generated funds (\$3.4M). restricted cash for Int'l Ed. program (\$340K). As well, the monthly funding from the MOE drops significantly in July -Aug (3%) compared to our June funding (10%) so additional cash funds are required to carry the District through the summer.

Accounts Receivable - Additional COA funds were requested in 2019 vs 2018 as a result of the Canyon Falls & HS Grenda builds. In 2018, there was an additional \$357,241 AR related to CEF spending.

Portfolio Investments - Fluctuates as the market changes.

Tangible Capital Assets - Difference relates to capital work in progress for both new middle schools.

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

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

	(In millions)		
	2019	2018	\$ Diff
<u>Financial Assets</u>			
Cash & Cash Equivalents	40.4	34.1	6.3
Accounts Receivable	5.5	4.9	0.6
Portfolio Investments	13.6	12.9	0.8
Tangible Capital Assets	317.7	288.7	29.1
Prepaid Expenses	0.3	0.2	0.1
Supplies Inventory	0.2	0.2	(0.0)
Total Financial Assets	377.7	340.9	36.8

FINANCIAL LIABILITIES

Accounts Payable - Difference mainly due to increase in the summer savings program (\$700K); construction holdbacks & progress invoices for capital projects (\$4.4M).

Unearned Revenue - Fees collected from International Education students coming in the 2019/2020 school year.

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

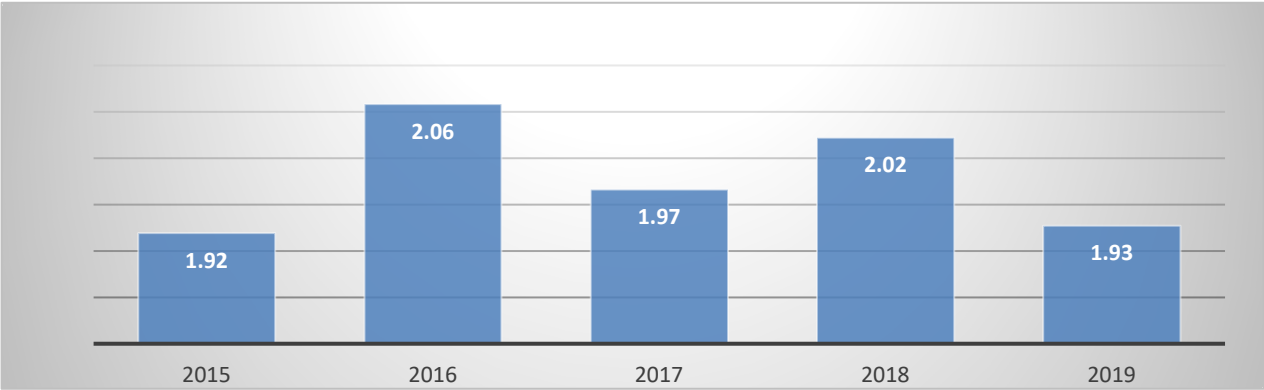
Deferred Capital Revenue - Difference relates to the MOE funding required relating to the capital work in progress for both new middle schools.

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

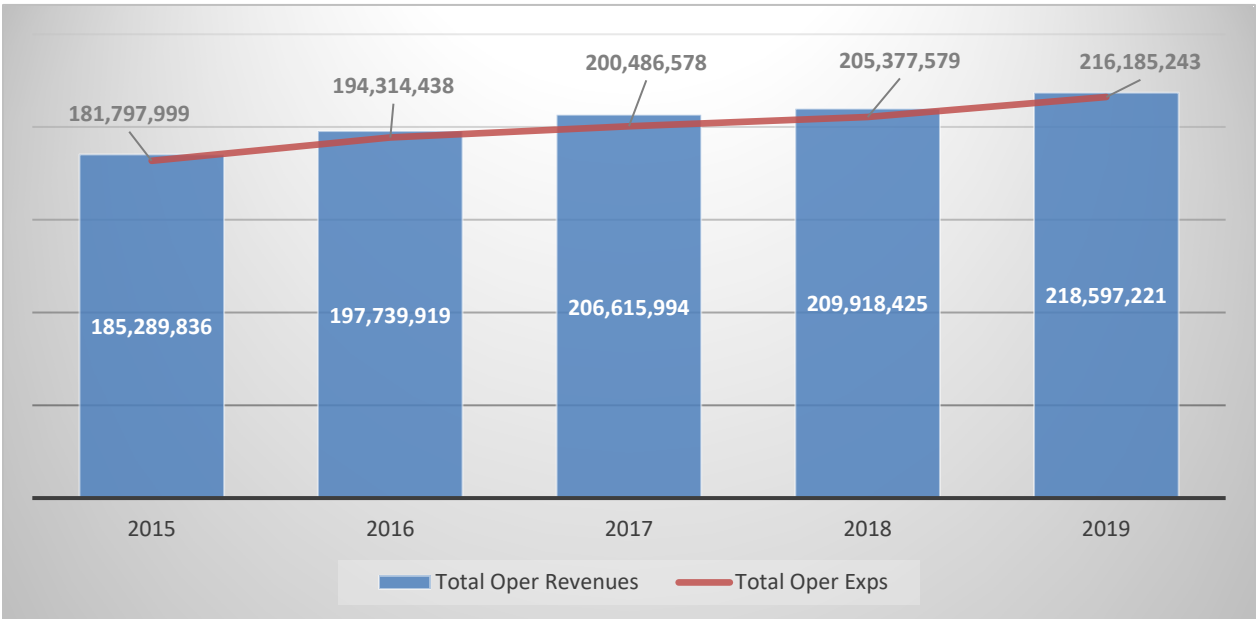
Other Liabilities - Diff relates to addition of the employer health tax owing (\$800K) less the reduction in teacher pension & MSP amounts owing

	(In millions)		
	2019	2018	\$ Diff
<u>Liabilities</u>			
Accounts Payable	18.4	13.9	4.5
Unearned Revenue	2.7	2.5	0.3
Deferred Revenue	4.0	4.0	0.1
Deferred Capital Revenue	218.3	186.5	31.9
Employee Future Benefits	9.9	9.6	0.3
Other Liabilities	10.0	9.5	0.5
Total Financial Liabilities	263.4	225.8	37.6

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 is 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.



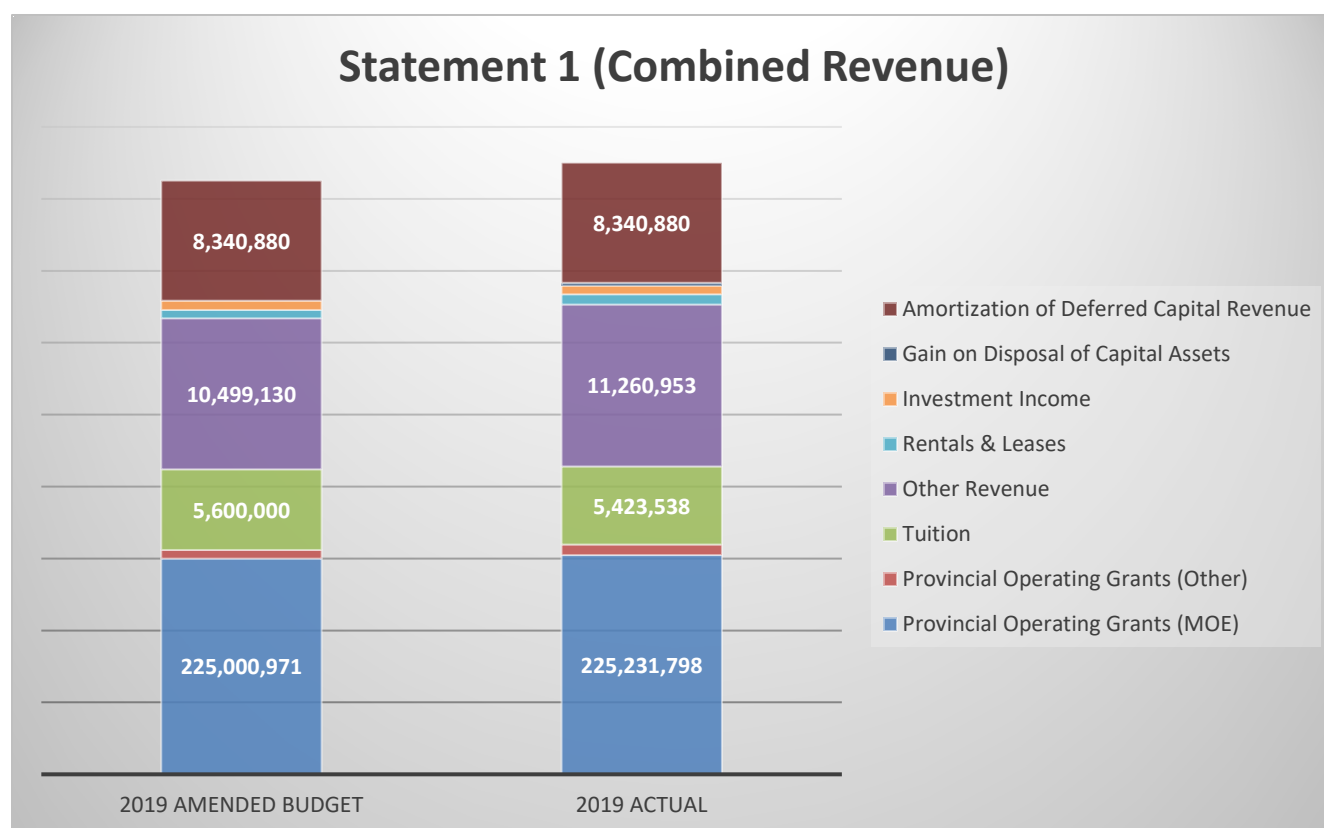
Combined Revenue & Expenses Trend (STATEMENT 2-Actual Compared to Amended Budget)

REVENUE

Provincial Grants - Amended Budget was adjusted for an overall student enrolment increase that was higher than anticipated, resulting in an increase in teacher FTE. Funds received for some programs such as apprenticeships and Interior Health Authority were higher than expected.

Tuition - The actual student FTE (382 FTE) for the International Education program was slightly lower than budgeted (400 FTE).

Other Revenue – School generated funds (special purpose funds) were higher than originally budgeted for. These funds are mostly being generated at the middle and secondary schools for field trips, fundraising and graduation expenses.



EXPENSES

Instruction - Spending was less than budgeted for many reasons including:

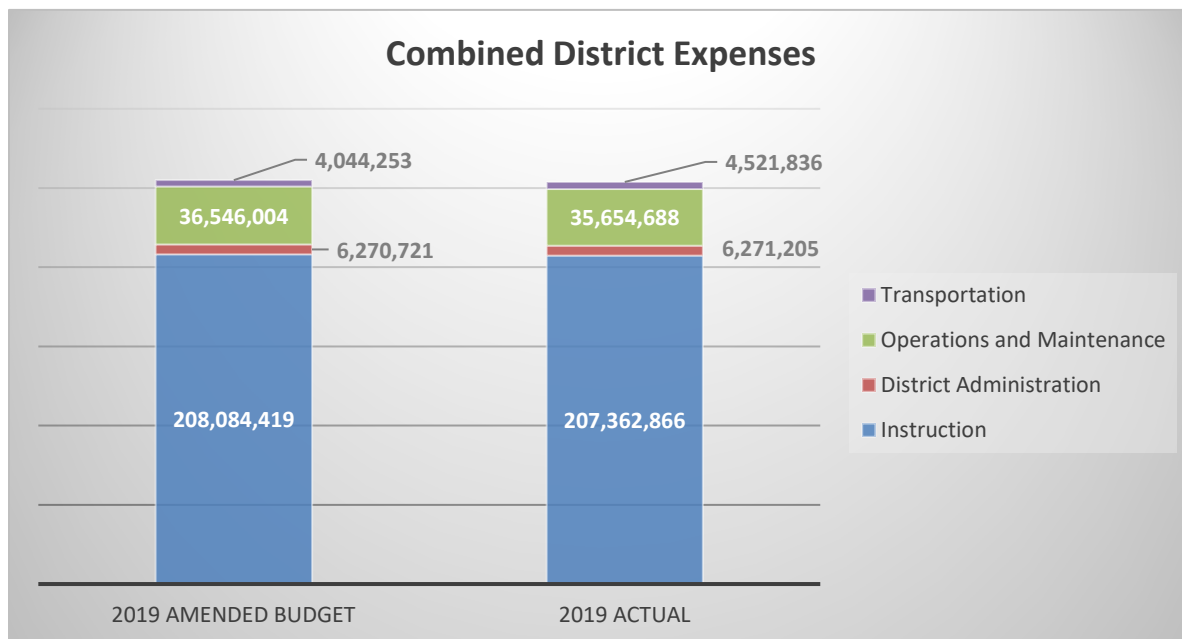
- Teacher illness was less than expected;
- Schools are spending less on supplies & resources than what was originally allocated to them as they want to commit current year surpluses to next year's budget in an attempt to maintain staffing;
- BCPSEA finally allowed Districts to place principal and vice principals on an approved grid resulting in raises effective September 1, 2018 that was fully funded by the District;
- 11 LIF CEA positions not fully filled during the year resulting in a savings;
- School generated fund spending (special purpose fund) was more than budgeted due to schools spending more on field trips, athletics & supplies at the school level.

Operations and Maintenance

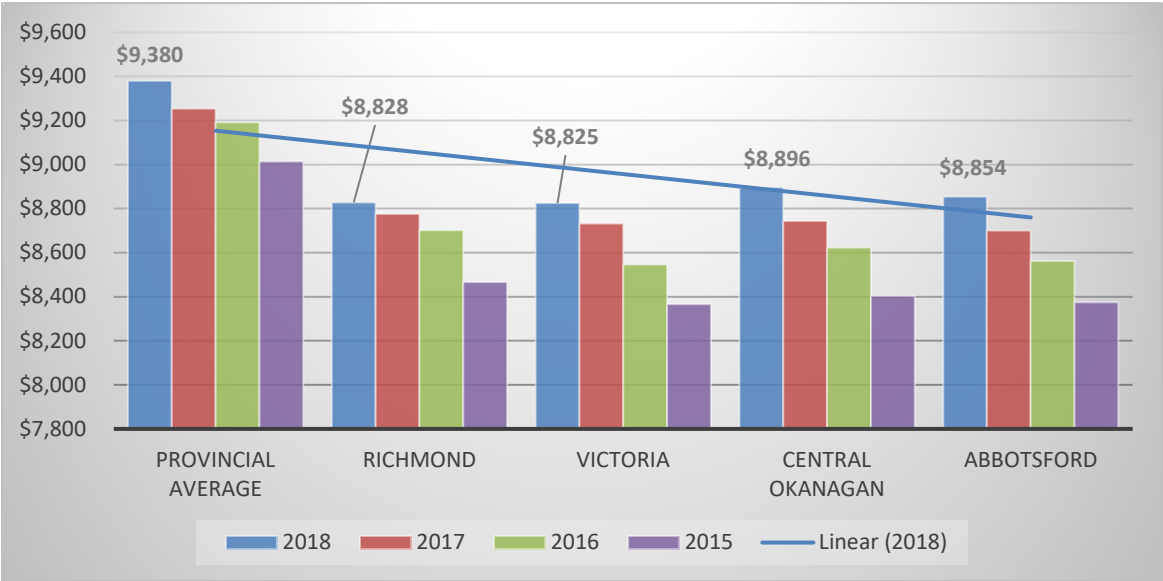
The Operations department continues to struggle to fill and keep qualified staff across the department due to the District's less than competitive pay grid. As well, we are required to spend our AFG funding within the year it is provided so staff is redirected to AFG throughout the year which results in less staff for general operations.

Transportation

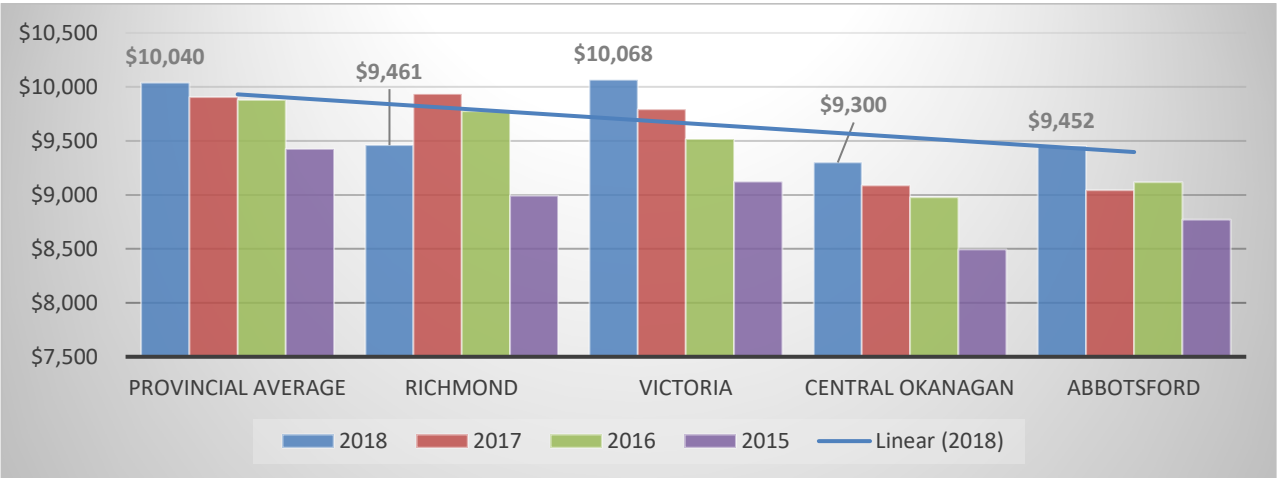
Transportation supply costs associated with buses (e.g. insurance, natural gas, diesel, gasoline) is higher than expected. Sick days were greater than the prior year by approx. 700 days so more casual bus drivers were required (not fully budgeted for).



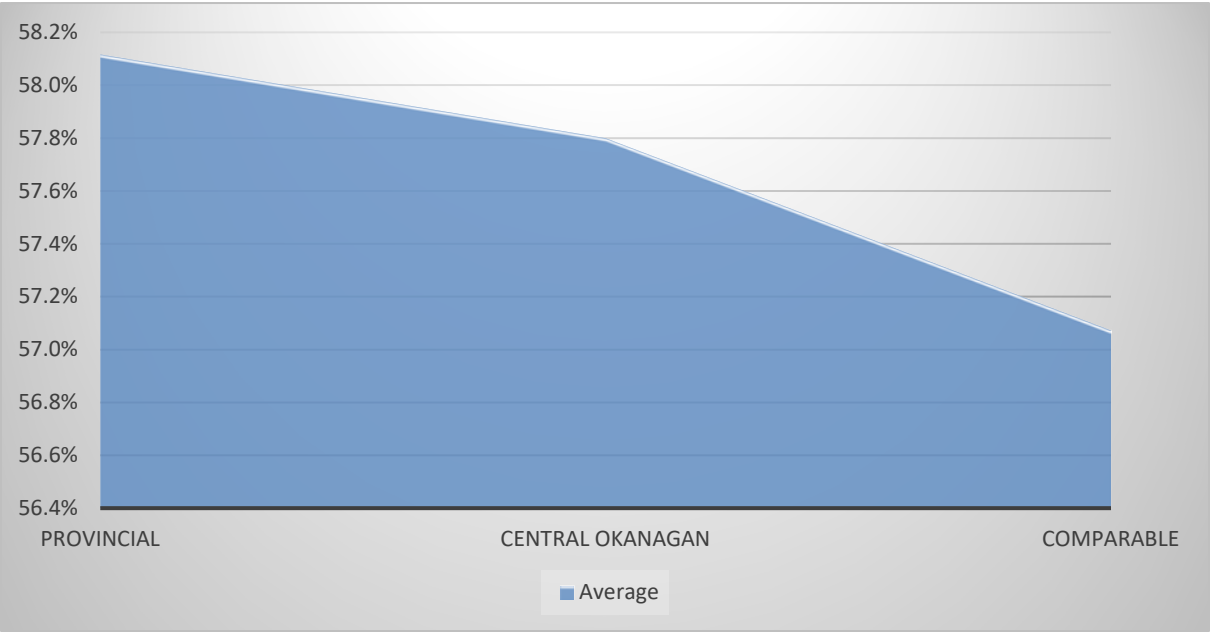
Ministry Operating Grant Funding per Student – The chart below indicates what our District receives in funding, on average, per FTE student compared to other comparable size districts and the province. The information shows that our District receives less funding per FTE student than the provincial average. 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 per Student – The majority of the District's spending is dedicated towards salaries and benefits. The following chart illustrates what the District spends, on average, per FTE student compared to other comparable size districts and the province. The data indicates an overall increase in operating expenses as enrolment increases. Alternate sources of funding allow districts to spend more per FTE than the Ministry Operating Grant funding illustrated above.

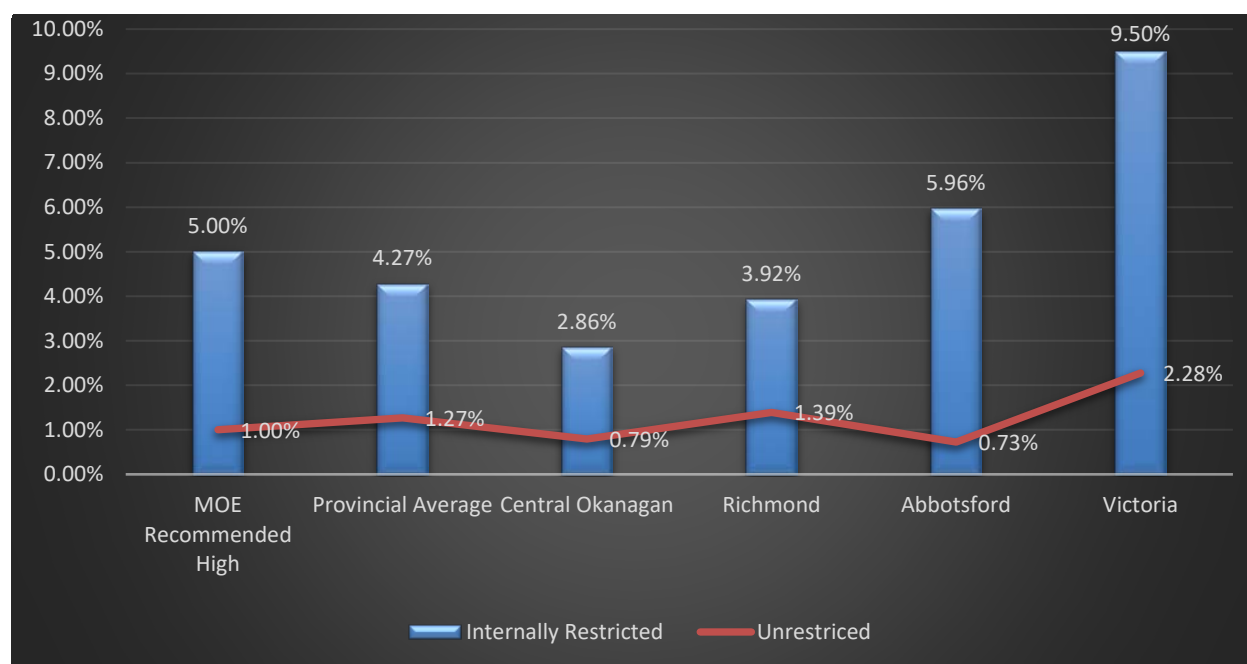


Changes in Capital Assets – If you compare the District's capital asset net book value (cost less amortization) to the capital assets historical cost (cost when purchased), the percentage illustrates the relative age of the asset. A high percentage indicates newer assets whereas a lower percentage indicates 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 57.8% is slightly less than the provincial average of 58.1% and just over the average of comparable size FTE districts at 57.1%. 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.

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 five year average, the District is maintaining both an internally and unrestricted surplus within the acceptable range.



Overall Financial Health

Overall, as of June 30, 2019, 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 and the average unrestricted and internally restricted surpluses remaining within the recommended Ministry ranges (unrestricted range of .5% - 1% and internally restricted range of 2.5% - 5%). This strong financial health can be contributed to sound financial management, planning and governance.