

**Central Okanagan
Public Schools**

Together We Learn

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the Year Ending

June 30, 2020



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 (aka School District No. 23 (Central Okanagan) for the fiscal year ended June 30, 2020. 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 23,325 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 Indigenous 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'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 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 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:

- Completed construction and opened Canyon Falls Middle school in September 2019.
- Continued construction of H.S. Grenda Middle school.
- Completed multiple Annual Facilities Grant (AFG) assignments.
- Purchased seven (7) buses.
- Purchased five (5) and moved seven (7) portables.
- Built two (2) new playgrounds at Rutland Elementary and Shannon Lake 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 ASSETS

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 \$42M at June 30, 2020 are restricted funds relating to summer savings and deferred salary leave plans (\$9.65M), school generated funds (\$3.49M) and restricted cash for MOE deposits (\$11.2M). Every year in July and August, the monthly funding from the MOE drops significantly so additional cash funds are required to carry the District through the summer.

Accounts Receivable – With the completion of Canyon Falls Middle school in Sept 2019, additional Ministry of Education Certified of Approval (COA) funds requested in 2020 were \$2.29M less than in 2019.

Portfolio Investments - Fluctuates as the market changes.

Tangible Capital Assets – In 2019, the District was funding the construction of two new middle schools. In 2020, Canyon Falls Middle was completed, therefore the additions to Tangible Capital assets relates mostly to the construction of H.S. Grenda middle school.

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)		
	2020	2019	\$ Diff
<u>Financial Assets</u>			
Cash & Cash Equivalents	42.1	40.4	1.6
Accounts Receivable	3.2	5.5	(2.3)
Portfolio Investments	14.2	13.6	0.6
Tangible Capital Assets	326.9	317.7	9.2
Prepaid Expenses	0.4	0.3	0.2
Supplies Inventory	0.2	0.2	(0.0)
Total Financial Assets	387.0	377.7	9.3

FINANCIAL LIABILITIES

Accounts Payable - Difference relates to a decrease in progress and builder lien holdback invoices related to the construction of Canyon Falls middle school as well, we had an increase in the summer savings and deferred salary leave plans by \$825K and we accrued \$350K that was paid to International Education agents to assist them in resolving difficulties with families, offset some of the costs incurred due to COVID-19, or assist them in marketing the District's program in the future.

Unearned Revenue – This represents fees collected in 2019/2020 from International Education students coming in the 2020/2021 school year. Due to the COVID-19 pandemic and the uncertainty of border closures and travel restrictions, some students are waiting to fully pay their outstanding invoices until a federal announcement is made in the fall.

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.

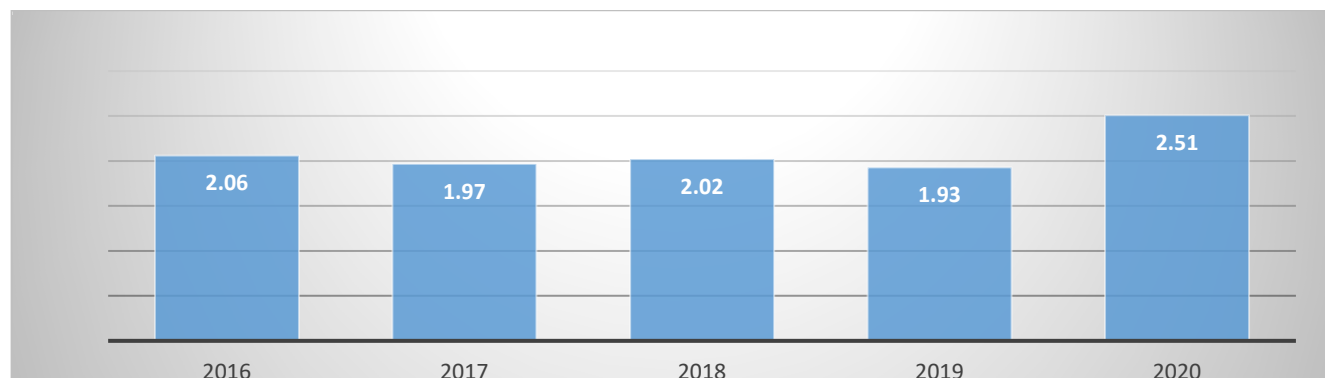
Deferred Capital Revenue - Difference relates to the MOE funding required to continue construction for H.S. Grenda Middle school.

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

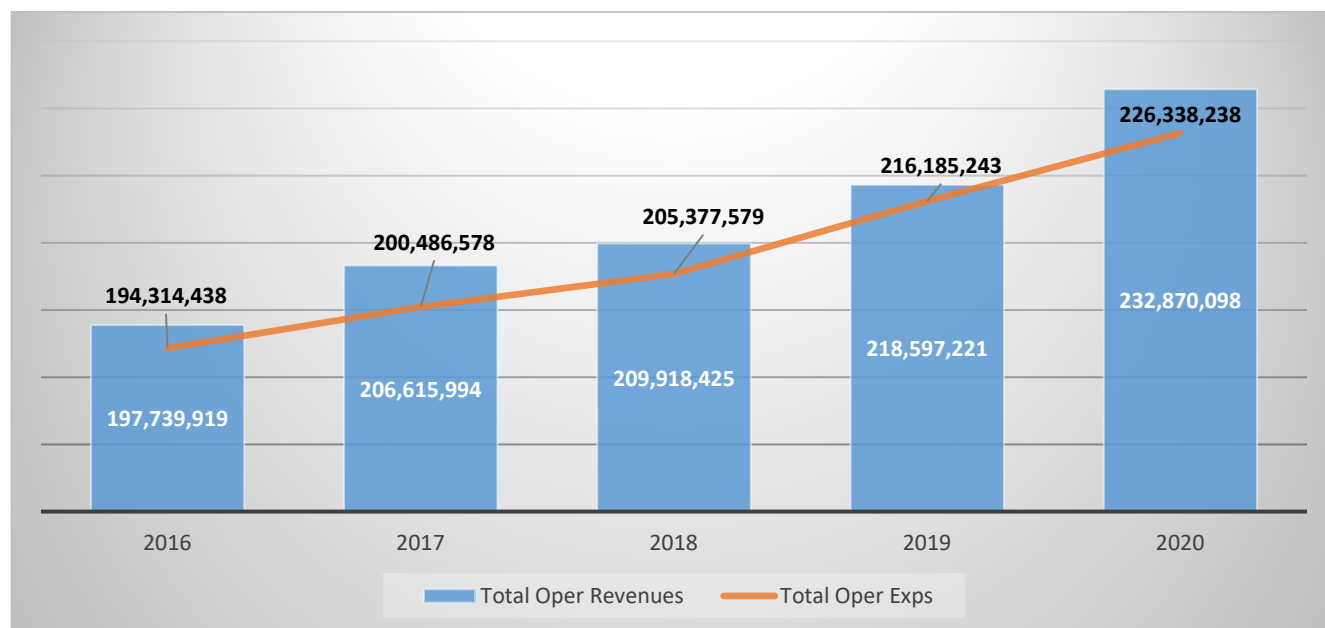
Other Liabilities - Includes accrued wages payable, employer health tax and other employee benefits.

		(In millions)		
		2020	2019	\$ Diff
Liabilities				
Accounts Payable		14.8	18.4	(3.6)
Unearned Revenue		1.6	2.7	(1.1)
Deferred Revenue		3.8	4.0	(0.2)
Deferred Capital Revenue		229.7	218.3	11.4
Employee Future Benefits		10.2	9.9	0.3
Other Liabilities		9.3	10.0	(0.7)
Total Financial Liabilities		269.4	263.4	6.0

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)

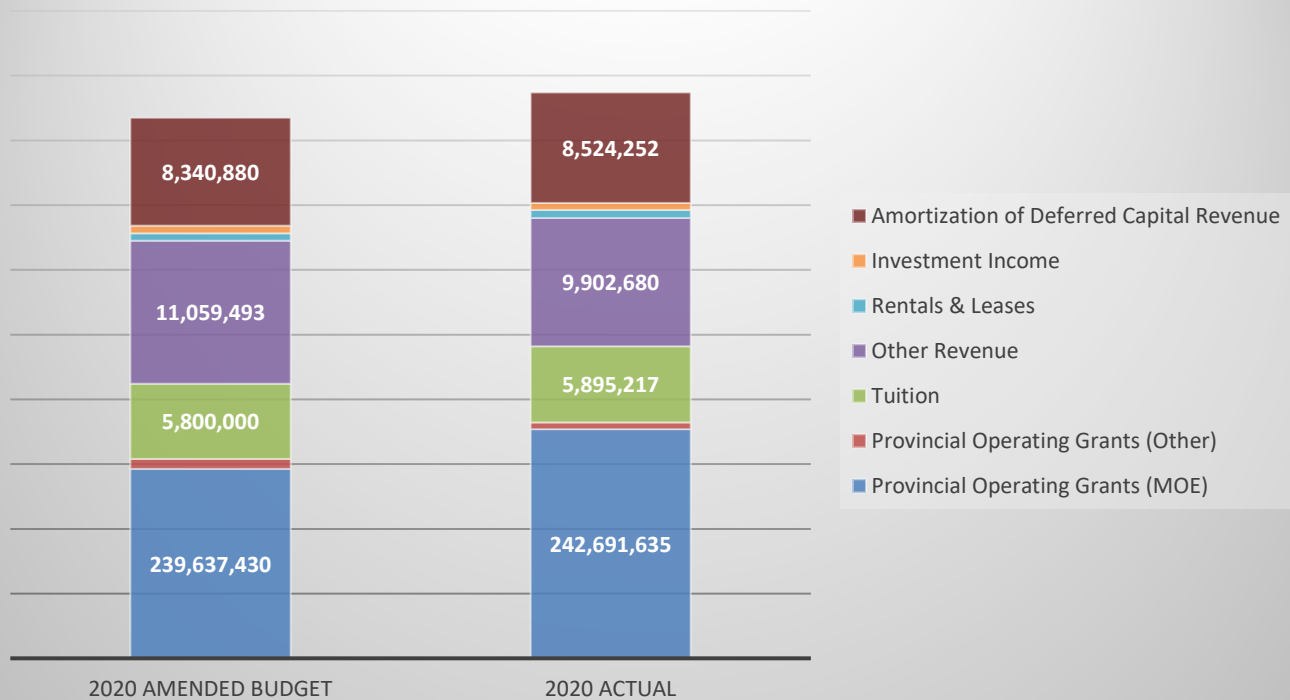
REVENUE

Provincial Grants - Amended Annual Budget was adjusted for an overall student enrolment increase that was higher than anticipated, resulting in an increase in teacher FTE. During the year, the District received \$3.4M to cover the CUPE and COTA labor settlement retroactive payments back to July 1, 2019. As well, \$1.7M was received to compensate the District for additional costs relating to the transition to the Employer Health Tax.

Tuition - The actual student FTE (410 FTE) for the International Education program was slightly higher than budgeted (400 FTE). Tuition is net of the \$350K paid to International Education agents as discussed above.

Other Revenue – Due to the COVID-19 pandemic, all District field trip, fundraising, graduation celebrations and other events were cancelled resulting in either less fees being collected, or refunds being provided to families. This caused an overall reduction in School Generated Funds (special purpose funds) when compared to the budget. The District also refunded \$225K in transportation fees which represented 30% (April-June) of fees paid by parents.

Statement 2 (Combined Revenue)



EXPENSES

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

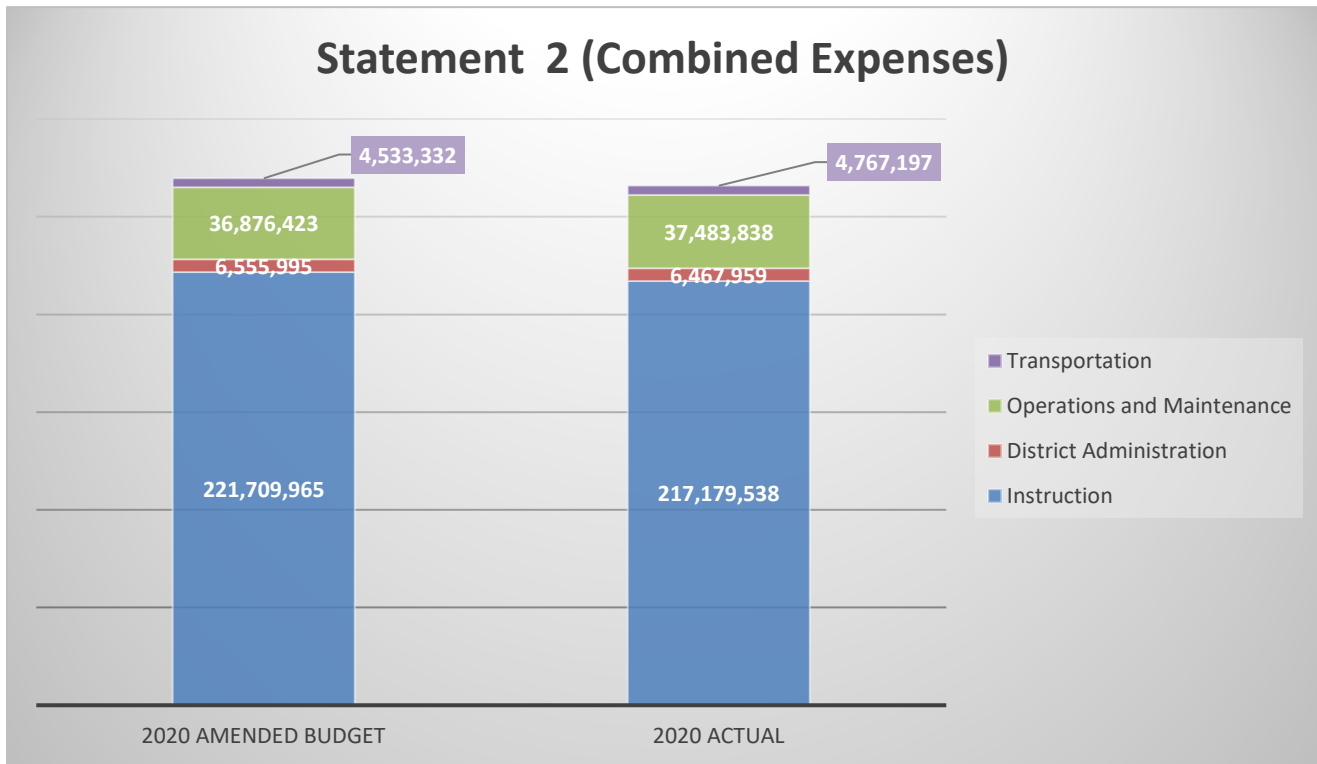
- As a result of the COVID-19 pandemic, many expenses were not incurred. Some examples include a reduction in overall illness, cancellation of travel, professional development, BCIT and Okanagan College spring dual credit programs as well, less was spent on school generated fund expenses such as field trips, athletic tournaments and supplies etc.
- The District incurred approximately \$275,500 of COVID-19 related expenses (essential worker childcare etc.).
- BCPSEA approved a 1.75% grid increase for all Districts effective July 1, 2019, as well, COTA and CUPE bargaining finalized during the year resulting in retroactive payments for all union members back to July 1, 2019.
- Only 5 of 8 LIF CEA positions were filled during the year resulting in a savings.

Operations and Maintenance

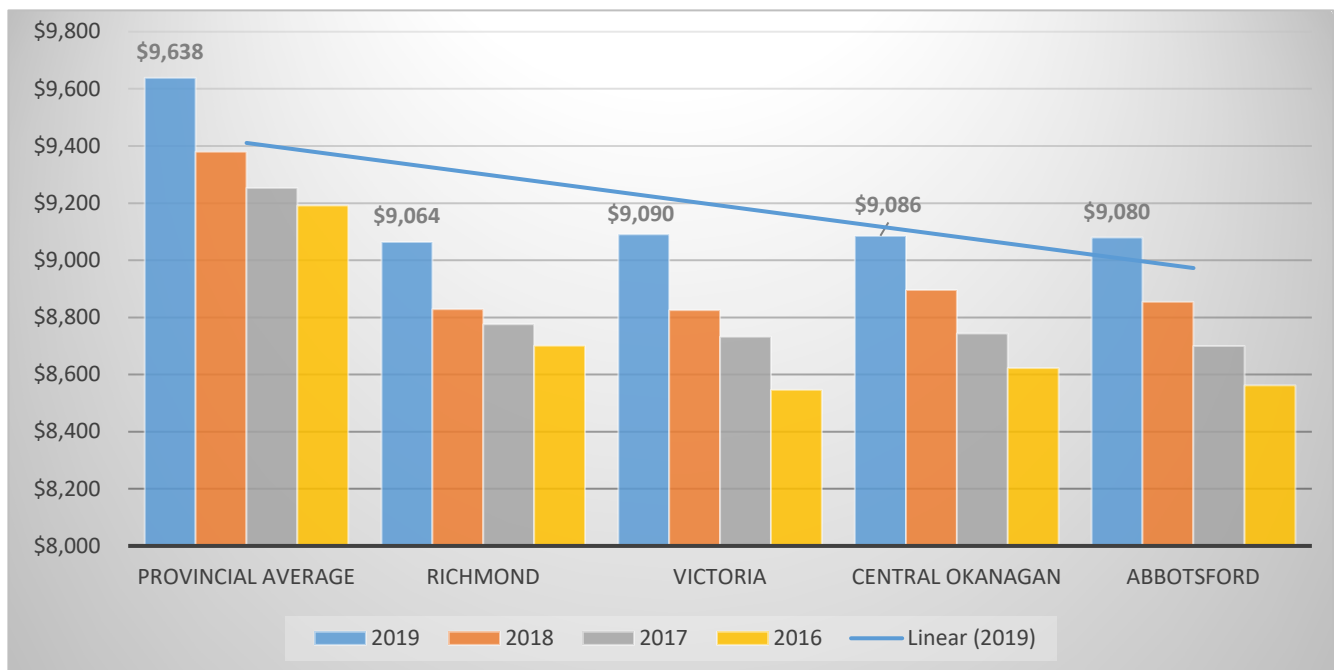
As a result of COVID-19, cleaning protocols were expanded which resulted in an overall increase in both custodial wages and cleaning supply costs. Also, during the year, portable relocation costs were \$235K higher than budgeted, part of this is timing on when the portables are moved.

Transportation

Bus driver wages were higher than budgeted as they worked full days during April to June 2020 as part of the COVID-19 cleaning crews. As well, approximately \$140K was not recovered from schools for field trips that were cancelled.

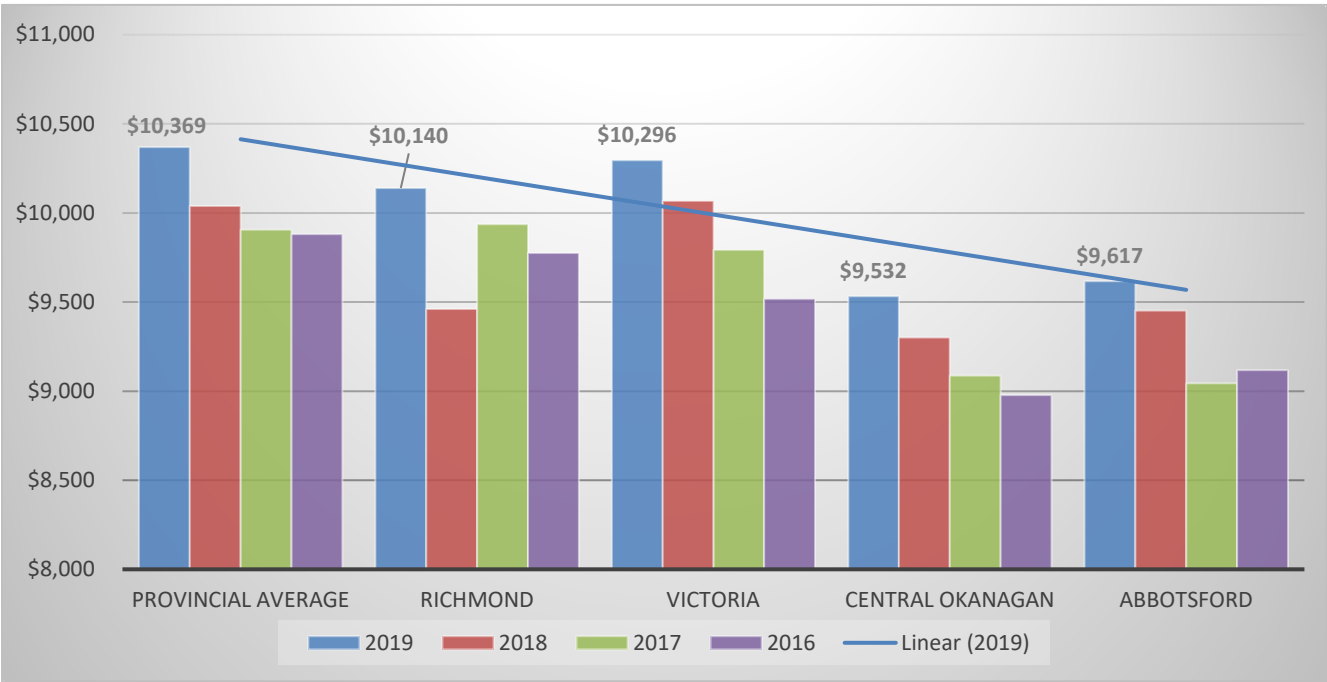


Ministry Operating Grant Funding per Student – The chart below indicates what our District receives in funding, on average, per FTE student compared to other comparable size districts and the province.

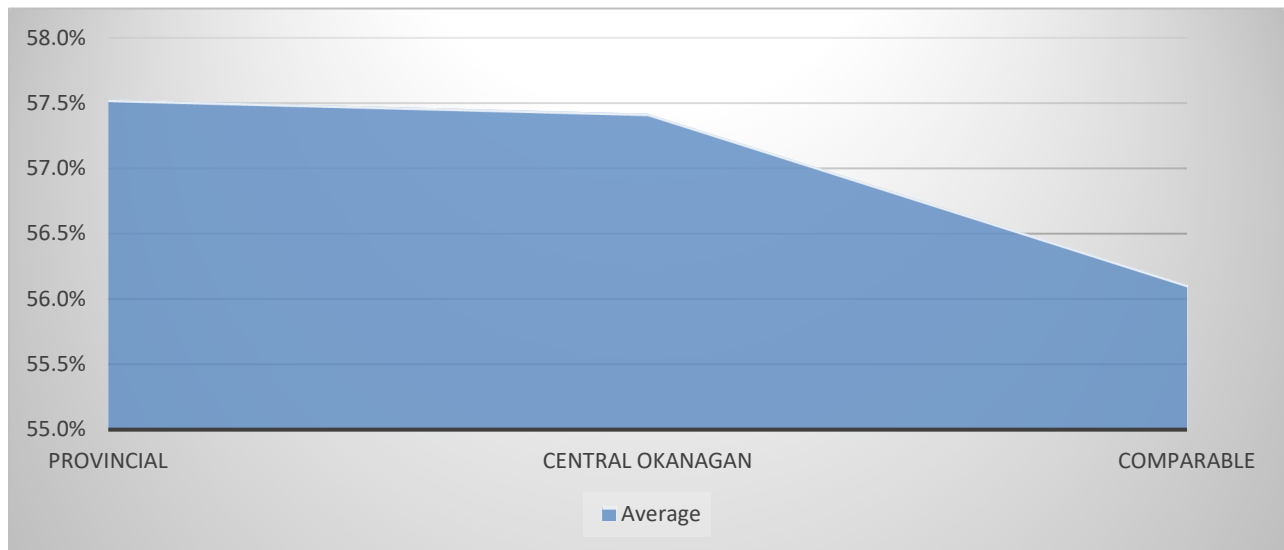


The information shows that our District receives less funding per FTE student than the provincial average. This differential occurs because there are specialty grants provided to districts that address factors unique to specific districts i.e. geographical differences, special education enrolment and 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, such as International Education program tuition, provides some districts the ability to spend more per FTE than others. This alternate funding combined with the specialty grants provided to districts with unique challenges (i.e. funding protection) can result in a higher per FTE spending amount than the District which operates a conservative "boutique" International Education program and does not receive any specialty grants.

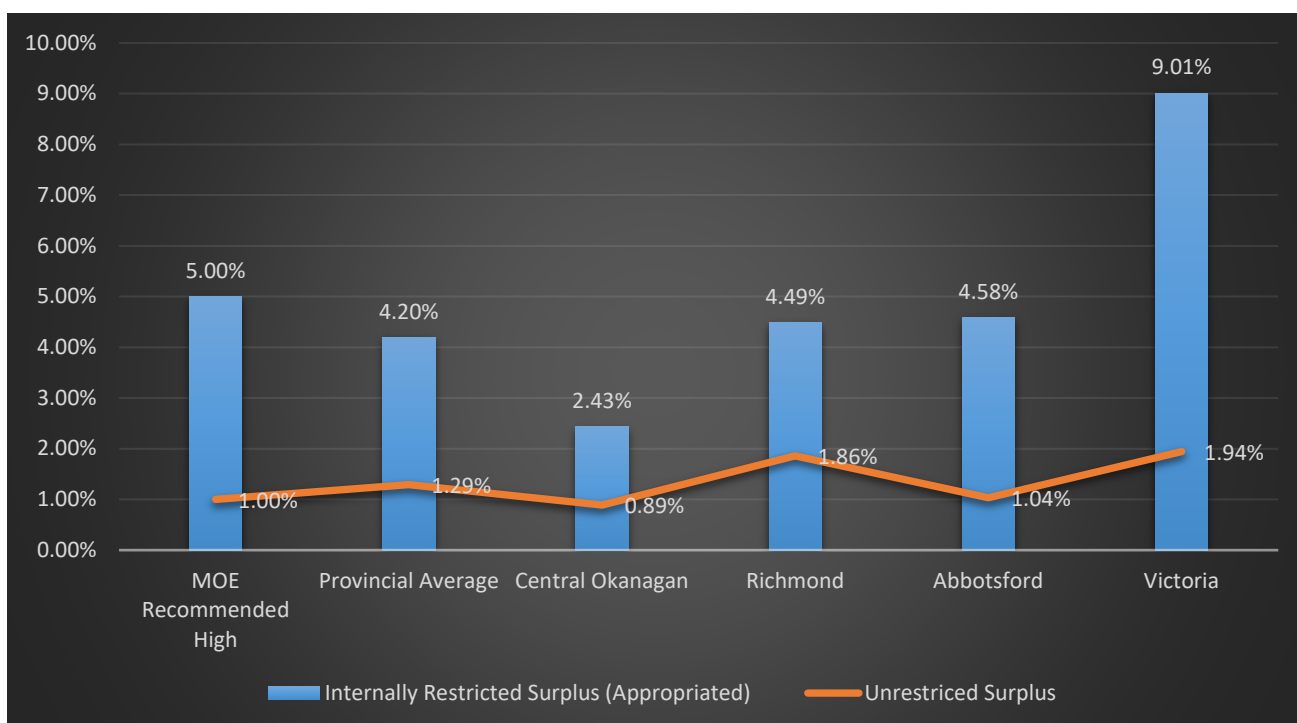


Changes in Capital Assets – If you compare the District's capital asset net book value (cost less amortization) to the capital assets historical cost (cost when purchased), the percentage illustrates the relative age of the asset. A high percentage indicates newer assets whereas a lower percentage indicates 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 57.4% is on par with the provincial average of 57.5% and just over the average of comparable size FTE districts at 56.1%. 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, 2020, 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. This strong financial health can be contributed to sound financial management, planning and governance.