



Financial Statement Discussion and Analysis

For the year ended June 30, 2024



SCHOOL DISTRICT 5
SOUTHEAST KOOTENAY

School District No. 05 (Southeast Kootenay) Financial Statement Discussion & Analysis For the Year Ended June 30, 2024

The following is a discussion and analysis of School District No. 5 (Southeast Kootenay) (the “District”) financial performance for the fiscal year ended June 30, 2024. 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 the budget. This report should be read in conjunction with the District’s annual financial statements.

OVERVIEW OF THE DISTRICT

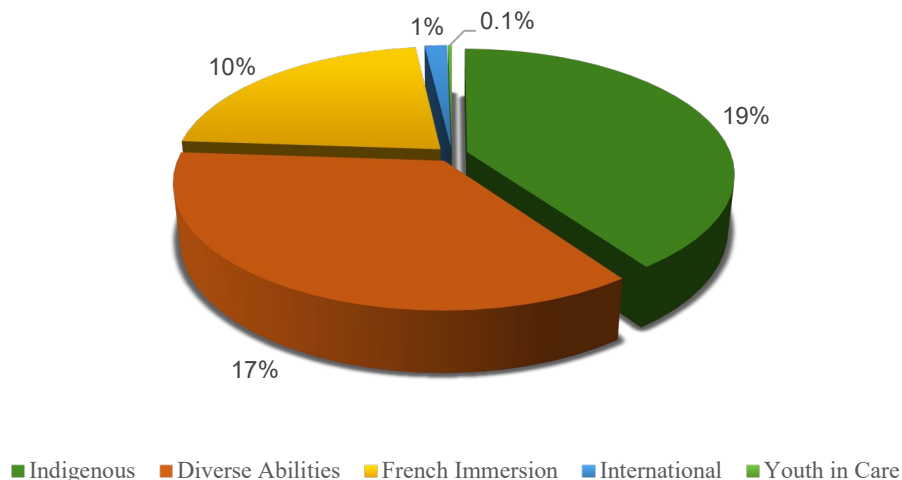
The District is located in the Southeastern corner of British Columbia. The District is on the traditional territories of the Ktunaxa peoples. The footprint of the District is fully contained within the Ktunaxa Nation.



The District is comprised of the communities of Elkford, Sparwood, Fernie, Jaffray/South Country and Cranbrook. It encompasses 18 schools, including one online school and five French Immersion schools and serves approximately 6,020 full-time equivalent (FTE) students.



School District No. 5 (Southeast Kootenay) Demographics



The Framework for Enhancing Student Learning (“FESL”) guides the District’s Board of Education (the “Board”) and its employees and partners in delivering educational programs.

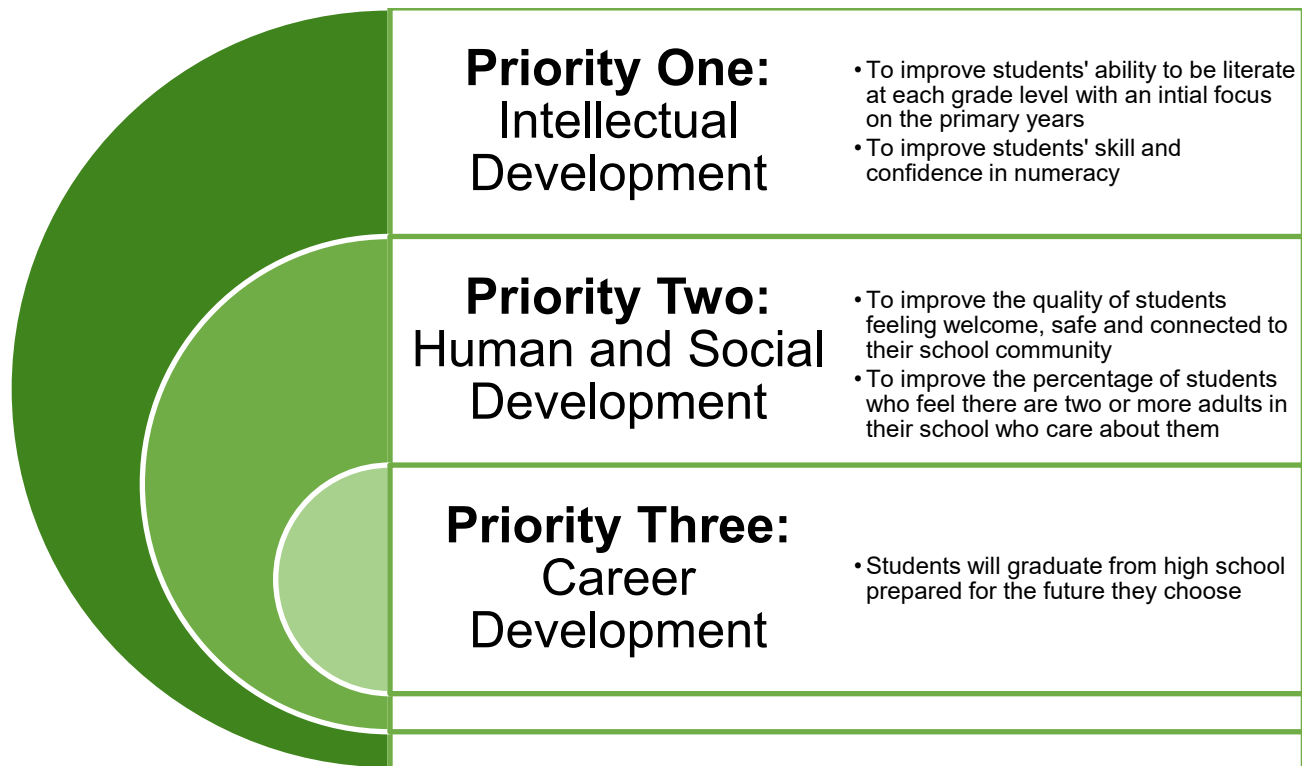
Board Vision: Students love to learn here, staff love to work here, families love to gather here.

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

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



School District No. 5 (Southeast Kootenay) endeavors to maintain high and measurable standards, with a strategic focus on the following priorities and related goals:



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>2024 Revenues: \$81.6 million</p>	<p>Annual program revenues and expenditures are reported within the operating fund and special purpose fund (see below). The 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>2024 Revenues: \$14.9 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>2024 Capital Funding Received or Receivable: \$4.5 million</p> <p>2024 Capital Assets Purchased: \$4.8 million</p>	<p>The capital fund reports investment in, and financing activities related to, capital assets. Capital contributions (funding) from the Ministry of Education and Child Care 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 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



Cost of living affected the District students and staff and the District operations. The District received over \$808,000 as a Feeding Futures fund to help assist with food insecurities and in school food programs and another \$151,000 for Student & Family Affordability fund to further assist vulnerable students and their families facing affordability concerns. Also our Classroom Enhancement Fund for staffing increased from \$3.2 million to \$9.5 million due to the correction to the calculation. These funds were used to hire more teachers during the year. The ongoing impact of the pandemic still presents uncertainty over future cash flows and may have a significant impact on future operations including continued increased replacement costs for sick teachers and support staff and staffing shortages.

As reported in the Statement of Operations, for the year ended June 30, 2024, the District's revenue exceeded its expenses resulting in an annual surplus of \$4,120,548 (2023 – deficit of \$1,910,496). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

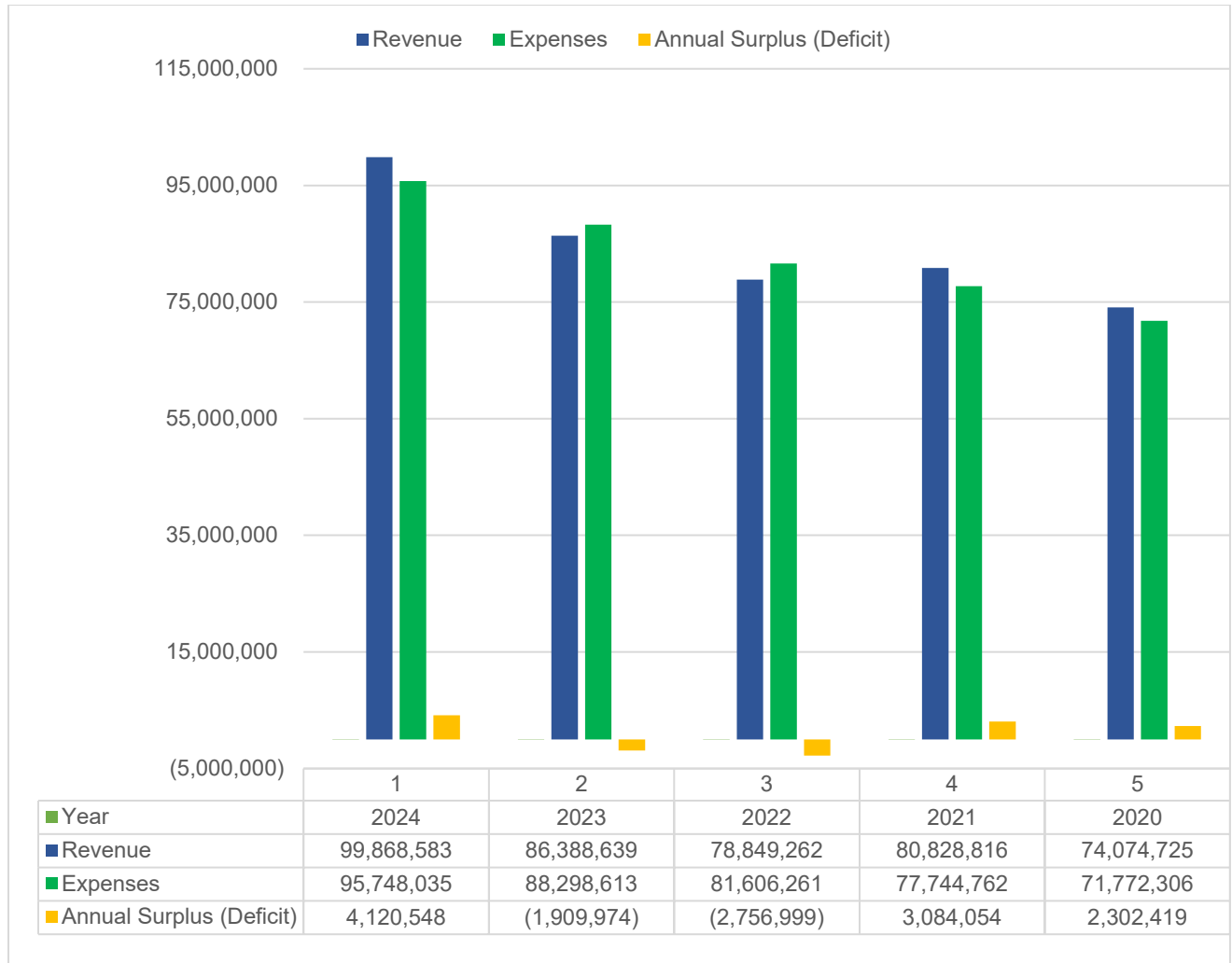
Annual Surplus (Deficit)	June 30, 2024	June 30, 2023
Operating Fund	\$ 3,677,632	\$ (2,012,544)
Capital Fund	442,655	102,048
Combined	\$ 4,120,287	\$ (1,910,496)

Financial Results for 2023-2024

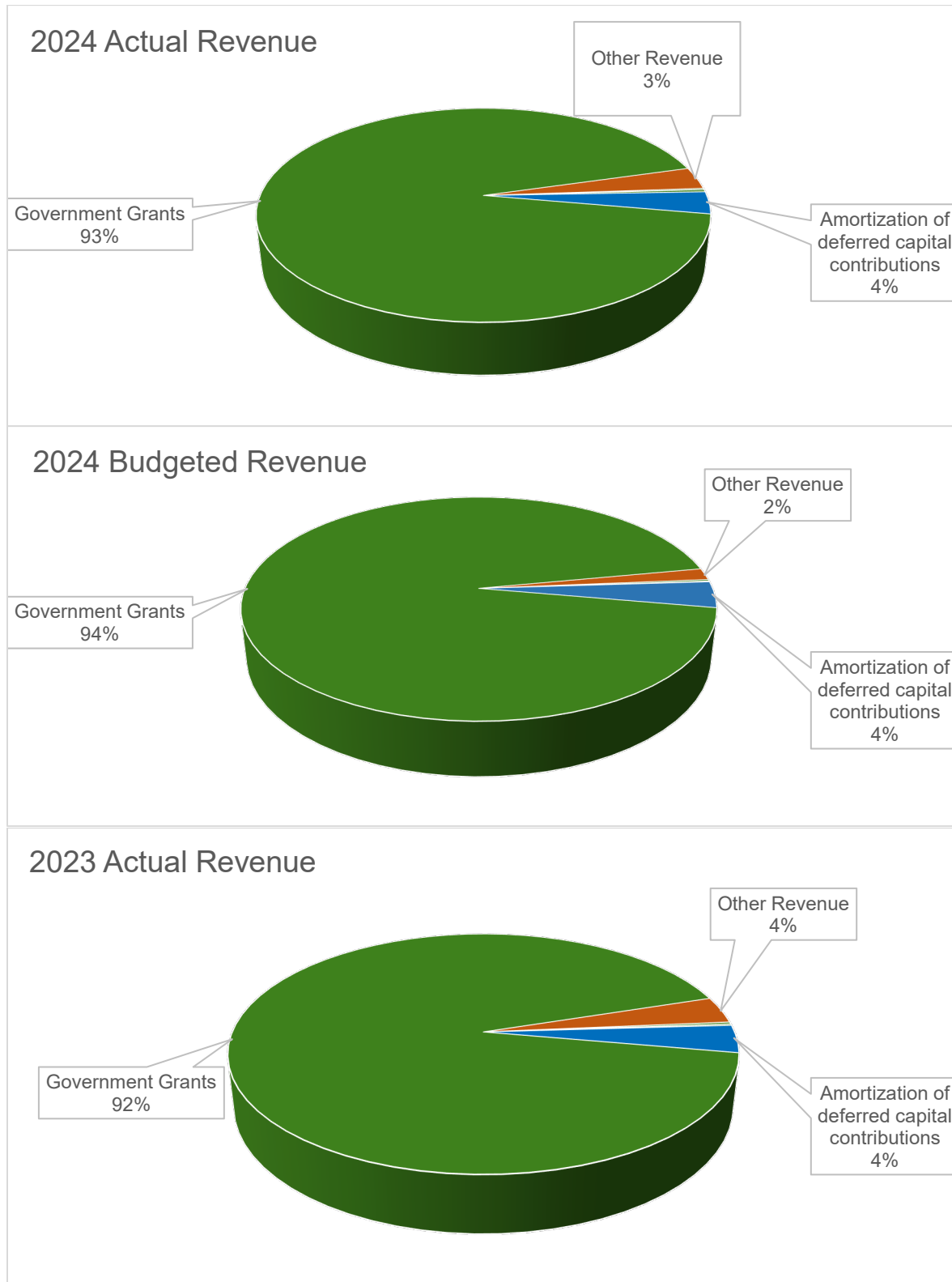
Revenues	Operating	SPF	Capital	Total
Provincial Grants	\$80,120,278	\$12,544,261	-	\$92,664,539
Other Revenue	1,029,650	2,292,298	-	3,321,948
Rentals and Leases	202,596	-	-	202,596
Investment Income	256,781	13,200	62,815	332,796
Amortization of Deferred Capital Revenue	-	-	3,313,977	3,313,977
Total Revenues	81,609,305	14,849,759	3,376,792	99,835,856
Expenses				
Instruction	\$63,621,225	14,695,229	-	\$78,316,454
District Administration	2,983,669	-	-	2,983,669
Operations and Maintenance	7,932,712	24,430	-	7,957,142
Transportation and Housing	2,490,310	-	-	2,490,310
Amortization of Tangible Capital Assets	-	-	4,116,528	4,116,528
Write-off/down of Buildings	-	-	(164,956)	(164,956)
Debt Services	-	-	16,422	16,422
Total Expenses	77,027,916	14,719,659	3,967,994	95,715,569
Surplus (Deficit)	4,581,389	130,100	(591,202)	4,120,287
Net Transfers to/(from) other Funds	(903,757)	(130,100)	1,033,857	-
Total Surplus (Deficit) for the year	3,677,632	-	442,655	4,120,287
Surplus beginning of the year	2,437,968	-	20,056,962	22,494,930
Accumulated Surplus	\$ 6,115,600	-	\$20,499,617	\$26,615,217

Analyzing the operating fund, the annual surplus of \$4,120,287 resulted due to overall revenues being higher than expected mainly because of the increase in student FTE enrolment and increase in Classroom Enhancement funding, extra Feeding Futures funding. Also, a conservative approach was taken to keep the expenses in check to help alleviate prior year deficits.

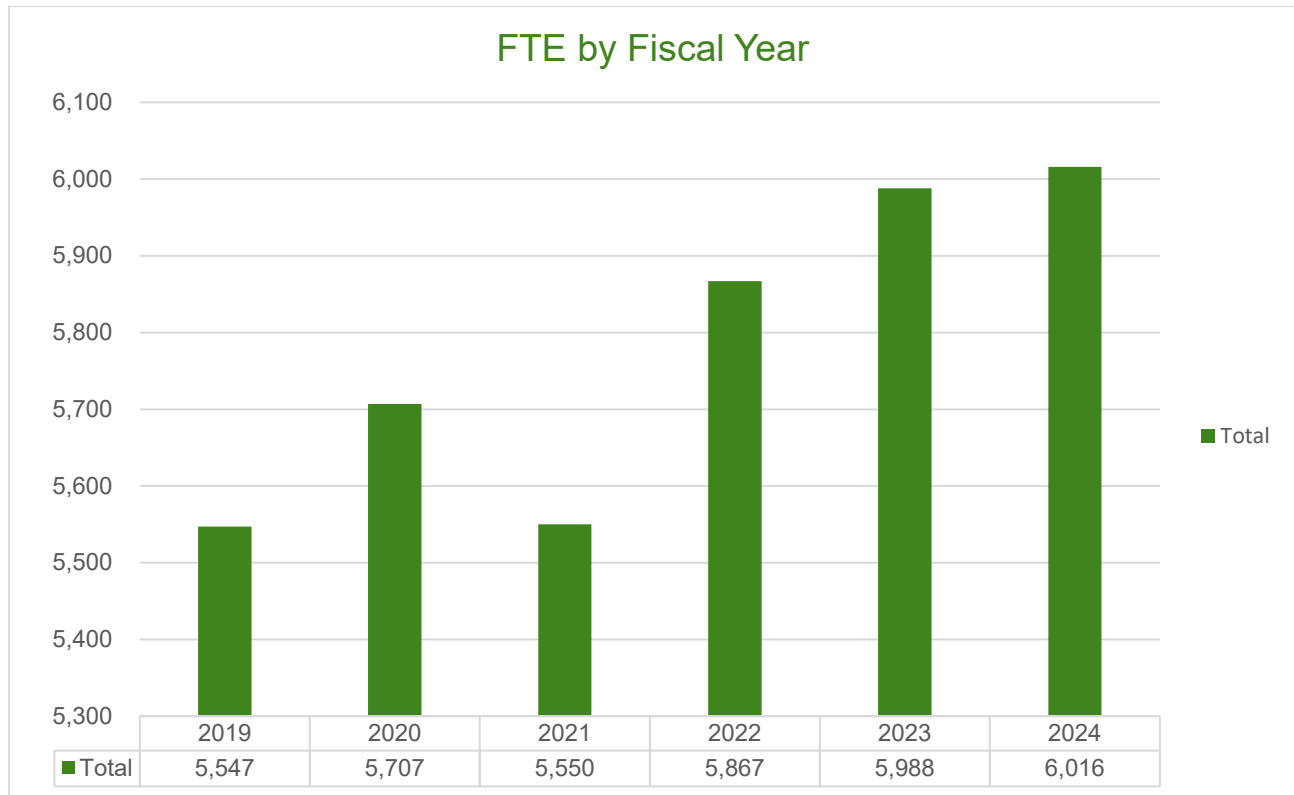
Total Revenue, Expenses and Annual Surplus



Revenue Analysis



Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2024, the District invested \$4.8 million (2023 - \$8.7 million) in capital additions that were funded by Provincial capital funding of \$4.4 million (2023 - \$8.6 million) and the operating fund of \$0.9 million (2023 - \$0.1 million). Capital additions during the year included the following projects:

Project	Invested in 2023/24 (in millions)	Completion Date
Mount Baker Secondary School Dust Collection, Flooring & Plumbing	\$ 1.00	Ongoing
District Annual Maintenance Various	\$ 1.50	Ongoing
Bus Replacement Program	\$ 0.30	Ongoing
Sparwood Secondary School Electrical Upgrades	\$ 0.05	Ongoing
FJ Mitchell Elementary School Playground	\$ 0.10	Ongoing
Child Care Spaces in Schools	\$ 0.07	Ongoing
New Fernie School	\$ 0.80	Ongoing

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 District and involved hiring more than 26 teachers, developing new administrative processes and the creation of additional classroom space. During 2023/24, the District received \$9.8 million (2022/23 - \$3.5 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 5 years, growth has been accommodated by installing portable classrooms and the site now houses 10 portable classrooms and completing a four-classroom expansion. Additionally, the District has acquired land for a future school and is pursuing options for building a new school to meet the long-term needs of the community, which have cost implications for both the capital plan (capital fund) and the operating fund.
- **School Building Impairment** – On June 30, 2024, there was a fire at Amy Woodland Elementary School which caused significant damage to the building. As a result, the amount recorded in buildings above has been derecognized as at June 30, 2024. The District is actively working with the Ministry of Education on various options for the future of the school. See Note 6 and Note 10 for the impact to Capital Assets and Deferred Capital Revenue.



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.

	2024	2023	Analysis of Variance
Cash	\$18,212,873	\$10,317,351	Increase in cash at year end, mainly due to increased CEF funding which helped to subsidize some of the operating costs. Also, received over \$1M for childcare spaces which hasn't been fully utilized as at year end, and timing of cash receipts and disbursements.
Accounts Receivable - Other	\$ 1,035,258	\$ 2,154,561	2023 balance included amount receivable for employee benefit surplus of \$1.3 m. out of which we received \$.8 m of funds during the current year.
Accounts Payable and Accrued Liabilities	\$ 8,422,459	\$ 7,417,256	Increased mainly due to higher trades payable at year end and higher wages and vacation payable at year end than prior year.
Deferred Capital Revenue	\$68,226,689	\$67,870,808	Increased by \$0.3 million due to capital funding received (\$4.5 million) offset by amortization of capital funding revenue (\$4.2 million).
Tangible Capital Assets	\$89,252,664	\$89,461,220	Increased by \$0.2 million due to capital investment of \$4.8 million offset by amortization of \$4.6 million.

Statement of Operations

	Annual Budget 2023/24	Actual 2023/24	Actual 2022/23
Revenues	\$ 88,078,748	\$ 99,835,856	\$ 86,388,639
Expenses and fund transfers	87,642,077	95,715,569	88,299,135
Annual Operating Surplus	436,671	4,120,287	(1,910,496)
Opening Accumulated Surplus	22,494,930	22,494,930	24,405,426
Closing Accumulated Surplus	\$ 22,931,601	\$ 26,615,217	\$ 22,494,930

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 2023/24	Actual 2023/24	Annual Budget 2022/23	Actual 2022/23
Grant Revenue	\$ 77,174,057	\$ 80,120,278	\$ 70,070,409	\$ 73,855,300
Other Revenue	809,395	1,029,650	999,684	955,587
Rentals and Leases	200,000	202,596	200,000	233,405
Investment Income	80,000	256,781	25,000	117,270
Total Revenues	\$ 78,263,452	\$ 81,609,305	\$ 71,295,093	\$ 75,164,562

Grant Revenues

Budgeted grant revenues in 2023/24 were \$7.1 million greater than 2022/23 budgeted revenues primarily due to FTE increase in fall enrolment and inflationary increases to funding rates.

Actual 2023/24 grant revenues are \$2.9 million greater than to 2023/24 budget, and the increase is due to increase in FTE enrolment to 6,016 compared to 5,988 in 2023 fiscal year, as indicated on the FTE funded enrolment chart above. Also, received \$1.3 million for labour settlement funding.

Other Income

Increase from budget is mainly related to increase in funding from miscellaneous resources. Funding from international students and first nation students actually was lower than budget.

Investment Income

Actual investment income in 2023/24 exceeded budget as investment income budget was conservative. Investment income increased from prior year actual mainly due to the increase in interest rates from 5.20% to 5.70%.

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 by function 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 2023/24	Actual 2023/24	Annual Budget 2022/23	Actual 2022/23
Instruction	\$ 64,277,823	\$ 63,621,225	\$ 57,571,394	\$ 63,275,072
District Administration	2,742,949	2,983,669	2,444,758	2,613,563
Operations and Maintenance	8,012,786	7,932,712	7,871,058	8,275,923
Transportation	2,390,282	2,490,310	2,497,265	2,496,002
Fund transfer	839,612	903,757	910,618	516,546
Total	\$ 78,263,452	\$ 77,931,673	\$ 71,295,093	\$ 77,177,106

Instruction – Instruction expense is lower relative to budget. This is mainly due to the salary costs in operating being subsidized by increased CEF funding even though we had a wage increase of 6.75%. We also saw a slight decrease for Teachers On Call as well.

District Administration – District administration expense is higher than both the budget and the prior year actual mainly due to higher than budgeted costs related to increased legal fees, payroll audit and training costs increase as our payroll system was changed during the year. Also, there was an increase of 6.75% in wages & benefits.

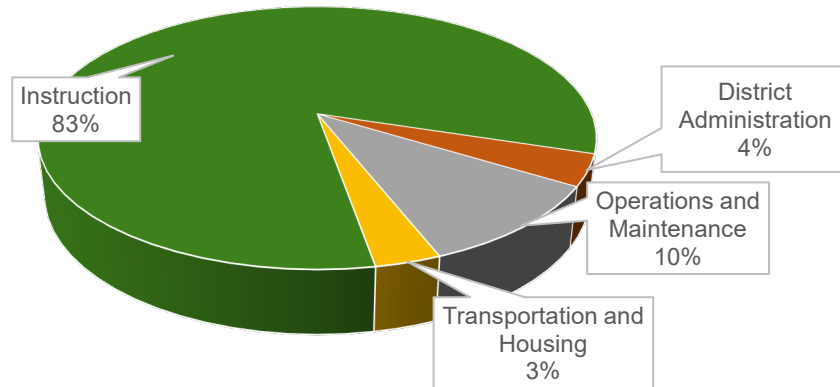
Operations and Maintenance and Fund Transfer – Fund transfers primarily represent operations and maintenance expenditures that meet the criteria for capitalization. Decrease operations and maintenance expenses compared to both the budget and prior year actuals are due to one less clerical position, contract costs for electrical and custodial were reduced by hiring employees.

Transportation – The transportation expense is higher than current year budget and slightly lower than the prior year. This increase from budget is mainly attributed to. higher prices for fuel and more bus trips during the year required more bus drivers, along with generally higher wages and benefits.

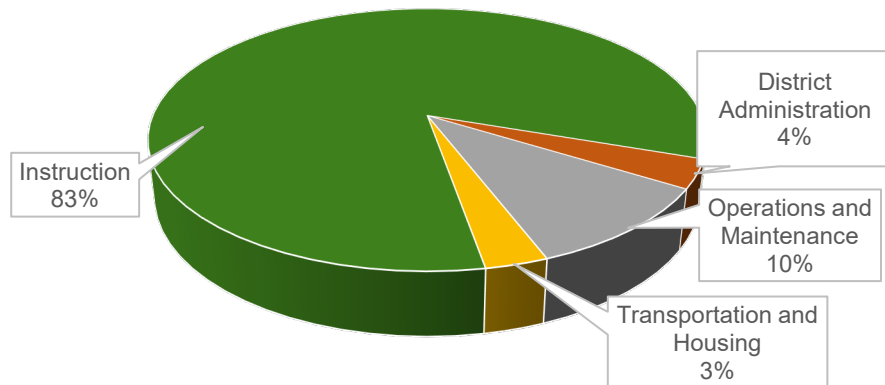


Operating Expenses Analysis

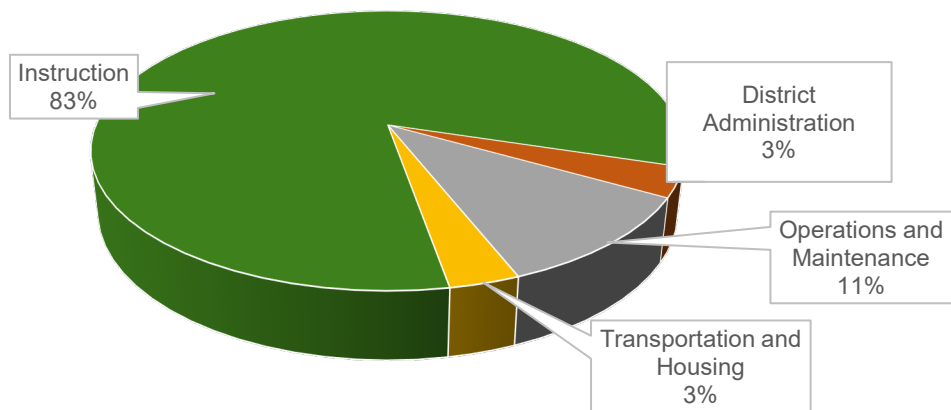
2024 Actual Expenses



2024 Budgeted Expenses



2023 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 carryforwards) 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 2024	June 2023	Change
Total Accumulated Surplus (per financial statements)	\$ 6,115,600	\$ 2,437,968	\$ 3,677,632
School Initiatives (multi-year funding)	(1,673,125)	(1,533,100)	(140,025)
District Initiatives (multi-year funding)	(1,237,988)	(894,204)	(343,784)
Total Internally Restricted	(2,911,113)	(2,427,304)	(483,809)
Contingency Reserve (Unappropriated Surplus)	\$ 3,204,487	\$ 10,665	\$ 3,193,822

Statement of Operations by Fund – Special Purpose Fund

	Annual Budget 2023/24	Actual 2023/24	Annual Budget 2022/23	Actual 2022/23
Provincial Grants	\$ 5,816,829	\$ 12,544,261	\$ 4,515,699	\$ 5,861,407
Other Revenues	670,000	2,305,498	678,000	2,140,327
Expenditures	(6,224,208)	(14,719,659)	(4,931,078)	(7,746,765)
Fund transfers	(262,621)	(130,100)	(262,621)	(254,969)
Annual Surplus (Deficit)	\$ -	\$ -	\$ -	\$ -

Actual provincial grants are higher than budgeted mainly because of extra funding of over \$9.8 million for Classroom Enhancement Fund and \$0.8 million in Feeding Futures Funding to assist with school food program as well as \$0.1 million extra Student and Family Affordability Fund to combat rise in cost of living.

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 2023/24	Actual 2023/24	Annual Budget 2022/23	Actual 2022/23
Revenues	\$ 3,328,467	\$ 3,376,792	\$ 3,151,986	\$ 3,222,343
Expenses	(3,991,029)	(3,967,994)	(3,808,251)	(3,891,810)
Fund Transfers (capital assets purchased in other funds)	1,102,233	1,033,857	1,173,239	771,515
Change in Accumulated Surplus	436,671	442,655	519,474	102,048
Opening Accumulated Surplus		20,056,962		19,954,914
Closing Accumulated Surplus		\$ 20,499,617		\$ 20,056,962

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 less than budget as there were less expenditures that met the criteria for capitalization as an asset.

During the year ended June 30, 2023, the district invested \$4.8 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 the accumulated surplus in the capital fund and represents funds available for investment in capital assets at the discretion of the Board.
- Ministry of Education and Child Care 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 and Child Care. These funds are generated primarily from capital project savings and proceeds of disposition of assets that are allocated to the Minister of Education and Child Care pursuant to the *School Act*.

The table below presents the June 30, 2024 closing balances in Local Capital and Ministry of Education and Child Care Restricted Capital and what portion of the balances remains uncommitted for future capital investment.

	Local Capital	Ministry of Education and Child Care Restricted Capital
Balance at June 30, 2024	\$ 983,339	\$ 130,484
Committed for future investment	983,339	130,484
Uncommitted Balance	\$ -	\$ -

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 District’s stakeholders with a general overview of the finances for School District No. 5 (Southeast Kootenay) and to demonstrate the 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 nick.taylor@sd5.bc.ca or 250-417-2054.

