



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

## **Financial Statement Discussion and Analysis**

**For the Year Ended June 30, 2021**



# School District No. 05 (Southeast Kootenay)

## Financial Statement Discussion & Analysis

### For the Year Ended June 30, 2021

The following is a discussion and analysis of the Southeast Kootenay School District’s financial performance for the fiscal year ended June 30, 2021. 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 anywhere from 5,500 to 6,000 student FTE in: 17 neighborhoods 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.

#### Current Headcount

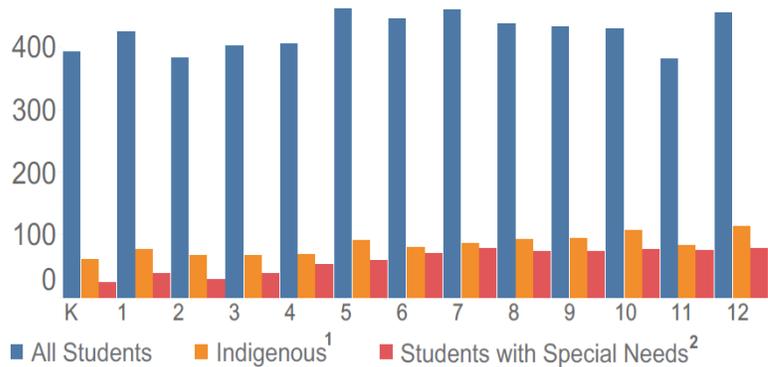
5,550

Projected change  
over next 10 years

562



#### Total Students Across All Grades (2020/21)



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><b>Operating Fund</b></p> <p>2021 Revenues: \$66.2 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><b>Special Purpose Fund</b></p> <p>2021 Revenues: \$8.2 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><b>Capital Fund</b></p> <p>2021 Capital Funding Received or Receivable: \$7.49 million</p> <p>2021 Capital Assets Purchased: \$9.39 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 impact of Covid-19 continues to exist and has had a significant financial, market and social dislocating impact worldwide. 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 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, 2021 the district's revenues exceeded its expenses resulting in an annual surplus of \$3,121,595 (2020 - surplus of \$2,302,419). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

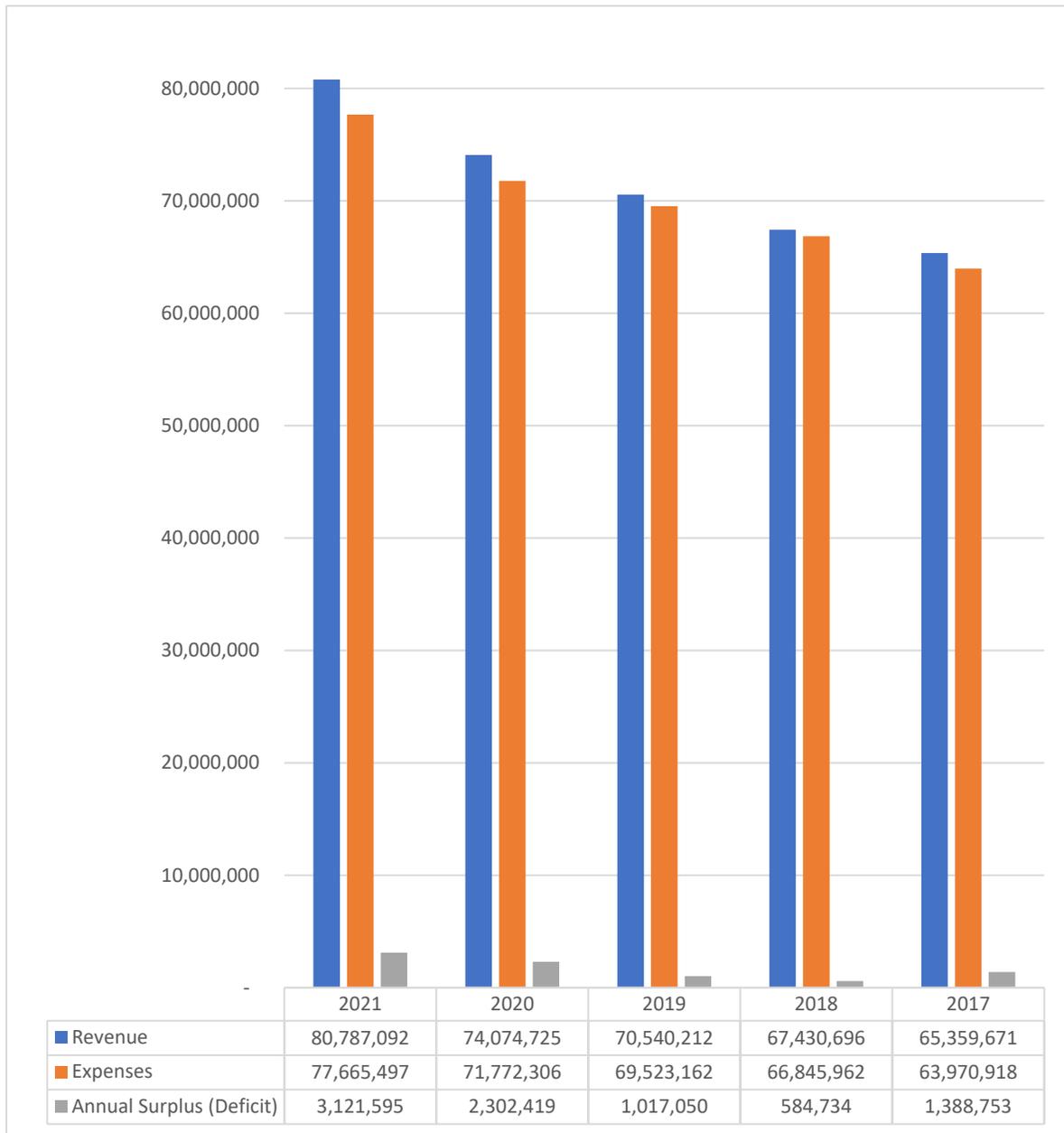
Annual Surplus (Deficit)	June 30, 2021	June 30, 2020
<b>Operating Fund</b>	<b>(1,216,573)</b>	<b>1,523,132</b>
Capital Fund	4,338,168	779,287
Combined	3,121,595	2,302,419

### Financial Results for 2020-2021

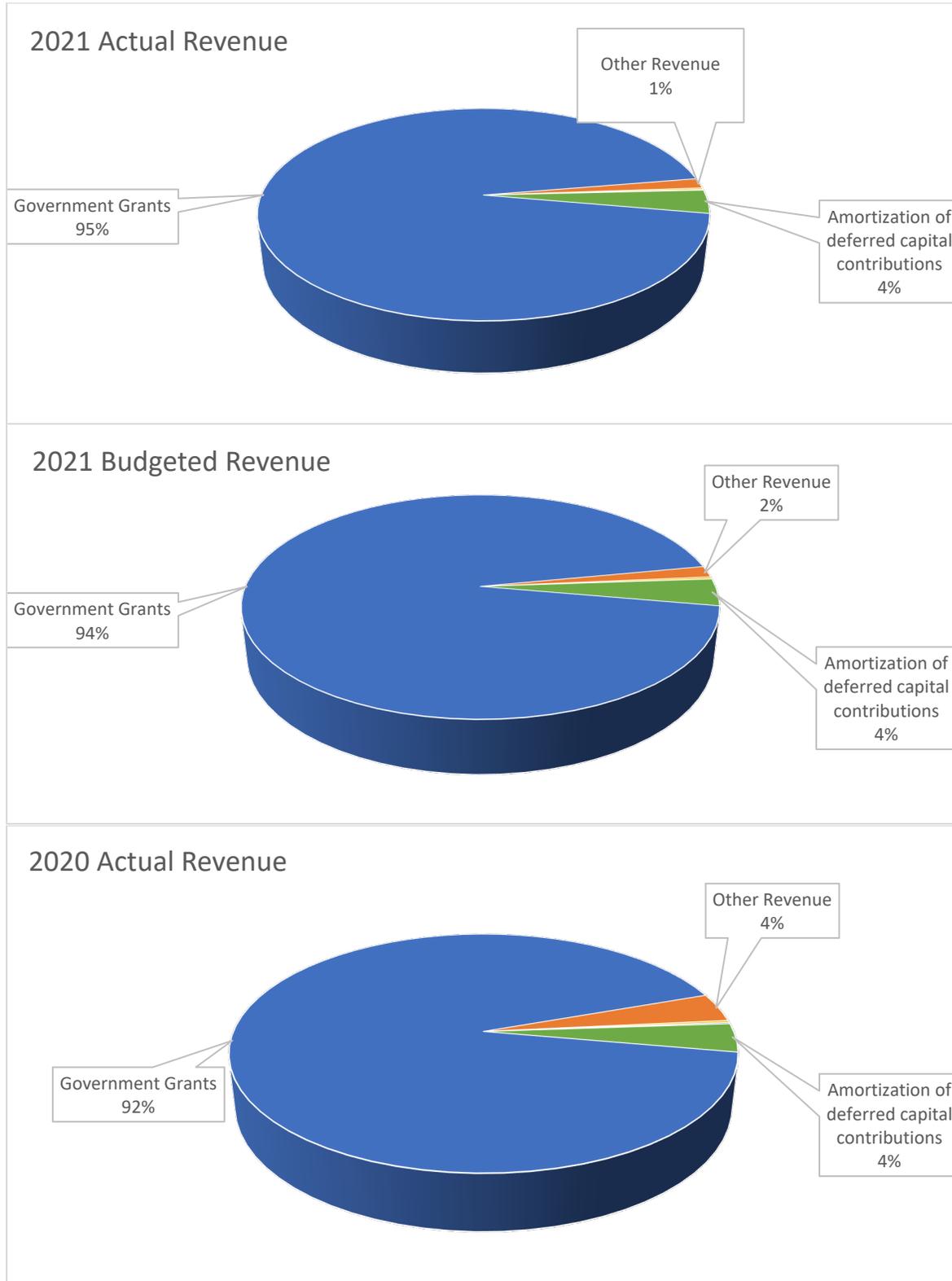
	<u>Operating</u>	<u>SPF</u>	<u>Capital</u>	<u>Total</u>
<b>Revenues</b>				
Provincial Grants	65,436,838	7,531,439	3,449,139	76,417,416
Other Revenue	535,353	679,659	-	1,215,012
Rentals and Leases	200,728	-	-	200,728
Investment Income	61,234	11,353	5,831	78,418
Amortization of Deferred Capital Revenue	-	-	2,875,518	2,875,518
<b>Total Revenues</b>	<b>66,234,153</b>	<b>8,222,451</b>	<b>6,330,488</b>	<b>80,787,092</b>
<b>Expenses</b>				
Instruction	55,323,559	6,845,664	-	62,169,223
District Administration	2,222,915	-	-	2,222,915
Operations and Maintenance	7,305,525	595,459	-	7,900,984
Transportation and Housing	1,898,727	3,048	-	1,712,699
Amortization of Tangible Capital Assets	-	-	3,470,600	3,470,600
<b>Total Expenses</b>	<b>66,750,726</b>	<b>5,957,277</b>	<b>3,470,600</b>	<b>77,665,497</b>
<b>Surplus (Deficit)</b>	<b>(516,573)</b>	<b>778,280</b>	<b>2,859,888</b>	<b>3,121,595</b>
<b>Net Transfers to/(from) other Funds</b>				
Local Capital	(700,000)	(778,280)	1,478,280	-
<b>Total Net Transfers</b>	<b>(700,000)</b>	<b>(778,280)</b>	<b>1,478,280</b>	<b>-</b>
<b>Total Surplus for the year</b>	<b>(1,216,573)</b>	<b>-</b>	<b>4,338,168</b>	<b>3,121,595</b>
<b>Surplus beginning of the year</b>	<b>6,235,960</b>	<b>-</b>	<b>18,531,114</b>	<b>24,767,074</b>
<b>Accumulated Surplus</b>	<b>5,019,387</b>	<b>-</b>	<b>22,869,282</b>	<b>27,888,669</b>

Looking at the operating fund, the annual deficit of \$1,216,573 resulted in a decrease to accumulated operating surplus from \$6,235,960 at the beginning of the year to \$5,019,387 as at June 30, 2021. This occurred due to overall expenses being higher than expected due to Covid-19, even though the revenues were higher than expected due to new funding received during the year.

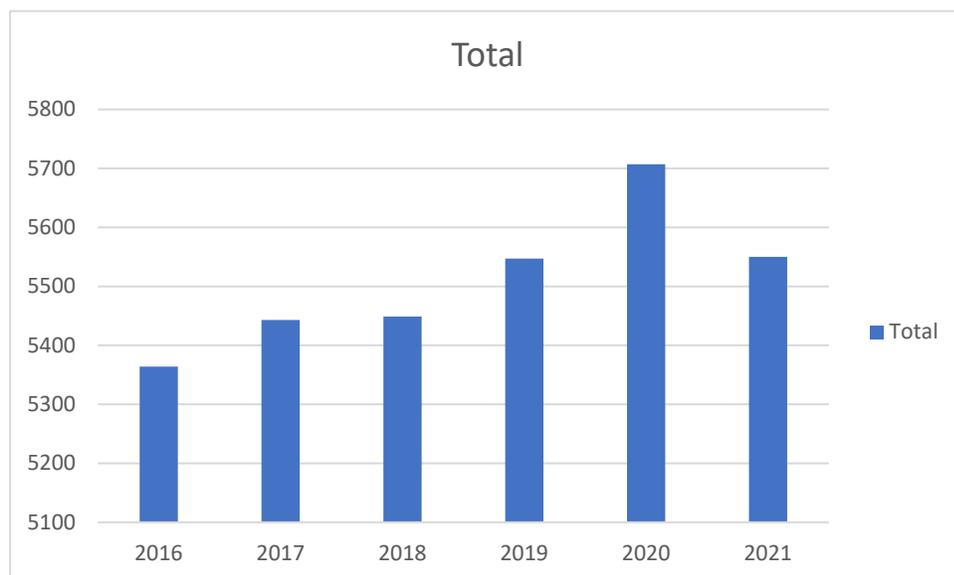
**Total Revenue, Expenses and Annual Surplus**



Revenue Analysis



## Funded FTE Enrolment by Fiscal Year



## Capital Investment

During the year ended June 30, 2021, the district invested \$9.4 million (2020 - \$4.7) in capital additions that were funded by: Provincial capital funding (\$8.4 million); and the operating fund (\$1.0 million). Capital additions during the year included the following projects:

Project	Invested in 2020/21	Completion Date
Fernie New School Site	\$3.5m	December 2020
Mount Baker Secondary – Key City Theatre	\$1.9m	June 2021
District Annual Maintenance – Various	\$1.8m	Ongoing
Bus Replacement Program	\$0.7m	Fall 2020
Isabella Dicken Elementary – Expansion	\$0.4m	June 2021
Isabella Dicken Elementary – Portables	\$0.4m	August 2020
Custodial equipment	\$0.4m	June 2021
Computer equipment	\$0.2m	June 2021
Elkford – Bus Garage	\$0.1m	June 2021

## Significant Financial Events

- **Covid -19** – Effective March 11, 2020 and continuing until further notice, the government has identified Covid-19 as a major reporting event. In April 2020, the Ministry of Education informed that the Province of BC had initiated a process for government organizations to record on financial transactions that are incremental to regular operations due to the Covid-19 event. During the fiscal year ended June 30, 2021, the School District received \$2,605,210 from the Ministry for safe return to school funding to help with the costs to mitigate the risks from Covid-19 at the schools and district office.

Total costs incurred due to Covid -19 during the current fiscal year were \$3,232,490, out of which \$2.3 million were spent on salaries and benefits for extra staffing. Rest of the costs were for supplies which included air purifiers, cleaning supplies, washers, dryers, stack kits, reusable 2-ply & 3-ply face masks, disposable face masks, face shields, barriers, physical distancing stickers, computers, headsets for secretaries & staff working from home,; learning resources such as tables, benches, books, storage bins for each child, etc. It also includes expense for District wide Covid-19 health and training session at the start of the school. Services includes contract work for custodial (where unable to hire) for cleaning at schools in Elk Valley.

- **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 26 teachers, developing new administrative processes and the creation of additional classroom space. During 2020/21, the district received \$2.8 million (2019/20 - \$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 (Ferne) is well above capacity. Over the past 4-5 years, growth has been accommodated by installing portable classrooms and the site now houses 10 portable classrooms. To accommodate future growth the district is currently completing a 4-classroom expansion, 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.

## 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.

	2021	2020	Analysis of Variance
Cash	12,917,106	13,659,370	Decreased by \$0.74 million due to investment in capital assets and the timing of cash receipts and disbursements.
Due from Province – Ministry	327,000	628,990	Decreased by \$0.3 million due to lower capital funding receivable at year end.
Accounts Receivable - Other	571,606	264,082	Increased by \$0.25 million due to higher GST rebate receivable from the purchase of land site for new school and deposits paid to municipality.
Accounts Payable and Accrued Liabilities	6,775,472	6,050,439	Increased by \$0.73 million due to increased salaries and benefits payable, higher TOC costs, higher CUPE support costs and excluded retro pay of 12 months.
Deferred Capital Revenue	61,310,501	60,149,382	Increased by \$1.16 million due to capital funding received (\$7.5 m) offset by amortization of capital funding revenue (\$2.9m) and site purchase funding transferred to revenue (3.5m).
Tangible Capital Assets	83,529,032	77,605,668	Increased by \$5.9 million due to capital investment (\$9.4m) offset by amortization of capital assets (\$3.5m).

## Statement of Operations

	Annual Budget 2020/21	Actual 2020/21	Actual 2019/20
Revenues	73,446,319	80,787,092	74,074,725
Expenses and fund transfers	72,875,858	77,665,497	71,772,306
<b>Annual Operating Surplus</b>	<b>570,461</b>	<b>3,121,595</b>	<b>2,302,419</b>
Opening Accumulated Surplus	24,767,074	24,767,074	22,464,655
<b>Closing Accumulated Surplus</b>	<b>25,337,535</b>	<b>27,888,669</b>	<b>24,767,074</b>

## 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 2020/21	Actual 2020/21	Annual Budget 2019/20	Actual 2019/20
Grant Revenue	65,187,150	65,436,838	61,461,085	64,025,714
Other Revenue	282,484	535,353	361,284	780,456
Rentals and Leases	200,000	200,728	200,000	207,297
Investment Income	25,000	61,234	33,965	115,652
<b>Total Revenues</b>	<b>65,694,634</b>	<b>66,234,153</b>	<b>62,575,944</b>	<b>65,129,119</b>

### **Grant Revenues:**

Budgeted grant revenues in 2020/21 were \$3.73 million greater than 2019/20 budgeted revenues primarily due to FTE increase in fall enrolment and inflationary increases to funding rates.

Actual 2020/21 grant revenues are close to 2020/21 budget, and the small increase is due to:

- the operating grant is lower than budget by \$2.3 million due to decrease in FTE enrollment. This decrease was netted with the increase of the following items;
- new funding of \$0.12 million for the Early Career Mentorship Funding;
- receipt of grants of \$1.5 million for the teachers' labour settlement funding;
- receipt of grants of \$.10 million for support staff wage increase funding;
- new operating grant holdback of \$0.21 million.

**Other Income:**

Increase from budget is mainly related to nil international students' revenue budgeted for 2020/21, but we received a revenue of \$120K during the year and increase in operating SGF fund.

Decrease from prior year actual is mainly due to decrease in revenue from SD#6 for international students from \$379K to \$120K, due to Covid-19.

**Investment Income:**

Actual investment income in 2020/21 exceeded budget as investment income budget is conservative. Investment income decreased from prior year actual mainly due to decrease in interest rate to 1.45%, whereas in 2019/20 the interest was at 2.95% for eight months before being decreased to 1.45% in March 2020.

**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*

<b>Operating Fund Expenditure by Function</b>	<b>Annual Budget 2020/21</b>	<b>Actual 2020/21</b>	<b>Annual Budget 2019/20</b>	<b>Actual 2019/20</b>
Instruction	53,515,696	55,323,559	51,284,326	51,886,492
District Administration	2,310,318	2,222,915	2,167,930	2,207,180
Operations and Maintenance	7,179,875	7,305,525	6,600,372	6,602,399
Transportation	1,988,745	1,898,727	1,823,316	1,709,916
Fund transfer	700,000	700,000	700,000	1,200,000
<b>Total</b>	<b>65,694,634</b>	<b>67,450,726</b>	<b>62,575,944</b>	<b>63,605,987</b>

**Instruction** – instruction expense is higher relative to budget and prior year. This is mainly due to Covid-19 school year, where more teachers and support staff was required, plus 2% increase in wages for Teachers and retro pay accrual at year end. 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 budget mainly due to lower pro-d and travel due to Covid-19 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 higher due to increase in gas use (ventilation) in Covid times and increase in utility pricing.

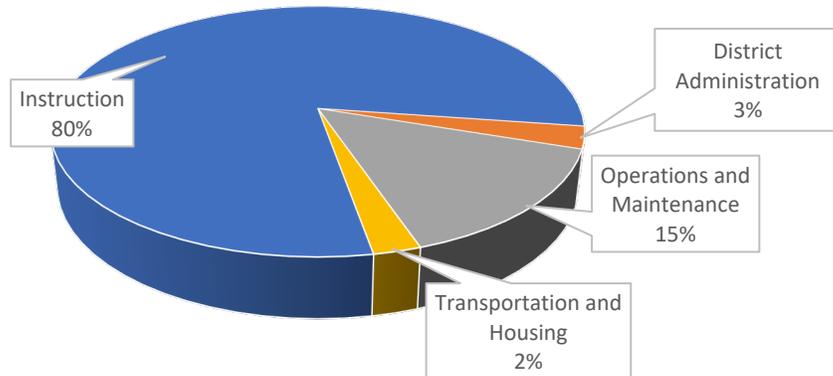
Operations and maintenance expense is very comparable relative to prior year expense.

**Transportation** – The transportation expense is lower relative to the budget, due to no extra bus field trips during the year due to Covid-19.

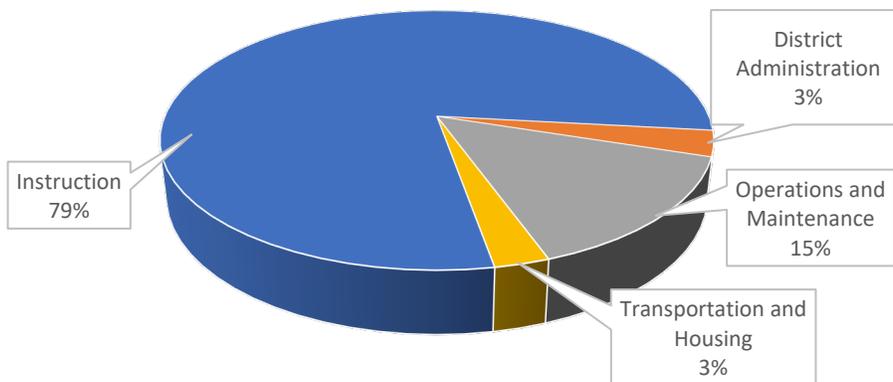
Relative to prior year slight increase is related to higher fuel prices.

## Operating Expenses Analysis

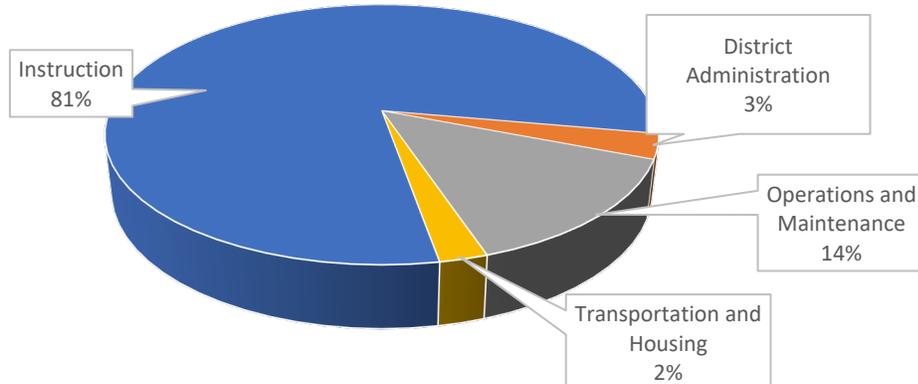
### 2021 Actual Expenses



### 2021 Budgeted Expenses



### 2020 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:

	<b>June 2021</b>	<b>June 2020</b>	<b>Change</b>
Total Accumulated Surplus (per financial statements)	\$5,019,387	\$6,235,960	\$(1,216,573)
School Initiatives (multi-year funding)	(1,928,838)	(1,636,001)	292,837
District Initiatives (multi-year funding)	(2,774,019)	(3,916,856)	(1,301,451)
Total Internally Restricted	(4,702,857)	(5,552,857)	(1,008,614)
<b>Contingency Reserve (Unappropriated Surplus)</b>	<b>\$316,530</b>	<b>\$683,103</b>	<b>\$(366,573)</b>

### Statement of Operations by Fund – Special Purpose Fund

	Annual Budget 2020/21	Actual 2020/21	Annual Budget 2019/20	Actual 2019/20
Provincial Grants	3,987,884	7,371,691	3,963,893	3,987,298
Other Revenues	899,919	679,659	2,316,719	2,094,000
Expenditures	(4,472,182)	(7,444,171)	(5,918,045)	(5,957,277)
Fund transfers	(415,621)	(778,280)	(362,567)	(124,421)
Annual Surplus (Deficit)	-	-	-	-

Actual provincial grants are higher than budgeted as well as prior year amounts mainly due to extra funding of \$2.6 million received from the province for Covid-19 measures which was not part of the annual budget.

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 2020/21	Actual 2020/21	Annual Budget 2019/20	Actual 2019/20
Revenues	\$2,856,382	\$6,324,657	\$2,858,589	\$2,856,382
Expenses	(3,409,042)	(3,470,600)	(3,375,227)	(3,409,042)
Fund Transfers (capital assets purchased in other funds)	<u>1,115,621</u>	<u>1,478,280</u>	<u>1,062,567</u>	<u>1,324,421</u>
Change in Accumulated Surplus	570,461	4,338,168	545,929	779,287
Opening Accumulated Surplus	<u>18,531,114</u>	<u>18,531,114</u>	<u>17,751,827</u>	<u>17,751,827</u>
Closing Accumulated Surplus	\$19,101,575	\$22,869,282	\$18,297,756	\$18,531,114

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, 2021, the district invested \$9.4 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, 2021 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	8,352	370,951
Committed for future investment	8,352	370,951
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 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.