

# Financial Statement Discussion and Analysis

For the Year Ended June 30, 2020



**Comox Valley Schools**

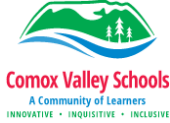
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## School District No.71 (Comox Valley)

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Prepared by the Secretary-Treasurer for  
School District No. 71 (Comox Valley)



# School District No. 71 (Comox Valley)

## Financial Statement Discussion & Analysis

*Year Ended June 30, 2020*

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### Introduction

The following is a discussion and analysis of the School District's financial performance for the fiscal year ended June 30, 2020. The report is a summary of the School District's financial activities based on current known facts, decisions, or conditions. The results of the current year are discussions in comparison with the prior year, with an emphasis placed on the current year. The financial statements illustrate, in financial terms, how resources have been allocated and consumed during the School District's fiscal year ended June 30. This report should be read in conjunction with the School District's financial statements for the same period.

### About BC School District Financial Statements

BC School District financial statements are prepared in accordance with section 23.1 of the Budget Transparency and Accountability Act of the Province of BC which requires that financial statements are prepared in accordance with Canadian public sector accounting standards with some exceptions as explained in Note 2 to the Financial Statements. Public sector accounting emphasizes accountability, not profitability. School District Financial Statements have a prescribed common format and they are consolidated into the Provincial Financial Statements.

Further, Financial Statements of BC School Districts are reported as a consolidation of three separate funds: Operating, Special Purpose and Capital. In the financial statements, these three separated funds are reported collectively in statements 1 through 5 and separately in schedules 2 (Operating Fund), 3 (Special Purpose Funds) and 4 (Capital Fund). To gain a full understanding of statements 1 through 5, it is important to also review each of the funds separately.

## Composition of the Financial Statements

The two key statements are:

- A **Statement of Financial Position** (page 6), which summarizes the assets and liabilities at June 30th. This provides an indication of the financial health of the District.
- A **Statement of Operations** (page 7), which summarizes the 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 the funding was spent.

The Statement of Changes in Net Debt, the Statement of Cash Flows and the notes to the financial statements provide further analysis of the District's finances.

The District manages its financial activities in three distinct areas, being the

- Operating fund;
- Special purpose funds; and the
- Capital fund.

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 these funds. The balances in these schedules are consistent, when combined, with the financial statements.

Schedule 1 (page 32) illustrates the sum of the funds.

Schedule 2 (page 33) provides detail on the **Operating Fund**.

The Operating Fund accounts for the District's operating grants and other operating revenues. Legislation requires that the District present a balanced budget for the Operating Fund, whereby budgeted expenditures do not exceed the total of the budgeted revenues and any surplus in the operating fund carried forward from previous years.

Schedule 3 (page 38) provides detail on the **Special Purpose Funds**.

The Special Purpose Funds account for grants and contributions that are directed by agreement with a third party towards specific activities. As these are targeted grants, any unspent funding is typically accounted for as deferred revenue, not as accumulated surplus.

Schedule 4 (page 41) provides detail on the **Capital Fund**.

The capital fund accounts for:

- The capital assets of the District, including sites, buildings, furniture & equipment, vehicles, computer software and computer hardware.
- Grants directed by agreement with a third party for the purchase of capital assets.
- Funds restricted by the Board for future capital asset purchases (local capital).

## STATEMENT OF FINANCIAL POSITION (All funds)

Statement 1– page 6.

This statement summarizes the assets and liabilities at June 30, 2020. This provides an indication of the financial health of the school district.

	2019-20	2018-19	\$ Change	% Change
Financial Assets	\$ 30,407,353	\$ 25,722,675	\$ 4,684,678	18%
Non Financial Assets	143,658,551	133,694,713	9,963,838	7%
Total Assets	174,065,904	159,417,388	14,648,516	9%
Liabilities	130,340,502	119,311,996	11,028,506	9%
Accumulated Surplus	\$ 43,725,402	\$ 40,105,392	\$ 3,620,010	9%

### Financial Assets

Financial assets are assets that can be used to discharge liabilities and provide working capital funds in the normal course of operations.

The increase in financial assets of \$4.68 million from 2018-19 resulted from changes in the following accounts:

#### Cash and Cash Equivalents

At June 30, 2020, the District held \$25.58 million in cash. Of this amount, \$6.82 million has been deposited in the Province's Central Deposit Program, and District funds of \$17.73 million are made up of the local capital surplus, operating surplus, deferred revenue, and the teacher summer savings plan funds.

Cash and Cash Equivalents	June 30, 2020	June 30, 2019
School Generated Funds	\$ 854,796	\$ 773,392
District Funds	17,725,539	15,923,478
Restricted Funds - Teacher Salary Deferral Program	181,677	110,199
BC Ministry of Finance Central Deposit Program	6,815,544	6,645,873
<b>Total Cash and Cash Equivalents</b>	<b>\$ 25,577,556</b>	<b>\$ 23,452,942</b>

## Accounts Receivable

Accounts receivable at June 30, 2020 include a \$4.36 million receivable from the Province – Ministry of Education for the Lake Trail Middle School seismic upgrade and the Hornby Island School replacement, as well as \$0.13 million in receivables from the Province for other capital projects. Other miscellaneous funds owing to the District include GST receivable and other trade receivables.

Accounts Receivable	June 30, 2020	June 30, 2019
Due from Province	\$ 4,361,035	\$ 1,713,756
Other	468,762	555,977
<b>Total Accounts Receivable</b>	<b>\$ 4,829,797</b>	<b>\$ 2,269,733</b>

## Non-Financial Assets

Non-financial assets are tangible assets that are used in the operations of the District and are not readily converted to cash.

### Tangible Capital Assets

Tangible capital assets include land, buildings, equipment, vehicles and computer hardware that are used in the operations of the District. These assets are amortized over their estimated useful lives to arrive at a net value of \$143.02 million as at June 30, 2020. The increase of \$10.02 million over the prior year is comprised of new assets purchased totalling \$15.76 million less amortization of \$5.74 million.

Capital activity during the year included the seismic work on Lake Trail Middle School, boiler replacements at Highland Secondary, Mark Isfeld Secondary, Queneesh Elementary, and Puntledge Park Elementary, a mechanical upgrade at Cumberland Community School, the installation of modular buildings at Royston Elementary and Miracle Beach Elementary, the creation of additional classrooms at Cumberland Community School, Huband Elementary and Courtenay Elementary, and the purchase of vehicles, laptops, computers and technology.

### Prepaid Expenses

Prepaid expenses represent insurance, licenses, and materials that are for the following year and total \$0.38 million at June 30, 2020. There is an additional \$0.26 million in prepaid rent that is associated with the sale of land adjacent to the School Board office to the Comox Valley Regional District. The sale took place in 2016-17 and the prepaid rent will not be utilized the sale of a second parcel of land to the Comox Valley Regional District completes in 2021.

## Financial Liabilities

Financial liabilities are obligations of the District to others arising from prior transactions, the settlement of which will require the use of current and future financial assets.

The increase in liabilities of \$11.03 million from 2018-19 resulted from changes in the following accounts:

### Accounts Payable and Accrued Liabilities

The District's accounts payable and accrued liabilities represent expenses which have been incurred but not yet paid. The increase of \$2.82 million from 2018-19 is mainly because of a \$1.5 million construction invoice that was accrued at June 30<sup>th</sup>. As well, there was an increase in holdbacks relating to capital projects of \$0.73 million.

Accounts Payable and Accrued Liabilities	June 30, 2020	June 30, 2019
Trade and other amounts payable	\$ 2,595,458	\$ 2,058,246
Salaries and benefits payable	2,333,597	2,268,214
Accrued vacation payable	558,777	452,409
Accrued wages and benefits	290,993	318,344
Summer savings plan	3,008,664	2,627,209
Deferred salary leave	181,677	110,199
Deferred homestay revenues	950,100	1,151,625
Other accrued liabilities	2,092,404	202,321
<b>Total Accounts Payable and Accrued Liabilities</b>	<b>\$ 12,011,670</b>	<b>\$ 9,188,567</b>

### Unearned Revenue

The District receives payment of tuition fees for international students in advance of the student commencing their studies in the District. These fees are recognized as earned revenue when the program is provided to the student. The unearned revenue of \$1.6 million represents international student fees received prior to June 30, 2020 for tuition in the 2020-21 school year.

### Deferred Revenue

Deferred revenue represents the unspent portion of grants which are targeted for a specific purpose.

Deferred Revenue	June 30, 2020	June 30, 2019
School generated funds - amounts raised by schools for specific projects, such as class trips, school fees and other fundraising	\$ 838,354	\$ 700,947
Scholarships and bursaries - balances administered by the District and amounts awarded but not yet claimed	758,885	776,069
Professional development - contractual funds set aside for support staff, principals/vice-principals and exempt staff	105,239	95,769
Other unspent targeted funds	161,658	-
<b>Total Deferred Revenue</b>	<b>\$ 1,864,136</b>	<b>\$ 1,572,785</b>

The increase in the current year is due to the fact that there are surpluses in a number of targeted funds this year due to COVID-19.

### Deferred Capital Revenue and Tangible Capital Assets

The deferred capital revenue balance is closely linked to the tangible capital asset balance. Tangible capital assets are items owned by the District which have a lifespan of more than one year. This includes school buildings, sites, furniture, and most computer equipment.

The majority of the District's capital expenditure, such as the construction of new schools, is funded through specific grants provided by the Ministry of Education. Once an asset is built or acquired and is in use, the cost of that asset is amortized over the expected life of that asset. Any grants targeted towards the acquisition of that asset are also amortized over the expected life of that asset.

After allowing for amortization, the District has \$143.02 million of tangible capital assets. Of this, \$110.8 million (being the deferred capital revenue balance) of assets were purchased through targeted grants. The remainder was funded through operating grants and other non-targeted funding.

This inclusion of deferred capital revenue is not consistent with generally accepted accounting principles. The inclusion of this balance is a requirement of the Provincial Government. This is explained in more detail in note 2 to the financial statements.

The capital fund section, included later in this document, provides a more detailed explanation of the accounting for capital assets and associated grants.

### Employee Future Benefits

The employee future benefits liability of \$4.06 million accounts for amounts or benefits owed to current employees as a result of past service. The liability amount is calculated by actuaries based on the District's number of employees, age, length of service, contract terms, and established actuarial assumptions.

Most of this amount accounts for retirement benefits earned by current employees. Support staff and certain members of school and district administration are entitled to a one-time payment from the District on their retirement. The amount of payment depends on years of service and final salary.

The District sets aside a liability each year to reflect expected future payments on retirement. The amount set aside during the year is reflected as an expense and is based on the service to date of employees. The liability is reduced when employees retire, and payments are disbursed.

The remainder of the employee future benefits liability is associated with overtime, accumulated sick time, and death benefits earned but not yet paid.

**Net Financial Assets (Debt)**

This is the difference between the District’s financial assets and liabilities at a point in time. It implies that the District has a net debt of \$99.93 million. This is heavily skewed by the deferred capital revenue liability of \$110.80 million. As there is no future cash flow associated with the deferred capital revenue balance, a more meaningful measure of net financial assets or debt excludes that balance, giving a revised figure of net financial assets of \$10.87 million.

**Accumulated Surplus**

Accumulated surplus is represented by the accumulated surplus from operations which is made up of both unrestricted and restricted operating reserves. Also included in accumulated surplus are capital funds which include investment in capital funds and capital reserves (local capital), as well as any unspent funds in special purpose funds that must be restricted for a specific purpose. Schedule 1 in the Financial Statements (Schedule of Changes in Accumulated Surplus (Deficit) by Fund) details the changes in each fund.

Broken down by fund, the accumulated surplus is comprised of the following amounts:

<b>Accumulated Surplus</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>
Operating Fund	\$ 4,080,530	\$ 5,330,580
Special Purpose Fund	-	-
Capital Fund - local capital (amounts available to spend on future capital asset purchases)	6,530,257	4,039,138
Capital Fund - invested in tangible capital assets (the cost of assets owned by the district, net of amortization and targeted grants)	33,114,615	30,735,674
<b>Total Accumulated Surplus</b>	<b>\$ 43,725,402</b>	<b>\$ 40,105,392</b>

The operating fund surplus consists of internally restricted funds. Internally restricted operating surplus consists of school surpluses to be held at school sites for future operating expenditures, district/program initiatives, grants received from external sources that are targeted for a specific use, funds held for future portable/furniture needs, outstanding purchase orders and commitments, and the Board Operating Reserve (per Board Policy 18 - Accumulated Operating Surplus and Internally Restricted Funds).

Capital fund surpluses include amounts invested in tangible assets and local capital reserves. Invested in tangible capital assets represents the net book value of capital assets that have been paid from District revenues and have not been funded by the Province or external contributions. Local capital reserves have been set aside for future replacement of District assets and have not been funded by the Province or external contributions.



## STATEMENT OF OPERATIONS (All funds)

Statement 2 – page 7

The Statement of Operations summarizes the revenues received and expenses incurred by the District during the twelve months between July 1 and June 30 for all three funds.

Year Ended	June 30, 2020	June 30, 2019
Total Revenues	108,275,410	102,705,564
Total Expenses	104,655,400	101,357,516
<b>Surplus for the year</b>	<b>\$ 3,620,010</b>	<b>\$ 1,348,048</b>

Ministry of Education grant funding increased from 2019 by \$5.93 million. This is a result of increased enrolment and increased funding to offset provincially bargained wage and benefit increases.

Expenses increased from 2019 by \$3.29 million as wage increases were implemented, and additional educational resources were allocated.

Overall, the District's revenues exceeded its expenditures by \$3.62 million. Broken down by fund, this variance arises as follows:

Fund	Surplus / (deficit) for the year	Commentary
<b>Operating Fund</b>	\$ 5,088,248	See discussion and analysis in the Operating Fund section of this document.
<b>Special Purpose Funds</b>	-	Expenditures were equal to revenues.
<b>Capital Fund</b>	\$ (1,468,238)	The cost of capital assets purchased during the year was greater than the net balance of asset amortization and amortization of deferred capital revenue. This essentially means that the District invested more in purchasing tangible capital assets during the year than it consumed through wear and tear of existing capital assets.
<b>Total Surplus</b>	<b>\$ 3,620,010</b>	

Revenues, expenses, and surpluses for each of the individual funds are discussed in more detail below.

## OPERATING FUND

### Overview

Operating fund transactions are reported in the following schedules in the financial statements. Columns with figures for the amended budget, year to June 30, 2020 and year to June 30, 2019 are shown.

Schedule	Page	Overview
<b>2</b>	33	Summarizes the revenues and expenses of the operating fund. Also indicates the amounts spent on capital assets and transferred to the Local Capital fund.
<b>2A</b>	34	Outlines in more detail the operating revenues earned by the District.
<b>2B</b>	35	Summarizes salaries by employee group and other operating costs.
<b>2C</b>	36-37	Provides the same information as in 2B, broken down in more detail to show each program the funds were spent on.

### Revenues

Revenues are reported by type for the District. The following table compares actual revenues by category to the budget.

Revenue	2019-20 Actual \$\$	2019-20 Budget \$\$	Variance \$\$	Variance %
<b>Provincial Grants</b>	\$ 86,434,556	\$ 84,891,868	\$ 1,542,688	1.82%
<b>Tuition</b>	2,828,612	2,770,000	58,612	2.12%
<b>Other Revenue</b>	925,540	559,083	366,457	65.55%
<b>Rentals and Leases</b>	126,505	150,000	(23,495)	-15.66%
<b>Investment Income</b>	217,794	375,000	(157,206)	-41.92%
<b>Total Revenue</b>	<b>\$ 90,533,007</b>	<b>\$ 88,745,951</b>	<b>\$ 1,787,056</b>	<b>2.01%</b>

#### Provincial Grants – Ministry of Education

96% of the District's operating funding is from the Ministry of Education. Most of this funding is calculated based on student enrolment and certain identified special needs of those students.

Enrolment has been increasing in the District for the last 5 years, resulting in additional operating grant revenues from the Ministry of Education.

The increase in Provincial Grants of \$1.54 million (1.82%) from what was budgeted was due to additional grants received from the Province during the year that were not known and budgeted for. These grants are received during the year and are recorded individually. They are detailed on Schedule 2A.

#### Tuition Fees - International Student Program

The District hosts an international program. International students live with homestay families in the region and attend District schools. The students pay a fee to the School District. The increase from what was budgeted is not significant.

#### Other Revenue

Other revenue includes Local Education Agreement (LEA) funding from First Nations, Instructional Cafeteria revenue, and other miscellaneous revenues received during the year. The increase in other revenue of \$0.37 million (65.55%) from what was budgeted was due to the receipt of Fortis BC rebates for boiler replacements and an increase in Industry Training Authority (ITA) revenues.

#### Rentals and Leases

Rentals and leases revenue include rentals of facility space for external programs and operations such as childcare facilities and youth groups. The decrease from what was budgeted is not significant.

#### Investment Income

Investment income is interest earned on operating revenue. The decrease from budget is due to decreases in the interest rates due to COVID-19.

Overall, the total revenue for the year was \$1.79 million (2.01%) more than what was budgeted, mainly due to increased enrolment.

The following table compares actual revenues for 2019-20 to actual revenues for the prior year.

Revenue	2019-20 Actual \$\$	2018-19 Actual \$\$	Variance \$\$	Variance %
<b>Provincial Grants</b>	\$ 86,434,556	\$ 80,690,831	\$ 5,743,725	7.12%
<b>Tuition</b>	2,828,612	3,092,617	(264,005)	-8.54%
<b>Other Revenue</b>	925,540	800,702	124,838	15.59%
<b>Rentals and Leases</b>	126,505	142,491	(15,986)	-11.22%
<b>Investment Income</b>	217,794	329,939	(112,145)	-33.99%
<b>Total Revenue</b>	<b>\$ 90,533,007</b>	<b>\$ 85,056,580</b>	<b>\$ 5,476,427</b>	<b>6.44%</b>

Overall, the total revenues for the year were \$5.48 million (6.44%) more than the prior year. This is mainly due to increased enrolment.

### Operating Expenditures

Expenditures are reported by function for the District. The table below summarizes total expense by function for the year to June 30, 2020.

Function	2019-20 \$\$	2019-20 % of total
<b>Instruction</b>	\$ 69,872,996	81.8%
<b>District Administration</b>	3,374,093	3.9%
<b>Operations and Maintenance</b>	10,312,138	12.1%
<b>Transportation</b>	1,885,532	2.2%
<b>Total</b>	<b>\$ 85,444,759</b>	<b>100.0%</b>

## Instruction

This function incorporates all programs related to the instruction of students, including regular instruction, Career Programs, Library Services, Counselling, Special Education, English Language Learning, Indigenous Education, School Administration, and International Programs.

## District Administration

This function incorporates the cost of all programs related to district governance and district administration of educational, business, human resource and labour relations activities.

## Operations and Maintenance

This function incorporates all programs related to the district's responsibility for the operation, maintenance and safety of sites, buildings, furniture and equipment, and computer equipment. Also included is the cost of maintenance for vehicles used by employees.

## Transportation

This function includes programs involving the transportation of students.

The following table compares actual expenditure by function to the budget.

Function	2019-20 Actual \$\$	2019-20 Budget \$\$	Variance \$\$	Variance %
<b>Instruction</b>	\$ 69,872,996	\$ 71,135,473	\$ (1,262,477)	-1.77%
<b>District Administration</b>	3,374,093	3,763,973	(389,880)	-10.36%
<b>Operations and Maintenance</b>	10,312,138	10,481,777	(169,639)	-1.62%
<b>Transportation</b>	1,885,532	2,051,280	(165,748)	-8.08%
<b>Total</b>	<b>\$ 85,444,759</b>	<b>\$ 87,432,503</b>	<b>\$ (1,987,744)</b>	<b>-2.27%</b>

Costs related to the Instruction function were \$1.26 million (1.77%) less than what was budgeted for, mainly due to COVID-19. Substitute costs were significantly less due to no replacements required for the last 4 months of the school year. As well, supplies and services budgets were not fully spent due to COVID-19.

Overall, the variance in expenditures from budget in 2019-20 is \$1.99 million (2.27%).

The following table compares actual expenditures for 2019-20 to actual expenditures by function for the prior year.

Function	2019-20 Actual \$\$	2017-18 Actual \$\$	Variance \$\$	Variance %
<b>Instruction</b>	\$ 69,872,996	\$ 67,212,992	2,660,004	3.96%
<b>District Administration</b>	3,374,093	3,405,057	(30,964)	-0.91%
<b>Operations and Maintenance</b>	10,312,138	9,756,600	555,538	5.69%
<b>Transportation</b>	1,885,532	1,994,874	(109,342)	-5.48%
<b>Total</b>	<b>\$ 85,444,759</b>	<b>\$ 82,369,523</b>	<b>3,075,236</b>	<b>3.73%</b>

Instruction expenses have increased over the prior year by \$2.66 million (3.96%) due to increased enrolment, increased teacher staffing, and wage increases for both teachers and support staff.

Operations and maintenance expenses have increased over the prior year by \$0.56 million (5.69%) due to salary increases approved by BCPSEA and the Board, the addition of an administrative assistant position, additional trades positions added, and additional supply budgets to support the maintenance and upkeep of the facilities in the district.

Transportation expenses have decreased over the prior year by \$0.11 million (5.48%) due to reduction in transportation services for the last 4 months of the year due to COVID-19.

### Operating Surplus

The operating surplus for the year as at June 30, 2020 is \$4.08 million. This is calculated on Schedule 2, on page 33 of the financial statements.

The annual operating surplus is \$5.09 million, which is reduced by transfers during the year that were approved by the Board. These included a \$4.70 million transfer to Local Capital, and an additional \$1.64 million of operating funds that were used to purchase capital assets. This results in an annual operating deficit of \$1.25 million. The operating surplus at the beginning of the year was \$5.33 million, so the net effect at the end of the year is an operating surplus of \$4.08 million.

## SPECIAL PURPOSE FUNDS

### Overview

Transactions within the special purpose funds are reported in the following schedules in the financial statements.

Schedule	Page	Overview
<b>3</b>	38	Summarizes the total revenues and expenses of all special purpose funds. Also indicates the amounts spent on capital assets and transferred to the Local Capital fund.
<b>3A</b>	39-40	Outlines, by each group of funds, the grants received and expenses for the year to June 30, 2020.

These schedules include funds received from the Ministry of Education or other sources that have designated for a specific purpose.

Year Ended	June 30, 2020	June 30, 2019
Total Revenues	\$ 13,474,083	\$ 13,786,313
Total Expenses	13,474,083	13,786,313
<b>Surplus for the year</b>	<b>\$ -</b>	<b>\$ -</b>

Special Purpose Funds include School Generated Funds, Annual Facilities Grant, Learning Improvement Fund, Strong Start, Ready, Set, Learn, Official Languages in Education Protocol (OLEP), Scholarships and Bursaries, Community Link, First Nation Student Transportation, Mental Health in Schools, Changing Results for Young Children, Professional Development, Comox Valley Community Foundation Student Travel, and the Classroom Enhancement Fund.

### Classroom Enhancement Funds

The grants from the Classroom Enhancement Funds (three components) totalled \$9.43 million. These grants are intended to offset the additional costs associated with the restoration of historical collective agreement language regarding class size and composition.

Direct costs associated with required staffing levels that address class size and composition are accounted for within the 'Classroom Enhancement Fund – Staffing' fund. They include:

- 58.8 FTE additional enrolling teachers needed to offset the reduction in class sizes;
- 16.1 FTE additional non-enrolling teachers for additional support; and
- TTOC wages to remedy other requirements of the restored language.

Indirect costs, or overhead, associated with these required changes are accounted for within the 'Classroom Enhancement Fund – Overhead' fund. They include:

- TTOC coverage for sick and other leaves for the additional teachers; and
- Additional support staff needed for the increased number of classes.

To receive the grants, the District must be able to demonstrate to the Provincial Government that the associated direct or indirect costs are the result of the restoration of the collective agreement language.

After best efforts have been applied, certain classes exceed the class size and composition limits outlined in the Collective Agreement. The District is required to provide remedy, typically in the form of additional preparation time or collaboration time to teachers of such classes. The 'Classroom Enhancement Fund – Remedies' fund provides grant funding to cover the associated expense.

The Classroom Enhancement Funds, although new in the 2017-18 year, are a core part of the District's funding. They fund approximately 18% of the District's teachers.

## **CAPITAL FUND**

### **Overview**

The capital fund, including the local capital fund, accounts for assets owned by the District and the funds used to acquire them.

Provincial grants targeted for the purchase of assets – for example, a grant to renovate a school – are recorded in the capital fund. If an asset is purchased using operating funds, then the cost of the asset is treated as a transfer from the operating fund to the capital fund.

Capital funding from the Province is accounted for using deferral funding whereby capital revenue is recorded in the financial statements over the life of the related asset to match the amortization expense recorded similarly. Therefore, capital fund revenue is not equal to the actual capital funding received in the year.

The Province does not provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, photocopiers, classroom renovations or district administration buildings. The only source of funding available for these assets is typically operating funds. To set aside funds to allow the future purchase of major assets, the Board may transfer funds from the operating fund to the local capital fund.



Schedule	Page	Overview
4	41	Summarizes amortization, local capital balances, and transfers to the capital fund from other funds. Also shows the budgeted amounts and prior year amounts.
4A	42	Outlines: - the cost of assets acquired during the year; - the amortization of assets by asset class; - the original cost of assets owned by the District, by asset class; - the total amortization of each asset class. This is an estimate of the value of the wear-and-tear of assets over their lifetime; - the net book value of assets, being the cost less amortization.
4B	43	Outlines the costs to date on construction which is still in progress at June 30, 2020. The only major project in progress at June 30, 2020 is the Lake Trail Seismic upgrade.
4C	44	Accounts for targeted funding spent on the acquisition of capital assets.
4D	45	Accounts for funding received which is targeted towards capital asset purchases and which has yet to be spent.

## Capital Assets

Schedule 4A summarizes the capital assets owned by the District.

### *Net book value (cost less amortization) of tangible capital assets*

Net Book Value	June 30, 2020	June 30, 2019
<b>Sites</b>	\$ 14,151,889	\$ 14,151,889
<b>Buildings</b>	121,720,049	115,075,330
<b>Furniture &amp; Equipment</b>	3,790,052	1,069,398
<b>Vehicles</b>	1,188,225	845,891
<b>Computer Hardware</b>	2,171,138	1,854,516
<b>Total</b>	<b>\$ 143,021,353</b>	<b>\$ 132,997,024</b>

The District has \$143.02 million of funds invested in its capital infrastructure. The majority of the District's capital assets are the school buildings (\$121.72 million).

The cost of the land that the District's schools are located on is \$14.15 million.

The District also has significant investment in vehicles, furniture and equipment (school furniture, shop equipment, etc.) and computer hardware, including servers and student and staff computers.

These net costs represent the historical cost net of accumulated amortization of all District capital assets, they do not reflect current market value.

## Deferred Capital Revenue

Schedule 4C accounts for grants received for capital asset purchases that have been spent.

Schedule 4D accounts for grants received for capital asset purchases that have yet to be spent.

Schedule 4D illustrates that \$11.73 million of grants were received in the year to June 30, 2020 from the Ministry of Education in the form of bylaw capital. This includes the annual facilities capital grant.

The \$11.73 million of bylaw capital that was spent on completed projects is then accounted for as deferred capital revenue on Schedule 4C – either as Capital Additions or as Work in Progress. Deferred capital revenue balances are accumulated over the years and amortized over the estimated lifespan of the assets acquired with the grant money. The deferred capital revenue balance was reduced by \$4.01 million in the year to June 30, 2020 to reflect this amortization.

Schedule 4D also shows that the District has \$0.8 million in ‘Other Provincial Capital’. This relates to unspent grants received for the construction of the childcare facility on Denman Island.

Historically, the Province has provided targeted funding for major school renovations and replacements. The Province does not typically provide targeted funding for any other capital assets, including the purchase of technology, classroom furniture and equipment, administrative buildings, and maintenance equipment.

The deferred capital revenue balance at June 30, 2020 is \$109.91 million, indicating 77% of the District’s assets were purchased with targeted grant funding.

## Capital Projects

During 2019-20, approximately \$18.84 million was spent on capital projects. Some of these projects include:

- Lake Trail Middle School seismic upgrade
- Hornby Island School replacement
- Mechanical upgrades at Mark Isfeld Secondary and Cumberland Community School
- Boiler replacements at Highland Secondary, Mark Isfeld Secondary, and Ecole Puntledge Park Elementary
- Annual Facilities Grant projects (roofing, paint, paving, flooring, lighting, fire/PA/phone upgrades)
- Technology and network infrastructure upgrades

Two modular classrooms were installed at Miracle Beach Elementary and Royston Elementary. Three additional classrooms were created at Cumberland Community School, one additional classroom was created at Huband Elementary and one at Courtenay Elementary. These additions were due to enrolment growth in these areas.

Significant investment in network and classroom technology continues to be a priority for the District.

## Local Capital

The Board's local capital fund is comprised of previous property sale transactions and transfers from operating funds which are approved by the Board through the preliminary budget process. During the 2019-20 year, \$4.70 million was transferred for the following purposes:

Amount \$	Purpose
\$ 100,000	Vehicle fleet - replacement
50,000	District copiers - replacement
80,000	Transportation - additional van
30,000	Trades tools and equipment - replacement
250,000	School board office renovation/update
800,000	Technology reserve
250,000	G.P. Vanier seismic upgrade - contingency
2,400,000	Facility Reserve
80,000	Grounds upgrades
160,000	Backhoe replacement
30,000	Accessibility
20,000	Lighting upgrades
200,000	Classrooms - furnitures, blinds, projectors
20,000	Flooring
50,000	Fine Arts
150,372	VOIP - schools
30,000	Cafeteria equipment
<b>\$ 4,700,372</b>	<b>Total Transferred</b>

The Local Capital balance as at June 30, 2020 of \$6.53 million represents the accumulated surplus in the Capital Fund over which the District has discretion for allocation to strategic capital projects. These projects include:

Purpose	Amount \$
Information technology reserve	\$ 595,348
Equipment Initiatives - 21st Century Learning	19,138
Youth Trades Tools/Equipment Replacement	47,506
Lake Trail Seismic project - Board contribution	1,000,000
Furniture and Equipment	94,242
Modulars - Royston/Cumberland	698,014
Contingency reserve	685,669
Board Office - prepaid rent and updates	1,630,598
Fine Arts Equipment	30,862
Accessibility	29,441
Facility Reserve	1,300,000
Laptop Carts	44,817
Classroom Renovations - Miracle Beach/Cumberland	200,000
Washrooms - Royston	100,000
Vehicle Fleet	54,622
<b>Total Local Capital Surplus</b>	<b>\$ 6,530,257</b>



## RISKS AND UNCERTAINTIES

### COVID-19

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020 and has 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 on June 1 with new health and safety guidelines.

The ongoing impact of the pandemic presents uncertainty over 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 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.

### Enrolment and Staffing Growth

Student enrolment is the critical factor in the District's operating funding from the Province. Accurate estimates of enrolment are key to staff and space capacity planning, as well as District budgeting.

Increasing enrolment in the District, combined with the implementation of the Memorandum of Agreement (MoA) resulting in smaller class sizes, a greater number of teacher full-time equivalents (FTE) have needed to be added than would previously have been required. As the district grows, additional classroom space needs to be created. This growth brings with it a financial risk in how to provide for these additional resources under the current Ministry of Education funding envelope.

### Capital Projects

Due to their magnitude, capital projects have the potential to significantly impact the financial position of the district. There is no process to assess the risk of the entire capital program; individual project risk assessments must be done on a continuous basis.

Project agreements with the Ministry of Education such as the Lake Trail Seismic project contain contingencies to mitigate financial risk. Smaller projects consider contingency requirements when building the overall project budget and are managed internally.

## Contacting School District Financial Management

This report is designed to provide SD71 stakeholders with a general overview of SD71 finances 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 Secretary-Treasurer's office.

