



Financial Statement Discussion & Analysis

FOR THE YEAR ENDED
JUNE 30, 2021

School District No. 52 (Prince Rupert)
Financial Statement Discussion & Analysis
Year ended June 30, 2021

Contents

Introduction	1
About BC School District Financial Statements	1
Composition of the Financial Statements	2
Statement of Financial Position (All funds)	3
Statement of Operations (All funds)	5
Operating Fund	6
Special Purpose Funds	9
Capital Fund	10
Contacting Management	12

Introduction

This report is a discussion and analysis of the School District’s financial performance for the fiscal year ended June 30, 2021, based on currently known facts, decisions, and conditions. The results of the current year are discussed in comparison with the prior year and the budget, with an emphasis placed on the current year.

The financial statements illustrate, in financial terms, how resources have been allocated and used during the year. This report should be read in conjunction with the School District’s audited financial statements for the same period.

About BC School District Financial Statements

As described in note 2(a) on pages 9-10 of the financial statements, the financial statements have been prepared in accordance with Section 23.1 of the Budget Transparency and Accountability Act of British Columbia. This Section requires that the financial statements be prepared in accordance with Canadian public sector accounting standards except in regard to the accounting for government transfers. School District Financial Statements have a prescribed common format and they are consolidated into the Financial Statements of the Province of British Columbia.

The financial statements 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. Schedule 1 identifies the changes to the accumulated surplus (deficit) of each fund. Schedule 2 reports the results of the Operating Fund, Schedule 3 reports the results of the Special Purpose Funds, and Schedule 4 reports the results of the Capital Fund. To gain a full understanding of statements 1 through 5, it is important to review each of the funds separately.

Composition of the Financial Statements

The statement of financial position (page 5) presents the assets, liabilities and accumulated surplus at June 30th. This provides an indication of the financial health of the District.

The statement of operations (page 6) presents the revenues received and expenses incurred for the year ending June 30, 2021. This statement summarizes the funding received by the District and how that funding was spent.

The Statement of Changes in Net Debt (Page 7) is another required statement. The district has no borrowings, but Deferred Capital Revenue is classified as debt.

The Statement of Cash Flows (page 8) classifies the sources and use of cash between Operating, Capital and Financing transactions.

The notes to the financial statements (pages 9 to 25) provide additional details and are an integral part of the financial statements.

Schedule 1 (page 26) identifies the allocation of accumulated surplus between operating, special purpose and capital funds.

Schedule 2 (page 27) is the statement of operations for the **Operating Fund**. The Operating Fund accounts for the District's use of operating grants and other operating revenues. Legislation requires that the District present a balanced budget for the Operating Fund, whereby budgeted expenditure does not exceed the total of budgeted revenue and any accumulated operating surplus carried forward from previous years.

Schedule 3 (page 32) is the statement of operations for the **Special Purpose Funds**. Special Purpose Funds account for grants and contributions that must be used for specific activities in accordance with an agreement with the party providing those funds. As these are restricted contributions, any unspent funding appears on the statement of financial position as deferred revenue.

Schedule 4 (page 37) is the statement of operations for the **Capital Fund**. All capital assets (including sites, buildings, leasehold improvements, furniture & equipment, vehicles, and computer software and hardware) are recorded in the Capital fund, along with deferred capital revenue. The Capital Fund statement reflects the amortization of deferred capital revenue, the amortization of capital assets and amounts transferred from other funds for the purchase of capital assets.

Statement of Financial Position (All funds)

Cash and cash equivalents

At June 30, 2021, the District held \$5.2m in cash, deposited in financial institutions and the Province's central deposit system. This compares with \$5.7m at June 30, 2020. This cash balance is sufficient to pay the district's accounts payable and accrued liabilities (\$3.5m), and also includes unearned revenue (\$0.1m) and the deferred revenue associated with special purpose funds (\$1.4m).

Accounts receivable

The District's accounts receivable represent amounts owed to the district for services provided. They include receivables for all three funds. The increase in accounts receivable at June 30, 2021 is primarily related to amounts being provided to fund capital projects.

Accounts payable and accrued liabilities

The District's accounts payable and accrued liabilities represent expenses and capital asset purchases which have been incurred but not yet paid. They include liabilities for all three funds.

They comprise the following amounts:

	June 30, 2021	June 30, 2020
Trade and other amounts payable	\$2,567,158	\$2,453,438
Salaries and benefits payable	\$506,988	452,680
Accrued vacation pay	\$211,423	220,079
Total accounts payable and accrued liabilities	\$3,285,569	\$3,126,197

The district also has a liability payable to the Ministry of Education of \$191,443 at June 30, 2021. This is funding owed back to the Province for Indigenous students living on reserve. Funding for these students comes from the specific First Nations.

Deferred revenue

Deferred revenue at June 30, 2021 and at June 30, 2020 was \$1.4m. The list of all special purpose funds is on pages 33 to 36 of the financial statements. Principal funds include Annual Facilities Grant; School Generated Funds; Community Link; and Classroom Enhancement Funds. During the year ended June 30, 2021 the district received and spent \$0.9m in funding to address specific district needs during the COVID-19 pandemic.

Deferred capital revenue and tangible capital assets

Tangible capital assets have a lifespan of more than one year. The majority of the District's capital expenditure, such as the construction of new schools and renovation of existing schools, is funded through specific grants provided by the Ministry of Education. Once an asset is in use, the cost of that asset is amortized over the expected life of that asset.

Any grants associated with tangible capital assets are recorded as deferred capital revenue and are also amortized over the expected life of the related asset.

The net book value of the District’s tangible capital assets was \$34.9M at June 30, 2021 compared with \$33.9m at June 30, 2020. The deferred capital revenue balance associated with these assets was \$23.3m at June 30, 2021 compared with \$22.3m at June 30, 2020. The remainder of the district’s capital assets were funded through operating revenues and special purpose funds.

This deferral of capital revenue is not consistent with generally accepted accounting principles. The deferral is a requirement of the Provincial Government. This is explained in more detail in note 2(a) to the financial statements (pages 9 and 10).

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

Net financial debt

Net debt is the total of the District’s financial assets and liabilities. The balance at June 30, 2021 is \$22.5m, including \$23.3m of deferred capital revenue. 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. This would result in a revised figure of net financial assets of \$0.8m compared with net financial assets at June 30, 2020 of \$1.2m.

The revised net financial assets balance is equivalent to the accumulated operating fund surplus of \$0.7m.

Accumulated surplus

The majority of accumulated surplus, or \$11.8m, is in the district’s capital fund and is equivalent to the difference between tangible capital assets and deferred capital revenue.

The remaining accumulated surplus of \$0.7m is in the operating fund.

Statement of Operations (All funds)

The surplus (deficit) for the year is the net total of the revenues and expenses of the District’s three funds.

Year Ended	June 30, 2021	June 30, 2020	Increase (Decrease)
Total Revenue	\$32.4m	\$33.4m	\$(1.0)m
Total Expense	\$32.6m	\$34.3m	\$(1.7)m
Surplus (Deficit) for the year	\$(0.2)m	\$(0.9)m	\$(0.7)m

Total Revenues decreased from 2020 by \$1.0m. In the year ended June 30, 2020 the district received \$1.5m in the capital fund for the demolition of Seal Cove Elementary School and Kanata Elementary School. After accounting for this one-time item, there was an increase of \$0.5m in total revenues, split evenly between the operating, special purpose and capital funds.

Total Expenses decreased from 2020 by \$1.7m. changes in each fund are as follows:

Fund	Annual Change in Expenses
Operating	\$(0.9)m
Special Purpose	\$0.7m
Capital	\$(1.5)m
Total	\$(1.7)m

Changes in the Operating Fund expenses relate to one-time budget cuts made in the Annual Budget and the Amended Annual Budget to balance the budget. In the Special Purpose Funds, the increase was primarily related to the increased spending to address the COVID-19 pandemic. The decrease in the Capital Fund, similar to the decrease in Capital Fund revenue, related to the one-time demolition cost for the two closed schools in 2019-2020.

Overall, the District's expenses exceeded its revenues by \$0.2m, arising from small deficits in the Operating and Capital Funds.

Revenues and expenses 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 ended June 30, 2021 and year ended June 30, 2020 are shown.

Schedule	Page	Overview
2	27	Summarizes the revenues and expenses of the operating fund. Amounts transferred to other funds are indicated.
2A	28	Outlines the operating revenues earned by the District in more detail.
2B	29	Summarizes salaries by employee group and other operating costs by category.
2C	30-31	Provides details of operating spending on each program.

The Amended Annual Budget forecast a deficit of \$380,003, and an expectation of capital expenditures of \$283,977. Actual capital expenditures from these budgeted funds were \$57,387 for the purchase of two maintenance vehicles.

Actual operating results were:

Operating Deficit for the year	\$152,687
Purchase of playground equipment (Board's 10% share)	23,452
Capitalization of information technology equipment >\$5,000	11,938
Transfer to Classroom Enhancement Fund	84,837
Reserve of Operating Holdback Revenue for learning impact of Pandemic	81,028
	\$353,942

Taking these factors into account, the district finished the year ahead of its deficit budget by \$26,061.

Revenue

Schedule 2A on page 28 breaks down operating revenue by source.

98.0% (97.2% in the prior year) of the District's operating funding is from Provincial Ministry of Education ('MoE') and direct funding from two First Nation Bands through Local Education Agreements ('LEA'). The majority of this funding is based on student enrolment, certain identified needs of students and unique geographic factors.

The Provincial Government is undertaking a review of the funding formula used to calculate this funding. The implementation of the recommendations from that review may be announced next year. This may result in substantial changes to the District's funding for the 2022/23 school year and beyond.

Operating expenditure

The table below compares total expense by category for the years ended June 30, 2021 and June 30, 2020:

Function	June 30, 2021	June 30, 2020
Instruction	80.5%	77.6%
District Administration	6.7%	7.7%
Operations and Maintenance	12.0%	13.7%
Transportation	0.8%	1.0%
Total	100.0%	100.0%

The budgeted reductions in services and supplies had less of an impact on the instruction function, where a much larger part of the budget is made up of salaries and benefits. As a result the proportion of total spending on instruction increased compared with last year.

Schedule 2B on page 29 outlines operating expenses in relation to salaries and benefits, as well as services and supplies. Schedule 2C provides further detail, presenting operating expenses by program.

Staff

89.6%, or \$24.0m, of the District's operating expenditure is spent on salaries and benefits. As would be expected for a school district, over half of this staff cost is spent on teacher salaries and benefits.

In the 2020-2021 school year, the number of teachers increased significantly. In the previous recruitment year:

- many of the recruits who received offers changed their minds and took offers elsewhere; and
- the district saw a number of retirements or resignations after the offers were made.

In 2020-2021, in the early stages of the pandemic, almost every teacher who had received an offer came to teach, and there were very few retirements or resignations. This change of behavior, compared to the experience of the previous year, resulted in an overstaffing of teachers.

Services and Supplies

The annual budget approved for the 2020-2021 school year included a number of one-time cuts to services and supplies. As a result of the cost of the additional teachers, the district implemented a spending freeze in February 2021, which was reflected in the amended annual budget.

This resulted in the spending on services and supplies decreasing to \$2.8m, or 10.4% of the operating budget, compared with \$4.0m, or 14.3%, in 2019-2020.

Transfers to other funds

Capital funding from the Ministry of Education is almost exclusively for school buildings and busses. Districts use local capital (discussed further in the Capital Fund section) for other capital purchases such as operations vehicles, computer networks, and district administrative and maintenance buildings. Operating funding is one of the district's sources for local capital.

\$92,777 of capital assets were purchased during the year from the operating fund, compared with \$3,015 in the year ended June 30, 2020. Details of transfers between funds can be found in Note 12 (page 22) of the financial statements.

\$84,837 was transferred from the operating to special purpose funds for the Classroom Enhancement Fund. The majority of these funds were to cover the cost of labour settlement increases. Funding for these increases was received in the operating fund, and needed to be transferred to the special purpose fund.

Operating surplus/deficit

The operating deficit for the year to June 30, 2021 was \$152,687, compared with a deficit of \$1.1m for the year ended June 30, 2020. This is calculated on Schedule 2, on page 27 of the financial statements. The total operating deficit (after transfers to other funds) was \$330,301. This total annual deficit decreased the accumulated operating fund surplus from \$1.1m at the beginning of the year to \$0.7m at June 30, 2021.

Note 18, on page 24 of the financial statements, outlines the restrictions on the use of the accumulated operating surplus. The funds are restricted at the Board's discretion. The Board's approval of these restrictions is through approval of the financial statements.

Changes to surplus amounts by category, and future planned use of these funds, are set out below:

Accumulated Operating Surplus
(000's)

Category	July 1, 2020	Addition	Use/ Change	June 30, 2021	Planned for Year Ended:			Expected Balance	Comment
					June 30, 2022	June 30, 2023	June 30, 2024		
RESTRICTED									
Indigenous Education	\$170	\$1,733	\$1,740	\$163	\$80	\$40	\$43	\$0	Ministry targeted funds and funds from sales of resources
School Funds	170	85	81	174	55	55	64	0	School generated funds that are not restricted as to their use
Next Year's Budget	222	0	201	21	21			0	
Capital Purchases	284	0	57	227	25	150	52	0	\$127,000 for vehicles \$100,000 for SDS replacement
Learning Impact	0	81	0	81	81			0	2020-21 Holdback, address learning impact of the pandemic
Training	31	15	7	39	13	13	13	0	Flex funds provided to schools for training initiatives
Learning Services	17		17	0				0	
UNRESTRICTED									
Contingency	179		141	38	0	0	0	38	
Other	0							0	
Total	\$1,073	\$1,914	\$2,244	\$743	\$275	\$258	\$172	\$38	

Special Purpose Funds

Overview

Transactions within the special purpose funds are reported in two schedules in the financial statements. Schedule 3 on page 32 summarizes the total revenues and expenses of all the special purpose funds. This schedule indicates amounts spent on capital assets and transferred to the Capital Fund, and amounts transferred from the Operating Fund to Special Purpose Funds.

Schedule 3A on pages 33 to 36 outlines, for each fund, the grants received and expenses incurred for the year ended June 30, 2021. Surplus at the end of the year for each fund is included in Deferred Revenue on the statement of financial position.

In total, the district received \$4.54m and recognized as revenue \$4.56m in Special Purpose Funds. That revenue was spent on \$4.55m in expenses, with the balance used for the purchase of capital assets and transferred to the Capital Fund.

Further information on highlighted funds is provided below:

Annual Facility Grant

The district received \$666,723 from the Ministry of Education for the 2020-2021 Annual Facility Grant. \$135, 633 was provided as a Special Purpose Fund, with the remaining \$531,090 received as a Capital Grant. The Ministry of Education withheld \$10,102 of the special purpose fund as the district's share of the operating costs for the capital asset management system operated by the Ministry.

The balance of this special purpose fund was used for wages of tradesmen in the Operations Department.

School Generated Funds; Scholarships and Bursaries

School Generated Funds that are restricted in their use are included in this Special Purpose Fund. Examples include: school supply fees; book deposits; scholarships and bursaries; graduation celebration fundraising; and funds raised for individual sports team travel. These amounts are targeted and used for the purpose that they were provided to the school. School Generated Funds that are not restricted in their use are included in the Operating Fund.

CommunityLINK

The CommunityLINK grant from the Ministry of Education supports programs and services to improve the educational performance of vulnerable students. The goal to improve academic achievement is supported by activities that model and support appropriate social functioning. These funds are principally used for additional school staff supporting vulnerable students, after-school activities and the school district lunch program.

Classroom Enhancement Funds

Classroom enhancement funds began in the 2017/18 year, and are a core part of the District's funding. This funding is tied to the restoration of historical language to the teacher collective agreement

regarding class size and composition. Approximately 10% of the District's teachers are staffed through this funding.

The Ministry of Education grants for the Classroom Enhancement Funds are made up of three components: Overhead; Staffing; and Remedies.

The overhead fund provides additional release time for principals to administer the staffing requirements of the restored language in their schools. As this funding increased the number of classrooms being used regularly in the district, overhead funds are also used for an additional custodial position.

Direct costs associated with required staffing levels that address class size and composition are accounted for within the 'Classroom Enhancement Fund – Staffing'. They include 8.23 FTE additional classroom teachers as well as 6.63 FTE non-enrolling teacher-librarians and learning services teachers.

As set out in the teacher collective agreement, the district is required to make best efforts to comply with the restored class size and composition language. Where the district has not been able to do so, the collective agreement provides remedies for non-compliance. Remedies generally consist of additional preparation time or co-teaching time for individual teachers. The cost of remedies is provided in the remedy fund.

First Nation Student Transportation

The First Nations Education Steering Committee, the Province of British Columbia and the Government of Canada entered into the British Columbia Tripartite Education Agreement (BCTEA). BCTEA is a five-year agreement focused on changes to support the BC First Nations education system. Schedule G of this agreement provides support for transportation of First Nation on-reserve students attending BC public schools.

Funds received by the district were used for the cost of the ferry that transports students from Metlakatla to Prince Rupert.

Safe Return to School Grant; Federal Safe Return to Class Fund

These two funds provided the district with \$939,436 in funding to address the impact of the COVID-19 pandemic. Examples of items these funds were used for include: staffing for remote learning and cleaning; health & safety supplies (including masks and hand cleaning); additional custodial staffing; costs of increased building ventilation; and installation of sinks so that every classroom now has a sink with hot and cold running water.

Truth & Reconciliation

The Truth & Reconciliation fund was a two-year commitment from Ridley Terminals Inc. to assist the district in addressing the recommendations of the Truth & Reconciliation Commission of Canada. 2020-2021 was the second and final year of this program.

Capital Fund

Overview

The 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 or special purpose funds, then those funds are transferred to the capital fund.

Local Capital

The Province does not normally provide capital grants for asset acquisitions such as computer equipment, school furniture and equipment, vehicles, maintenance equipment, or district administration and operations buildings. The typical source of funding available for these assets is 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

Schedule 4 (page 37) summarizes amortization of deferred capital revenue, amortization of tangible capital assets, and transfers to the capital fund from other funds. In the current year, \$175,263 of revenue was received for the remediation of land at an elementary school. In the prior year, \$1.5m was received for the demolition of two closed schools.

Schedule 4A (page 38) outlines:

- The original cost of assets owned by the District, by asset class.
- The cost of assets acquired, and disposed of, during the year.
- The accumulated amortization of assets, by asset class.
- The amortization of each asset class, during the year. This is an estimate of the decline in value as a result of the wear-and-tear of assets over their lifetime.
- The net book value of assets, being the cost less accumulated amortization.

Schedule 4B (page 39) is a summary of costs spent on capital projects not yet completed.

Schedule 4C (page 40) accounts for deferred capital revenue spent on the acquisition of capital assets.

Schedule 4D (page 41) accounts for funding received which is targeted towards capital asset purchases and which has not yet been spent.

Capital assets

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

The cost of land owned and developed by the District is \$6.7m.

The net book value of the district's buildings (cost less accumulated depreciation) is \$27.3m.

The District's remaining capital assets are vehicles, furniture and equipment, and computer software and hardware.

Significant asset purchases during the year were:

- Lighting upgrade to LED lights across the district.
- Completion of heating system upgrades at 2 elementary schools.
- Commencement of work on a 3 year plan to upgrade district washrooms.
- Playground at Lax Kxeen Elementary School.
- Began conversion of a part of the Booth Operations Building to a before-and-after school daycare site.
- 2 operations vans were purchased during the year to replace older vans.

Deferred capital revenue

Schedule 4C shows the changes in deferred capital revenue. This includes deferred capital revenue spent on new asset purchases, and the annual amortization of deferred capital revenue.

Schedule 4D shows the use of unspent capital revenue during the year. It shows the unspent capital revenue at the end of last year, the capital revenue received and used during the year, and the unspent capital revenue available at the end of the year.

In the year ended June 30, 2021 \$1.7m of capital grants were received from the Ministry of Education in the form of bylaw capital. This includes the annual facilities capital grant. All of this revenue was used in the acquisition of capital assets during the year.

Deferred capital revenue balances on Schedule 4C 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 \$1.1m in the year to June 30, 2021 to reflect this amortization.

Contacting 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 information, please contact the Secretary Treasurer's office.