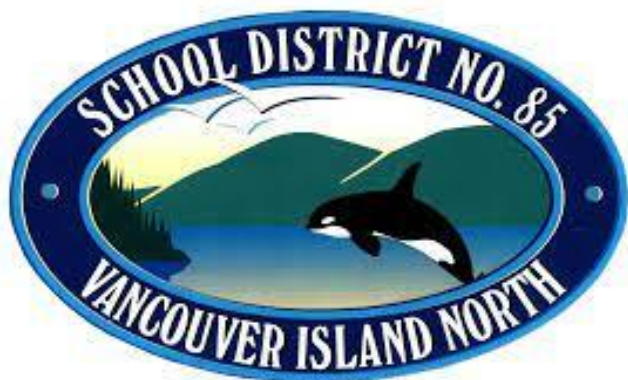


FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the year ended June 30, 2023



School District No. 85
Vancouver Island North



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Introduction

The following is a discussion and analysis of School District No. 85's (the "District") financial performance for the fiscal year ended June 30, 2023. It is based on currently known facts, decisions and conditions. This report should be read in conjunction with the District's financial statements for the same period.

The School District

School District No. 85 (Vancouver Island North) Public Schools reside within the traditional territories of the Kwakwaka'wakw and includes a total of 22,416 square kilometres of the northern end of Vancouver Island and the adjacent mainland in British Columbia. This includes the communities of Port Hardy, Port McNeill, Fort Rupert, Coal Harbour, Port Alice, Sointula, Alert Bay, Woss Lake, Quatsino and Holberg. The District employs approximately 500 employees to support approximately 1,300 students across 10 schools.

The District is proud of its excellent programs, capable students, competent personnel, supportive communities and Aboriginal history and culture. Aboriginal culture has flourished on Vancouver Island North for thousands of years, largely due to the Kwak'waka speaking people who exhibit their rich heritage and continue to maintain and develop their culture and share it with the surrounding communities.

Our North Island communities support our schools in a variety of ways. The school events, fundraisers, and scholarships for graduating students all point to the phenomenal support our students and schools have from businesses, organizations, service groups, and individuals.

The governing body of the School District is a Board of Education (the "Board"), comprised of seven trustees who are each elected for a four-year term. Day-to-day matters are managed by the administrative staff and headed by the Superintendent of Schools. The Trustees, management, and staff work together to ensure student success by providing equal access and opportunities through student centered learning in an effective learning environment.

Our Mission

For every student to graduate with dignity, purpose, and options for the future and to bring learning to life through:

- ▶ Honouring all students, families, and communities through excellence in service.
- ▶ Transforming learning experiences through high quality instructional practice and effective leadership
- ▶ Promote respectful and engaged relationships among and between the Board of Education, employees, students, families, and communities.
- ▶ Ensure relevant and meaningful learning for each individual student.
- ▶ Support and promote self, staff, and district-directed professional growth

Our Values

Professionalism ▶ Pedagogy ▶ Trust ▶ Learning ▶ Diversity ▶ Equity



Understanding the School District No. 85 Financial Statements

The District's financial statements have been prepared in accordance with the Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia supplemented by Regulations 257/2010 and 198/2011 issued by the Province of British Columbia Treasury Board. Significant accounting policies are summarized in Note 2 of the financial statements.

The financial statements are prepared using fund accounting and deferral accounting, and each of its funds has certain restrictions in accounting for funds received and expended. These methods are primarily used in the public sector where the goal is to avoid budget deficits while providing the greatest benefit to the public by strategically allocating the resources that are available. In this respect, School Districts are expected to ensure that available funds are being used in the most efficient way possible to maximize the potential benefit of each dollar and in the specific manner for which they were intended.

The financial statements represent a consolidation of three separate funds: operating, special purpose, and capital. Each fund differs with respect to the accounting methods used. The financial performance of each fund is difficult to ascertain in the audited statements as the three funds are combined; financial details of each fund are reported in the supplementary schedules that follow the notes to the financial statements.

Key Audited Statements

1. Statement of Financial Position (Statement 1): Summarizes financial and non-financial assets, liabilities, and accumulated surplus as at June 30, 2023.
2. Statement of Operations (Statement 2): Summarizes revenues recognized and expenses incurred during the year ended June 30, 2023.
3. Statement of Changes in Net Debt (Statement 3): Summarizes the effect of changes in non-financial assets and the operating surplus on net debt during the year ended June 30, 2023.
4. Statement of Cash Flows (Statement 4): Summarizes the uses and receipts of cash during the year ended June 30, 2023.

As the Statement of Financial Position and Statement of Operations will be of particular concern to the users of the financial statements, the focus of this discussion and analysis will be on these two statements.

The notes to the financial statements provide information regarding the District's accounting policies and details what is included within the account balances in the financial statements.

Following the notes to the financial statements are supplementary unaudited schedules that provide information about the individual funds, described as follows:

Schedule 1: Changes in Accumulated Surplus (Deficit)

The Schedule of Changes in Accumulated Surplus (Deficit) summarizes the allocation of the net surplus (deficit) for the current year and the accumulated ending balance in each of the three funds (Operating, Special Purpose, and Capital Funds).



Schedule 2: Operating Fund

The Operating Fund accounts for the District’s daily operating transactions, including both administrative and school functions. Annual and accumulated surplus from operations are important indications of the District’s financial health. School districts are unable to incur an accumulated deficit; when the District has an available accumulated surplus balance, those funds are available to use for future expenses and to reduce the financial risk relating to unforeseen circumstances.

Schedule 3: Special Purpose Fund

Special Purpose funds are funds that are restricted for a specific purpose. These funds do not result in an accumulated surplus position; instead, they are accounted for as deferred revenue (using the deferral method), wherein revenue is only recognized when expenses are incurred. If expenses for a program within a special purpose fund exceed the revenues received, the deficit must be transferred to the operating or capital fund based on the nature of the expenditure.

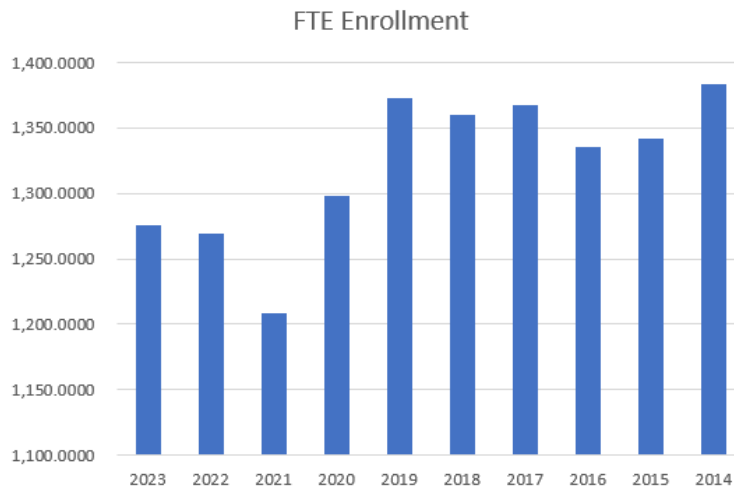
Schedule 4: Capital Fund

The Capital Fund reports investments in and financial activities related to tangible capital assets, including sites, buildings, furniture, equipment, vehicles, and computers. Capital contributions are accounted for using the deferral method, and recognition of capital funding revenue is spread out over the life of the related capital asset on the same basis as the asset’s amortization expense. As such, capital fund revenues, expenses, and surplus (deficit) are not meaningful measurements of the District’s financial performance during the year.

District Enrollment

The district has seen enrollment vary over the last 10 years. The 2021 school year had unusually low enrollment due to the impacts of COVID-19 restrictions, and enrollment returned to a higher level in 2022 and 2023 when the District returned to in-person classes.

	2023	2022	Variance
School Age	1,275.6250	1,264.188	11.4375
Adult	-	5.375	(5.3750)
Total FTE	1,275.6250	1,269.563	6.0625





Employees

Salaries are the District's highest operational expense. The table below summarizes the number of employees reported annually to the Ministry of Education.

	2023	2022	Variance
Teachers	86.00	84.00	2.00
Principals and Vice Principals	16.00	15.00	1.00
Educational Assistants	63.00	46.00	17.00
Support Staff	51.00	53.00	-2.00
Other Professionals	13.00	13.00	0.00
Total Staffing	229.00	211.00	18.00

Statement of Financial Position

	June 30, 2023 Actual	June 30, 2022 Actual (Restated)	Increase (Decrease)	Increase (Decrease)
	\$	\$	\$	%
Financial Assets				
Cash and Cash Equivalents	8,208,661	8,243,032	(34,371.00)	0%
Accounts Receivable				
Due from Province - Ministry of Education and Child Care	-	206,421	(206,421.00)	-100%
Other	63,790	60,140	3,650.00	6%
Portfolio Investments	-	9,440	(9,440.00)	-100%
Total Financial Assets	8,272,451	8,519,033	(246,582.00)	-3%
Liabilities				
Accounts Payable and Accrued Liabilities				
Other	2,487,787	2,155,893	331,894.00	15%
Deferred Revenue	598,661	464,868	133,793.00	29%
Deferred Capital Revenue	25,735,297	24,413,525	1,321,772.00	5%
Employee Future Benefits	1,551,181	1,504,519	46,662.00	3%
Asset Retirement Obligation	4,048,585	4,048,585	-	0%
Total Liabilities	34,421,511	32,587,390	1,834,121.00	6%
Net Debt	(26,149,060)	(24,068,357)	(2,080,703.00)	9%
Non-Financial Assets				
Tangible Capital Assets	36,135,219	34,342,110	1,793,109.00	5%
Prepaid Expenses	144,548	217,786	(73,238.00)	-34%
Total Non-Financial Assets	36,279,767	34,559,896	1,719,871.00	5%
Accumulated Surplus (Deficit)	10,130,707	10,491,539	(360,832.00)	-3%



Financial Assets

Cash and cash equivalents has decreased slightly primarily due to the current year's operating deficit, offset by the timing of cash receipts and payments, specifically a decrease in Accounts Receivable and increase in Accounts Payable. In the prior year, Accounts Receivable from the Ministry of Education and Child Care represented capital funding for capital purchases that were made during the prior year, but where the related funding was received from the Ministry in fiscal 2023. There were no such material amounts in the current year whereby significant cash had been expended but the supporting funding had not yet been received. Other Accounts Receivable are amounts owed to the District from entities other than the Ministry.

Liabilities

Accounts payable increased during the year ended June 30, 2023 primarily due to wages and benefits payable at the end of the year, due to an increase of wages ratified in a new collective agreement dated January 12, 2023. Deferred revenue includes unspent grants and contributions received that are related to special purpose funds – not all planned expenditures and projects were completed during the current year, thus resulting in an increase to deferred revenue.

Deferred capital revenue includes grants and contributions received that are restricted for the acquisition of tangible capital assets; once spent, these funds are deferred and recognized in revenue over the life of the asset acquired. This account increased due to capital funding received from the Ministry of Education during the year, primarily for renovations to the AJ Elliott Elementary School HVAC and Ventilation upgrades, Port Hardy Secondary School (PHSS) Workshop, and renovations to the closed school in Woss, which exceeded the amortization of deferred balances recognized as revenue.

Employee Future Benefits is calculated based on an actuarial report and includes service costs, interest, benefit payments, employer contributions, and actuarial gains.

On July 1, 2022 the District adopted Canadian Public Sector Accounting Standard PS 3280 – Asset Retirement Obligations. Under this new standard which all public sector organizations are required to adopt, an organization is required to assess if they have assets that would incur costs upon their retirements – specifically those assets with asbestos in them, underground fuel or oil tanks, lead paint or other material demolition and retirement costs. Upon identification of these costs, regardless of the timeframe in which the costs are expected to be incurred, the District is required to accrue an estimated asset retirement obligation.

The adoption of the above described new standard was done on the modified retroactive approach, which required the recognition of the liability as if it existed in the prior years, resulting in the restatement of the prior period reported liabilities and assets. The liability at June 30, 2023 with respect to anticipated future asset retirement costs for the District is estimated to be \$4,048,585, primarily relating to asbestos and the required remediation of it in the buildings owned by the District.



Non-Financial Assets

Tangible capital assets (TCA) are non-financial assets used in providing the District's services and include buildings, equipment, furniture, computers, and vehicles purchased, constructed or contributed to the District. The balance in the financial statements is the historical cost of the assets less accumulated amortization to June 30, 2023. The increase to the balance is due to capital additions for the year exceeding amortization recorded. Significant capital projects during fiscal 2023 include the following:

- ▶ Woss School Demolition/Renovation Project
- ▶ PHSS Industrial Education Shop and Machinery
- ▶ AJ Elliot Elementary HVAC and Ventilation Upgrade

Prepaid expenses decreased primarily due to a large IT services prepayment made in the prior year that was not repeated in the current year.

Accumulated Surplus (Deficit)

Accumulated surplus or deficit represents the net assets or debt of the District. The District had an overall deficit for the 2023 fiscal year of approximately \$360K, reducing the District's accumulated surplus from \$10,491,539 at June 30, 2022 to \$10,130,707 at June 30, 2023.



Schedule 2: Operating Fund

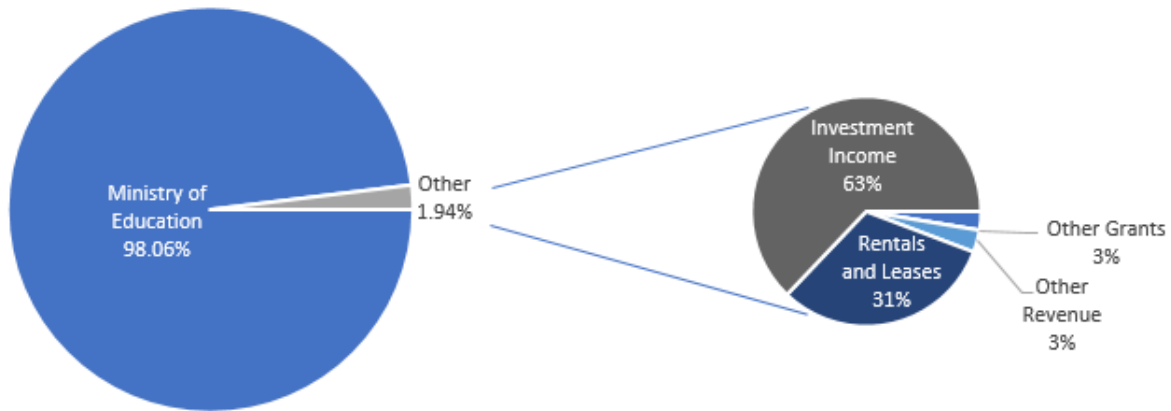
	2023 Budget	2023 Actual	2022 Actual (Restated)	Variance to Budget	Variance to 2022
	\$	\$	\$	\$	\$
Revenues					
Provincial Grants					
Ministry of Education	19,476,643	20,266,188	19,815,243	789,545	450,945
Other	-	10,500	16,290	10,500	(5,790)
Tuition	-	-	11,000	-	(11,000)
Other Revenue		12,538	2,998	12,538	9,540
Rentals and Leases	103,000	125,690	140,397	22,690	(14,707)
Investment Income	90,000	251,891	55,653	161,891	196,238
Total Revenue	19,669,643	20,666,807	20,041,581	997,164	625,226
Expenses					
Instruction	16,732,291	15,360,776	14,044,475	(1,371,515)	1,316,301
District Administration	1,436,527	1,434,092	1,238,795	(2,435)	195,297
Operations and Maintenance	3,194,982	3,284,904	2,964,207	89,922	320,697
Transportation and Housing	710,692	702,051	644,615	(8,641)	57,436
Total Expense	22,074,492	20,781,823	18,892,092	(1,292,669)	1,889,731
Operating Surplus (Deficit) for the year	(2,404,849)	(115,016)	1,149,489	2,289,833	(1,264,505)
Budgeted Appropriation (Retirement) of Surplus (Deficit)	2,804,849				
Net Transfers (to) from other funds					
Local Capital	(400,000)	(400,000)	(350,000)	-	(50,000)
Total Net Transfers	(400,000)	(400,000)	(350,000)	-	(50,000)
Total Operating Surplus (Deficit), for the year	-	(515,016)	799,489	(515,016)	(1,314,505)
Operating Surplus (Deficit), beginning of year	-	4,205,600	3,406,111		799,489
Operating Surplus (Deficit), end of year	-	3,690,584	4,205,600		(515,016)
Operating Surplus (Deficit), end of year					
Internally Restricted	-	2,465,428	1,937,000		528,428
Unrestricted	-	1,225,156	2,268,600		(1,043,444)
Total Operating Surplus (Deficit), end of year	-	3,690,584	4,205,600		(515,016)

Revenues

Total operating revenues for the District were approximately \$20.266M for the 2023 fiscal year. Ministry of Education funding makes up 98% of total operating revenue for the District; as such, the District is heavily reliant on Ministry funding and, more specifically, the Operating Grant, which is calculated primarily based on student enrollment.



Revenues (continued)



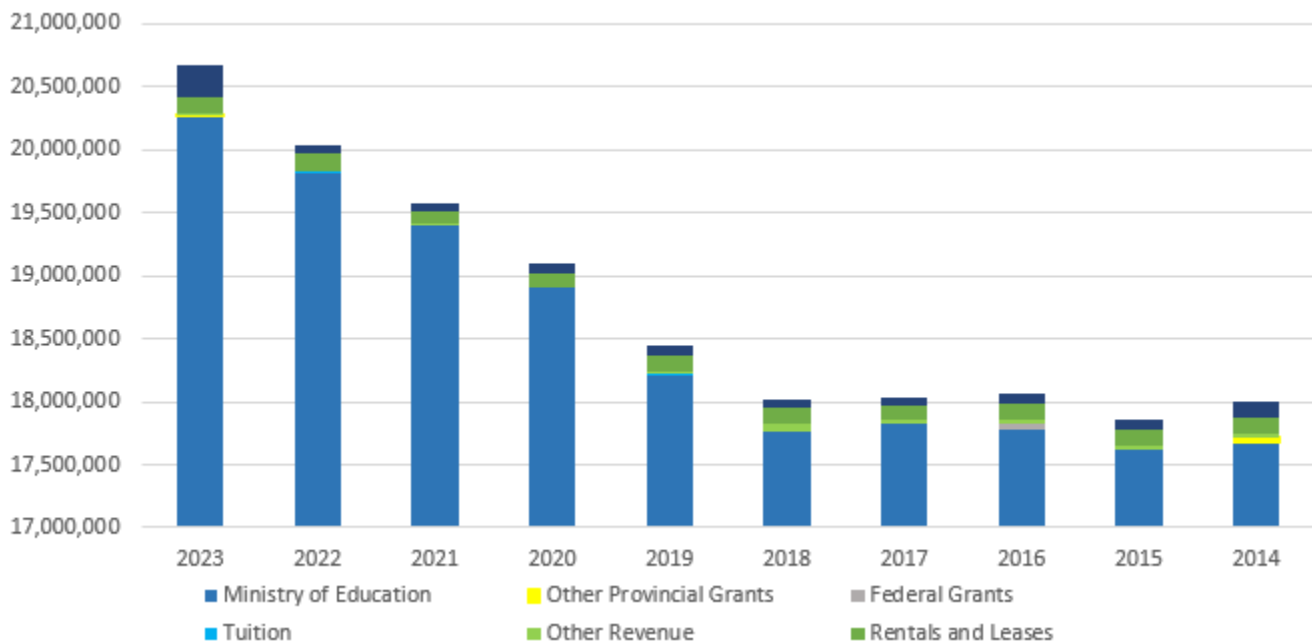
Grants from the Ministry of Education increased by 4.05% compared to budget and 2.28% compared to the prior year.

The majority of this increase is due to new funding areas and programs of approximately \$555K, and a net increase in existing programs of approximately \$253K. These described increases were offset by a \$110K decrease in funding primarily related to the ventilation systems that were upgraded in fiscal 2022 and no longer received funding in the current year. Funding received from the Ministry of Education is expected to vary year over year based on the needs of the District.

Investment income increased compared to the prior year primarily due to interest rates in the School District’s deposit account increasing significantly.

Total revenue increased compared to the prior year primarily due to the additional Ministry funding noted above.

Revenue by Category





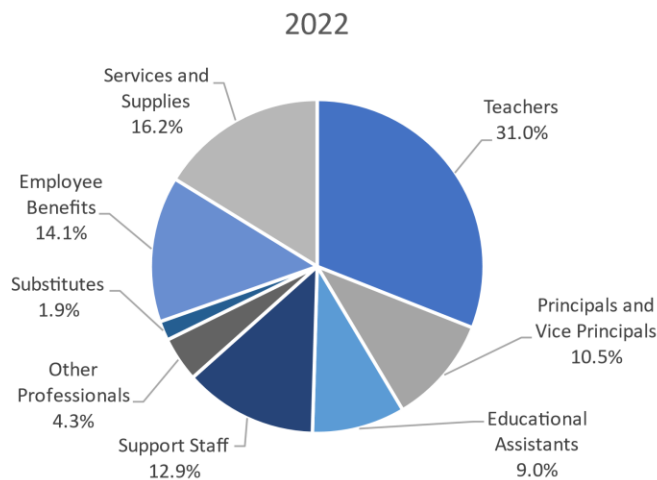
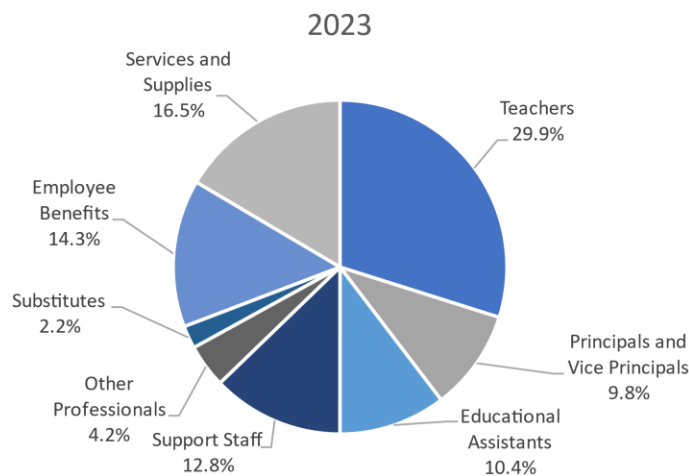
Expenses

Approximately 83% of the District’s expenses are related to salaries and benefits, with most salaries (43% of total salaries) being paid to teachers, and those salaries making up 30% of the District’s total operating expenditures. The remaining 17% of operating expenses are related to services and supplies, including student transportation, professional development and training, insurance, utilities, and other services and supplies.

Overall, operating expenses were lower by 6% compared to budget, but increased by 10% compared to the prior year. The decrease compared to budget is primarily due to salaries and related expenditures being lower than anticipated as a result of there being several unfilled positions during the year.

The overall increase from the prior year is primarily due to the wage increase from the collective agreement ratified this fiscal year.

Operating Expenses by Object

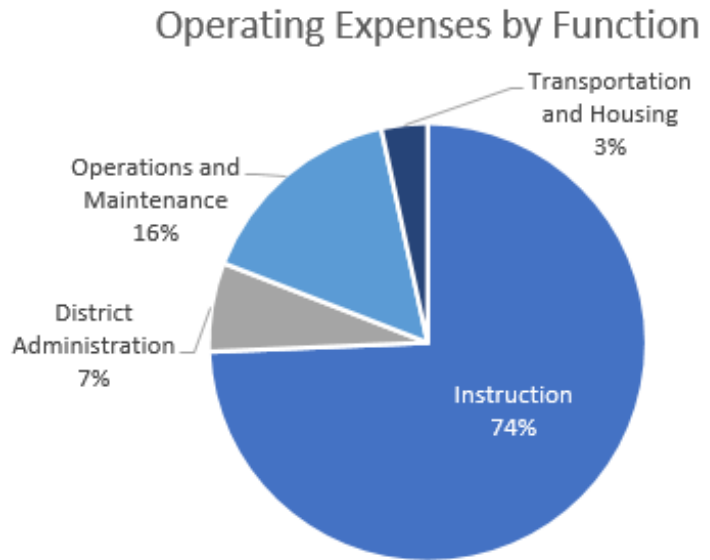




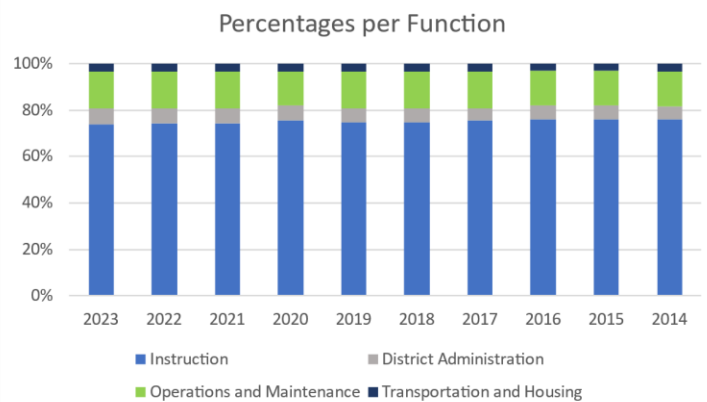
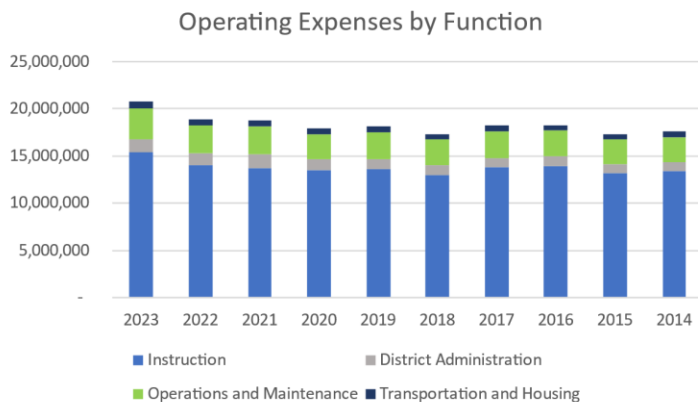
Operating Expenses by Function

The District’s expenses can be reviewed by function; the four functions are as follows:

- ▶ **Instruction** includes expenses related to the instruction of students.
- ▶ **District Administration** includes expenses related to district governance and administration of education, business, and human resources.
- ▶ **Operations and Maintenance** includes expenses related to the operation, maintenance, and safety of buildings and equipment.
- ▶ **Transportation and Housing** includes expenses related to the transportation and housing of students.



The operating expenses by function as a percentage of the total expenses have remained consistent over the last ten years.



Surplus (Deficit)

The District ended the 2023 fiscal year with an operating fund deficit of approximately \$515K. The budget included an appropriation of surplus of approximately \$2.8M to support operations and a transfer to local capital; however, this appropriation was not required due to the operating deficit being smaller than anticipated.



Accumulated Operating Reserves

Policy No. 3-70 Accumulated Operating Surplus states that the Board of Education is responsible for ensuring the District is protected financially from extraordinary circumstances which would negatively impact District operations and the education of students.

The Accumulated Operating Surplus therefore includes a contingency reserve to increase fiscal stability and better support educational goals by mitigating short-term volatility and providing a contingency for unexpected costs. Policy No. 3-70 states that a contingency reserve not exceeding 4% of operating expenditures may be maintained.

At June 30, 2023 the District had approximately \$3.690M in Accumulated Operating Surplus, of which approximately \$2.465M is internally restricted for specific purposes and approximately \$1.225M is unrestricted.

The breakdown of the internally restricted operating surplus is as follows:

Appropriation to 2023-2024 Annual Budget	\$ 2,158,791
District Budgets Carried Forward	\$ 149,220
School-Based Budgets Carried Forward	\$ 157,115
Internally Restricted Surplus	\$ 2,465,428

An Unrestricted Accumulated Operating Surplus of approximately \$1.225M is 5.9% of the 2023 annual operating expenses.

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Internally Restricted	2,465,428	1,937,000	1,082,719	652,346	795,537	729,861	478,617	734,048	728,715	827,762
Unrestricted	1,225,156	2,268,600	2,323,392	2,177,578	1,065,064	791,791	380,410	441,957	1,090,481	962,942
Total Operating Surplus	3,690,584	4,205,600	3,406,111	2,829,924	1,860,601	1,521,652	859,027	1,176,005	1,819,196	1,790,704
Unrestricted Surplus as a Percentage of Annual Operating Expenses	5.9%	12.0%	12.4%	12.1%	5.9%	4.6%	2.1%	2.4%	6.3%	5.5%

Schedule 3: Special Purpose Fund

Special Purpose Funds are used to track funding with a designated purpose. The balances can be deferred to subsequent years if their purpose is not fulfilled. Some of the funds may require Ministry approval to carry forward and other funds that carry a surplus at the end of the year may reduce the funding received in the next fiscal year. The School District did not experience any potential loss of funding in 2023.

Schedule 3A summarizes the transactions for the year. The following table summarizes the deferred revenue transactions within the special purpose fund:



	Deferred Revenue, beginning of year	Additions	Allocated to Revenue	Deferred Revenue, end of year	Expenses	Net Revenue Before Interfund Transfers
Ministry of Education						
Annual Facility Grant	-	148,405	(148,405)	-	12,630	135,775
Changing Results for Young Children	6,899	11,250	(5,496)	12,653	5,496	-
Classroom Enhancement Fund - Overhead	-	127,569	(127,569)	-	127,569	-
Classroom Enhancement Fund - Remedies	-	86,214	(76,532)	9,682	76,532	-
Classroom Enhancement Fund - Staffing	-	1,263,150	(1,263,150)	-	1,263,150	-
CommunityLINK	-	340,870	(340,870)	-	340,870	-
First Nation Student Transportation	-	64,721	(64,721)	-	64,721	-
Learning Improvement Fund	-	67,571	(67,571)	-	67,571	-
Mental Health in Schools	102,037	57,000	(118,978)	40,059	118,978	-
OLEP	-	9,900	(6,546)	3,354	6,546	-
Ready, Set, Learn	14,224	14,700	(10,981)	17,943	10,981	-
Strong Start	-	96,000	(96,000)	-	96,000	-
Student & Family Affordability	-	250,000	(199,718)	50,282	199,718	-
JUST B4	-	25,000	-	25,000	-	-
Early Years to Kindergarten	-	19,000	(235)	18,765	235	-
Early Care & Learning	-	175,000	(96,032)	78,968	96,032	-
Total - Ministry of Education	123,160	2,756,350	(2,622,804)	256,706	2,487,029	135,775
Other Special Purpose Funds						
Scholarships and Bursaries	10,285	2,600	(5,659)	7,226	5,659	-
School Generated Funds	331,423	287,535	(284,229)	334,729	284,229	-
Total - Other Special Purpose Funds	341,708	290,135	(289,888)	341,955	289,888	-
Total	464,868	3,046,485	(2,912,692)	598,661	2,776,917	135,775

Schedule 4: Capital Fund

The District invested approximately \$3.481M in capital purchases during the year.

Purchases	Sites	Building	Furniture and Equipment	Vehicles	Computer Software	Computer Hardware	Total
Deferred Capital Revenue - Bylaw	-	2,628,221	-	-	-	-	2,628,221
Special Purpose Funds	-	135,775	-	-	-	-	135,775
Local Capital	-	481,474	141,323	30,672	38,062	25,139	716,670
Total Additions	-	3,245,470	141,323	30,672	38,062	25,139	3,480,666

Specific balances in the Capital Fund are as follows:

Deferred Capital Revenue	June 30, 2023	June 30, 2022	Change
Bylaw Capital	25,636,173	24,297,026	1,339,147
Other Provincial	85,194	102,086	(16,892)
Other Capital	-	-	-
Total	25,721,367	24,399,112	1,322,255



Schedule 4: Capital Fund (continued)

Bylaw Capital includes approved Ministry of Education funding for capital projects that has been received and invested in tangible capital assets. All Bylaw Capital funding received during the year was spent on capital additions.

Other Provincial includes funding from capital grants received under other provincial programs, such as Ministry of Children and Family Development funding.

There are two capital surplus accounts: Local Capital and Invested in Tangible Capital Assets.

- ▶ The **Local Capital** fund represents accumulated surpluses designated to fund the purchase of tangible capital assets. This balance can increase if the Board approves a motion to transfer operating surpluses to Local Capital, or in the event that the District receives an unrestricted portion of sales or property.
- ▶ The **Invested in Tangible Capital Assets** fund represents capital investments that were funded by operating or special purpose funds. As an asset is amortized, the surplus will decrease. This balance represents unamortized costs rather than funds that are available for other purposes.

<u>Capital Surplus</u>	<u>June 30, 2023</u>	<u>June 30, 2022 (restated)</u>	<u>Change</u>
Invested in Tangible Capital Assets	6,365,267	5,898,105	467,162
Local Capital	74,856	391,526	(316,670)
Fund Balance	6,440,123	6,289,631	150,492

The increase to the balance invested in tangible capital assets is a result of current year additions offset by the amortization of assets, and the decrease to local capital is a result of the purchase of capital additions during the year offset by a transfer from the operating fund.

Contact Management

This financial report was completed with the purpose of providing a general overview of the School District's finances as at June 30, 2023 and to demonstrate the District's accountability for the funding it receives.

If you have any questions about this report, please contact the Secretary-Treasurer's office at 250-949-6618, local 2225.