FINANCIAL STATEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2026

CONTENTS

ABOUT SCHOOL DISTRICT NO. 10 (ARROW LAKES)

School District No. 10 (Arrow Lakes) (the "**District**") serves the communities and areas surrounding Arrow Lakes from Edgewood to Nakusp and Slocan Lake from Hills to Silverton. There are six schools: Burton Elementary School, Edgewood Elementary School, Lucerne Elementary Secondary School in New Denver, Nakusp Elementary School, Nakusp Secondary School and the Arrow Lakes Distributed Learning online school. The District serves over 500 students and employs approximately 100 full-time staff.

THE BOARD OF EDUCATION'S STRATEGIC PLAN

The Board of Education approves the District's financial planning and budgets as part of its strategic planning. For the 2025-2026 financial year, which is the focus of this financial statements discussion and analysis, the Board's 2023-2028 strategic plan established four strategies:

1) **Competency:** Students are challenged to build their competence and character at every grade level.
2) **Health:** Students and staff are enhancing their physical and mental health, knowledge and skills for positive living and resiliency.
3) **Environment:** Students and staff are learning about, enjoying, and caring for our unique environment.
4) **Collaboration:** Family, school, and community work collaboratively to enrich student learning.

These strategic priorities reflect the Board's Purpose:

"To build a collaborative community of learning, including strong academics, overall well-being, and a connection to the land, to provide our students with the knowledge and skills they require to navigate an ever-changing future."

FINANCIAL DISCUSSION INTRODUCTION

This Financial Statements Discussion & Analysis ("**Financial Discussion**") provides greater information about the financial results for School District No. 10 (Arrow Lakes) (the "**District**") for the year ended June 30, 2026. This Financial Discussion is prepared based on known facts and conditions as of September 22, 2026. It should be read in conjunction with the District's Audited Financial Statements for the year ended June 30, 2026 (the "**Financial Statements**").

The financial results presented herein are discussed and compared to the prior year ended June 30, 2025, and to the Budget for the year adopted by the Board of Education on May 20, 2025.

THE FINANCIAL PLANNING PROCESS

The District's annual budget cycle begins with the Board setting a process and timeline for budget adoption, confirmed in December of each year.

By February 15th of each year, the District submits forecast student enrolment to the Ministry of Education and Child Care for the upcoming school year. Provincial operating grant funding estimates are based on these initial student enrolment projections, which are released each March.

Throughout the spring, internal and public consultations are undertaken to identify budget priorities. As the Board of Education directs, the District incorporates these priorities into the preliminary operating budget.

By June 30 each year, the Board adopts an initial "Budget" for the upcoming school year. Partway through the year, the Board approves an "Amended Budget" that the District submits in February each year. This budget considers the actual provincial funding based on the confirmed enrolment counts and other changes in operations during the school year.

STUDENT ENROLMENT & FUNDING

The District is funded primarily through operating grants from the Ministry of Education and Child Care (the "**MECC**"). These operating grants are mainly based on student enrolment, which the District reports to the MECC each September, February, and May.

Operating Grants - Core Enrolment-based Funding

The District receives a fixed amount per full-time enrolled (FTE) student. In Kindergarten through grade nine, one student equates to one FTE. At the secondary level, in grades ten through twelve, students are funded based on a percentage of full-time enrolment, depending on their courses. As a result, there is variation in funding for secondary students, as they will often take less or more than a full course load as they seek greater opportunities in accredited courses outside of the timetable or seek learning opportunities and experiences outside of school. In 2025-2026, per-pupil enrolment funding was $4,706,224, based on 530 full-time equivalent (FTE) students, representing 39.5% of the $11,911,390 the District received in provincial operating grants. This is also 33.6% of the District's $13,994,790 operating and special purpose funds revenues.

Operating Grants - Unique Geographic Supplement

Given the remoteness and small size of the schools and communities in which the District operates, the Unique Geographic supplement provides significant additional operating grant funding. In 2025-2026, the District received a $4,788,389 Unique Geographic supplement, more than core enrolment-based funding. This supplement represents 34.2% of the District's $13,994,790 operating and special purpose funds revenues – a greater amount than the District's basic operating funds grants.

Operating Grants - Unique Needs Supplement & Targeted Funding

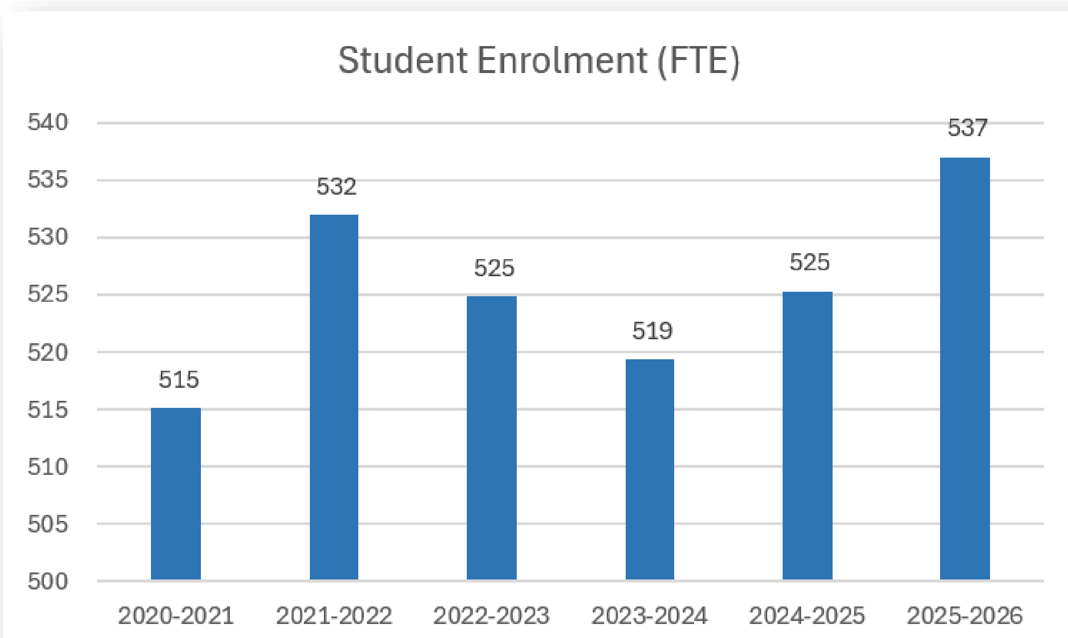
The District receives supplementary operating grant funding based on identified unique student needs. Identifying and assessing students provides the MECC with a basis for estimating the resources needed by the District. This supplemental funding is intended to support all District students and its diverse learners. In 2025-2026, the District received supplemental unique needs funding of $1,634,480, representing 11.7% of the District's $13,994,790 operating and special purpose funds revenues.

Special Purpose Grants

The District also receives various special purpose fund grants and contributions. These grants are listed in detail on page 9 of this Financial Discussion and page 30 in Schedule 3A of the Financial Statements. In 2025-2026, special purpose revenues totalled $1,715,906, representing 12.3% of the District's $13,994,790 operating and special purpose funds revenues, a $160,606 increase from the $1,555,300 in special purpose revenues in the prior year. The increase is primarily due to higher School Generated Funds from expanded food programs and increased school fees following the end of Student & Family Affordability Fund funding.

STUDENT ENROLMENT (FTE)

District enrollment has remained relatively stable over the past six years, ranging from 515 FTE to 537 FTE. Minor fluctuations reflect differences in the size of graduating cohorts and levels of net migration into the area.



STATEMENT OF OPERATIONS – ALL FUNDS

Year Ended June 30, 2025	Sch. 2 Operating Fund	Sch. 3 Special Purpose Funds	Sch. 4 Capital Funds	All Funds Total	% of Revenue or of Expense
	$	$	$	$	%
Revenues					
Provincial Grants – MECC	11,911,390	1,418,109	-	13,329,499	*88.6*
Provincial Grants – Other	106,591	-	-	106,591	*0.7*
Other Revenue	193,317	297,797	-	491,114	*3.3*
Rentals and Leases	4,110	-	-	4,110	*0.0*
Investment Income	63,476	-	1,906	65,382	*0.4*
Amortization of Deferred Capital Revenue	-	-	1,041,782	1,041,782	*6.9*
Total Revenues	**12,278,884**	**1,715,906**	**1,043,688**	**15,038,478**	
Expenses					
Instruction	9,023,826	1,458,621	-	10,482,447	*66.6*
District Administration	1,590,476	100,827	-	1,691,303	*10.7*
Operations & Maintenance	1,565,413	156,458	974,472	2,696,343	*17.1*
Transportation	554,959	-	316,764	871,723	*5.5*
Total Expenses	**12,734,674**	**1,715,906**	**1,291,236**	**15,741,816**	
Surplus (Deficit)	**(455,790)**	**-**	**(247,548)**	**(703,338)**	
Net Transfers to/from other Funds					
TCA Purchased – Op Fund	(302,623)	-	302,623	-	
TCA Purchased – Special Purpose Funds	-	-	-	-	
Total Net Transfers	**(302,623)**	**-**	**302,623**	**-**	
Surplus (Deficit) beginning of the year	1,953,310	-	1,844,647	3,797,957	
Total Net Surplus (Deficit) for the year	(758,413)	-	55,075	(703,338)	
Accumulated Surplus (Deficit) end of the year	**1,194,897**	**-**	**1,899,722**	**3,094,619**	

Operating fund revenues, totalling $12,278,884, represent 81.6% of the District's total revenues, or 87.7% of revenues excluding amortization revenues (deferred capital revenues amortization). The District spent $12,734,674 in operations and transferred a further $302,623 for capital purchases under the Board's Surplus Appropriation Plan, resulting in an overall $758,413 deficit in the operating fund and a $1,194,897 accumulated operating surplus at year-end.

The District received $2,071,698 in new special purpose funding and spent $1,715,906 of it. At year-end, deferred special purpose revenues totalled $925,690, comprised of $90,088 of Professional Learning Grant funding, $444,620 of Early Care & Learning Grant funding, and the balance primarily in school trust funds to carry forward into 2026-2027.

FUNDING SOURCES & EXPENSES BREAK-DOWN

Operating Fund

The following table shows variances between the prior year and to the budget for Operating Fund revenues and expenses:

	2025-2026 Actual	2024-2025 Actual	Variance to 2024-2025	2025-2026 Budget	Variance to Budget
	$	$	$	$	$
Operating Fund Revenues					
Provincial Grants - MECC	11,911,390	11,734,263	177,127	11,956,423	(45,033)
All Other Revenues	367,494	402,503	(35,009)	433,864	(66,370)
Total Operating Fund Revenues	**12,278,884**	**12,136,766**	**142,118**	**12,390,287**	**(111,403)**
Operating Expenses					
Instruction	9,023,826	9,111,451	(87,625)	8,895,332	128,494
District Administration	1,590,476	1,308,946	281,530	1,357,011	233,465
Operations & Maintenance	1,565,413	1,466,261	99,152	1,527,608	37,805
Transportation	554,959	536,551	18,408	653,907	(98,948)
Total Operating Fund Expenses	**12,734,764**	**12,423,209**	**311,465**	**12,433,858**	**300,816**

Provincial Operating Grants from the MECC increased by $177,127, primarily due to higher per-pupil funding ($123,432) and labour settlement funding ($137,612), partially offset by a decrease in the Unique Needs supplement ($74,736).

Instruction expenses decreased by $87,625, mainly due to lower operating funded spending on services and supplies for learning support, professional development, and school expenditures, as well as fewer principal salaries and benefits allocated to instruction. These decreases were partly offset by higher teachers and teachers teaching on call, and educational assistant, early childhood educator, and responsible adult salaries and benefits resulting from labour settlement wage increases and additional staffing.

District Administration increased by $281,530, driven primarily by higher exempt staffing costs related to labour settlement wage increases, accrued vacation, and additional staff. The vacation liability is expected to decline as vacation is taken, with no payout anticipated. Additional increases included principal staffing allocations to district portfolios, accrued audit fees, and completion of the ERP software upgrade.

Operations and Maintenance expenses increased by $99,152, mainly due to labour settlement wage increases for custodial and maintenance staff and higher technology infrastructure and device costs.

Transportation expenses increased by $18,408, primarily due to higher services and supplies costs.

FUNDING SOURCES & EXPENSES BREAK-DOWN (Continued)

Special Purpose Funds

The following table shows variances to prior year and to the budget in the special purpose funds:

	2025-2026 Actual	2024-2025 Actual	Variance to 2024-2025	2025-2026 Budget	Variance to Budget
	$	$	$	$	$
Special Purpose Revenues/Expenses					
Provincial Grants					
Annual Facility Grant	62,466	62,466	-	62,466	-
Affordability Fund	-	29,813	(29,813)	-	-
Changing Results for Young Children	-	11,250	(11,250)	11,250	(11,250)
Classroom Enhancement Fund	292,487	270,832	21,655	270,832	21,655
CommunityLINK	107,344	107,344	-	107,223	121
ECE Dual Credit Program	-	25,000	(25,000)	25,000	(25,000)
Early Care & Learning	175,000	175,000	-	175,000	-
Feeding Futures Fund	350,346	350,000	346	350,000	346
Federal French (OLEP)	9,765	8,265	1,500	6,281	3,484
Learning Improvement Fund	40,313	38,433	1,880	40,313	-
Literacy Professional Learning	109,848	47,617	62,231	100,000	9,848
Mental Health in Schools	57,000	57,000	-	57,000	-
National Schools Food	46,340	14,081	32,259	14,081	32,259
Ready, Set, Learn	9,800	7,350	2,450	7,350	2,450
Seamless Day Kindergarten	55,400	55,400	-	55,400	-
Strong Start	102,000	96,750	5,250	96,000	6,000
Other Revenue					
Scholarships	4,500	3,350	1,150	3,000	1,500
School Generated Funds	293,297	195,349	97,948	227,500	65,797
Total Special Purpose Revenues/Expenses	**1,715,906**	**1,555,300**	**160,606**	**1,608,696**	**107,210**

Special purpose funds' revenues/expenses in 2025-2026 increased by $160,606 compared to the prior year, primarily due to the $97,948 increase in School Generated Funds to accommodate the loss of the Affordability Fund, the $32,259 increase in National Schools Food for expanded food programs, and $62,231 increase in the Literacy Professional Learning Program. Offsetting these increases, there were decreases of $29,813 the Affordability Fund, $11,250 in Changing Results for Young Children, and $25,000 in the ECE Dual Credit Program, all due to the end of funding.

STATEMENT OF FINANCIAL POSITION

The following table shows variances in the District's Statement of Financial Position (i.e. its assets and liabilities) on June 30th, 2026, compared to June 30, 2025:

As at	June 30, 2026	June 30, 2025	Increase (Decrease)	
	$	$	$	%
Financial Assets				
Cash & Cash Equivalents	3,082,904	3,434,371	(351,467)	(10.2)
Accounts Receivable	976,708	834,896	141,812	17.0
Total Financial Assets	**4,059,612**	**4,269,267**	**(209,655)**	**(4.9)**
Liabilities				
Accounts Payable and Accrued Liabilities	1,349,580	1,199,482	150,098	12.5
Deferred Special Purpose Revenues	925,580	569,788	355,792	62.4
Deferred Capital Revenues	20,304,498	19,193,398	1,111,100	5.8
Employee Future Benefits	202,562	182,184	20,378	11.2
Asset Retirement Obligations	1,807,964	1,807,964	-	0.0
Total Liabilities	**24,590,184**	**22,952,816**	**1,637,368**	**7.1**
Net Debt	**(20,530,572)**	**(18,683,549)**	**(1,847,023)**	**9.9**
Non-Financial Assets				
Tangible Capital Assets	23,625,191	22,367,258	1,257,933	5.6
Prepaid Expenses	-	114,248	(114,248)	(100.0)
Total Non-Financial Assets	**23,625,191**	**22,481,506**	**1,143,685**	**5.1**
Accumulated Surplus	**3,094,619**	**3,797,957**	**(703,338)**	**(18.5)**

Financial assets totalling $4,059,612 at the end of the year decreased by $209,655 compared with the prior year, primarily due to the board-authorized spending of accumulated operating surplus, reducing current assets. Representing 28.1% of total annual operating expenses excluding amortization, this quantity of short-term assets is very healthy. The current ratio is 3.01 (= $4,059,612 current assets / $1,349,580 current liabilities) (last year = 3.56), which indicates that the District has three times more current assets than needed to pay all existing short-term obligations. (Generally, a ratio exceeding 1:1 is considered healthy for most organizations.)

The increase in accounts receivable is due to accrued CCOF/CCFRI funding and labour settlement funding receivable. The increase in accounts payable is primarily due to variations in payroll liabilities attributable to staffing levels, wage increases, and accrued vacation. The increase in Tangible Capital Assets is due capital projects across all District facilities, the purchases of a skid steer, a transportation van, and investment in technology. There was a corresponding increase in Deferred Capital Revenues during the year. For more information on these projects, see the Capital Funding and Investments section below on page 12.

ACCUMULATED OPERATING SURPLUS

The District has a healthy accumulated operating surplus in proportion to its annual spending and compared to the surpluses of other Districts in the province. During the year, the Board of Education used some of this surplus towards investments in a transportation van, a skid steer, the board office renovation and refurbishment project, upgrading its network infrastructure, and purchasing numerous new devices. The Board has authorized additional surplus appropriations for the 2026-2027 year and stated its intention to consider using surplus funds to further the strategies and objectives of its new strategic plan.

	Surplus Use Plans on July 1, 2025	Updated Surplus Use Plans on July 1, 2026	Planned 2026-2027	Planned 2027+
	$	$	$	$
Software Transitions (ERP Modules)	72,000	-	-	-
District Classroom Improvement	60,000	60,000	15,000	45,000
Technology Equipment	36,000	-	-	-
SBO Renovation & Refurbishment	160,000	63,439	63,439	-
Vehicles – Vans	80,000	-	-	-
Vehicles – Skid Steer	50,000	-	-	-
Contractual Professional Development	-	80,082	40,041	40,041
Schools & Curricular Resources	-	62,911	43,956	18,955
Indigenous Education Council	-	120,392	48,157	72,235
Restricted Operating Surplus	**458,000**	**386,824**	**210,593**	**176,231**
Unrestricted Surplus (Contingency)	**1,495,310**	**808,073**		
TOTAL Accum. Operating Surplus	**1,953,310**	**1,194,897**		

ACCUMULATED CAPITAL SURPLUS

The District used $100,752 local capital funds towards the board-authorized school board office renovation and refurbishment project, and to fund maintenance salaries and benefits attributable to the delivery of capital projects across all District facilities. There District has $248,568 of restricted capital. The use of restricted capital will be determined as needs or opportunities arise.

Overall, including all tangible capital assets and deferred capital revenues, there is a capital surplus totalling $1,899,722, which is the surplus caused by the difference in the accrued amortization of tangible capital assets and accrued deferred capital revenues. Therefore, the capital surplus is not a surplus that the District can use; the surplus balance will decrease over time unless there is new capital spending.

CAPITAL FUNDING & INVESTMENTS

2025-2026 was another year of significant capital investments for the District. The District capitalized $2,549,169 of expenditures during the year, compared with $2,368,695 in the prior year. The year focused on facility renovations, heating, ventilation, and air conditioning (HVAC) and plumbing upgrades, electrical improvements, fencing and grounds work, and infrastructure renewal projects across all district facilities.

Nakusp Elementary School received a new kitchen facility, providing upgraded food preparation and service facilities, HVAC upgrades were completed, and repairs were made to the soccer field. At Lucerne Elementary Secondary School, capital improvements were made to the interior weld shop, electrical lighting upgrades were completed, and work advanced on the stage access project. Septic and sewer infrastructure was repaired at Burton Elementary School. At Nakusp Secondary School, HVAC improvements were made to the entryway, and the girls' changeroom shower renovation advanced. District-wide investments included the installation of new playground fall protection material and preliminary fence and concrete removal work in support of future fencing upgrades.

The District also invested in fleet and operational equipment through the purchase of a new transportation van and skid steer.

In addition, Nakusp Secondary School received a fully upgraded computer lab. There was continued investment in technology infrastructure through upgrades to network systems and the acquisition of user devices to support educational and operational needs.

Capital Funding

The funding for these projects came largely from the MECC's Bylaw Capital funding, including $853,725 in School Enhancement Fund (SEP) funds, $801,083 in Carbon Netural Program (CNCP) funds, $91,356 in Food Infrastructure Program (FIP) funds, as well as $399,630 in Annual Facilities Grant (AFG) capital funds.

The transportation van, skid steer, board office renovation and refurbishment, and technology purchases were paid for by operating and local capital surplus appropriations made by the Board of Education.

FUTURE CONSIDERATIONS – RISKS

The following are some considerations regarding the crucial risks faced by the District:

Economic Dependence

The School District's operations depend on continued funding from the MECC and various governmental agencies to carry out its programs. See the next section on the Funding Formula Review.

Funding Formula Review

The District has significant fixed costs. These include maintenance and operations of facilities, class size and composition staffing requirements, and administrative functions to support School District operations. As a result, the District relies on a stable, predictable funding stream to ensure consistent service delivery from year to year.

Fluctuations in Student Enrolment

In grades Kindergarten through nine, one student equates to one FTE. In grades ten through twelve, students are funded at the secondary level based on the percentage of full-time enrolment. As a result, there is variation in funding for secondary students, as they will often take less than a full course load or seek learning opportunities and experiences outside of school to meet their credit requirements. This funding model for secondary students can pose a challenge for the District in estimating the size of and planning the use of financial resources. Management considers the impact throughout the financial planning process, and each year, the impact of fluctuating student enrolment influences decisions regarding course offerings, staffing levels, and predictions of future capacity requirements of the District's two secondary and four elementary schools.

Recruitment & Retention

School Districts across the Province continue to face significant challenges in recruiting and retaining qualified staff. School District No. 10 is the largest employer in the middle-Arrow Lakes region centred on Nakusp, with over 100 employees, and faces consistent personnel shortages in various employee groups. The District uses multiple strategies to ensure it continues attracting and retaining qualified, excellent personnel and has adequate personnel to carry out its purpose.