

School District No. 69 (Qualicum)
Financial Statement Discussion & Analysis
For the Year Ended June 30, 2017

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2017. This report is a summary of the district's financial activities based on currently known facts, decisions, or conditions. The results of the current year are discussed in comparison with the prior year and budget. This report should be read in conjunction with the School District's financial statements.

OVERVIEW OF THE SCHOOL DISTRICT

The Qualicum School District serves more than 4,100 student FTE in: 11 school sites (8 elementary schools, 2 secondary schools and 1 alternate education school), Family Place, Collaborative Education Alternate Program, Indigenous Education Program and the Qualicum International Student Program.

The Board completed their Strategic Plan for 2013 to 2018 which guides the Board of Education and its employees and partners in delivering educational programs through the period 2013/14 to 2017/18. The Plan identified the following Strategic Priorities:

- Increasing the engagement of our learners by providing more personalized educational experiences
- Responding to the diverse social/emotional needs of our learners in ways that increase their chances of success
- Ensuring that the structures that shape and support learning are flexible and responsive to the needs of learners and
- Integrating technology effectively in order to broaden and deepen learning for all students

UNDERSTANDING SCHOOL DISTRICT FINANCIAL PERFORMANCE

Annual surplus and accumulated surplus¹ are key financial statement performance indicators; however, interpreting the meaning of these figures in BC school districts is complicated by the use of fund accounting and deferral accounting. The use of fund accounting means the financial statements of school districts are a consolidation of three separate funds (operating, special purpose and capital), and each of these funds differs with respect to the methods of accounting

¹ Annual surplus is the extent to which annual revenues exceed expenses. If annual expenses exceed revenues the result is referred to as an annual deficit. An accumulated surplus position is the extent to which revenues from all prior years have exceeded expenses from all previous years. An accumulated deficit position occurs when expenses from all previous years exceed revenues from all previous years. When an accumulated deficit occurs, it means future revenues are needed to pay for past expenditures.

used and the legislative and other constraints on budgeting and financial results. This means financial performance can only be fully understood by reviewing each fund separately. Financial performance for each fund is reported in the supplementary schedules that follow the notes to the financial statements.

<p>Operating Fund</p> <p>2017 Revenues: \$45.5 million</p>	<p>Annual program revenues and expenditures are reported within the operating fund and special purpose fund (see below). Annual and accumulated surplus within the operating fund are important indicators of financial performance and financial health for school districts. This is because school districts are not permitted to budget for or incur an <u>accumulated</u> deficit position. This means when a school district has accumulated operating surplus available it can be used to budget for future expenditures and to reduce financial risk associated with unforeseen expenditures.</p>
<p>Special Purpose Fund</p> <p>2017 Revenues: \$3.5 million</p>	<p>The special purpose fund includes grants and school generated funds that are restricted for a specific purpose. Annual and accumulated surplus is always zero because revenues are recognized only as related expenditures occur (deferral method of accounting). If expenditures for a program within the special purpose fund exceed available revenues, the resulting deficit is transferred to the operating fund reducing accumulated operating surplus.</p>
<p>Capital Fund</p> <p>2017 Capital Funding Received or Receivable: \$3.1 million</p> <p>2017 Capital Assets Purchased: \$1.7 million</p>	<p>The capital fund reports investment in and financing activities related to capital assets. Capital contributions (funding) from the Province are accounted for using the deferral method of accounting, whereby recognition of capital funding revenue is spread out over the life of the related capital assets to match with the amortization expense which reflects the use of the asset over its life. This means capital fund revenues are not a reflection of funding actually received in a given year. Also, capital revenues only offset amortization expense in the capital fund to the extent assets were funded by provincial capital grants. As many capital investments are funded by operating revenues (recorded as transfers of accumulated operating surplus to the capital fund), the capital fund normally reports an annual deficit.</p> <p>In short, capital fund revenues, expenses and annual deficit are not a meaningful indicator of annual financial performance.</p>

FINANCIAL HIGHLIGHTS

As reported in the Statement of Operations, for the year ended June 30, 2017 the district's expenses exceeded its revenues resulting in an annual surplus of \$182,489 (2016 deficit was \$249,756. This was comprised of the combined financial results of the operating fund and the capital fund as follows:

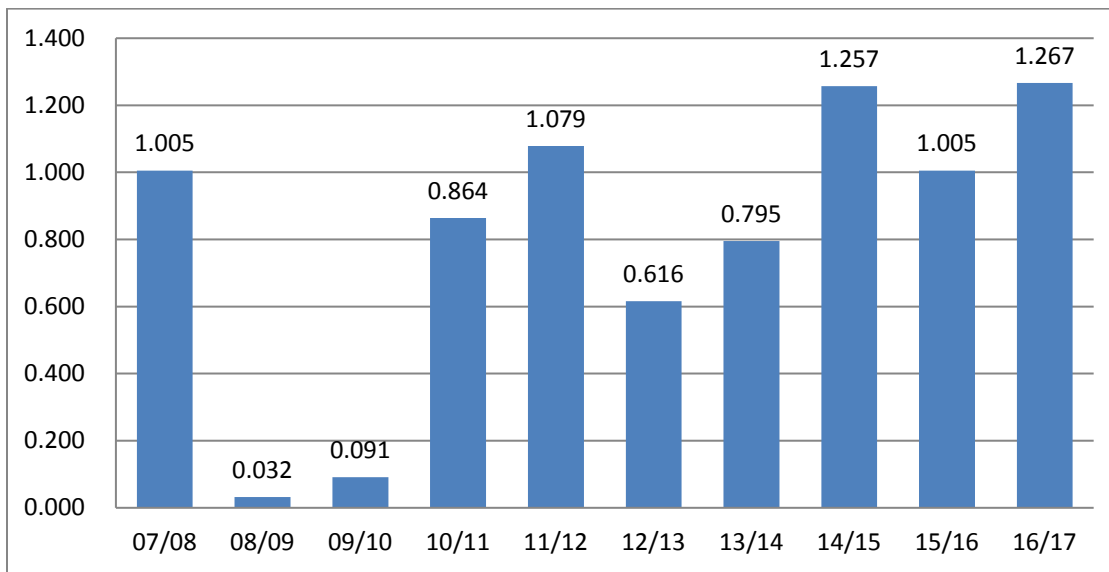
Annual Surplus (Deficit)	June 30, 2017	June 30, 2016
Operating Fund	261,837	(251,992)

Capital Fund	(79,348)	2,236
Combined	182,489	(249,756)

Looking at the operating fund, the annual surplus of \$261,837 resulted in an increase to accumulated operating surplus from \$1,005,156 at the beginning of the year to \$1,266,993 as at June 30, 2017. This overall growth in accumulated operating surplus was largely the result of: increased offshore tuitions of \$0.1 million in surplus; and receipt of the one-time student learning grant of approximately \$0.3 million (discussed further below). While actual results in a number of other areas were either higher or lower than budget, the impact of these other variances came close to an increase expenditures of \$0.1 million.

Maintaining an accumulated operating surplus has alleviated some of the budget pressure over the past few fiscal years particularly due to the impact of funding protection. As shown in Exhibit 1, accumulated operating surplus has increased from \$32,000 at the end of fiscal year 2009 to its current level of \$1.267 million at the end of fiscal year 2017.

Exhibit 1: Accumulated Operating Surplus (\$ millions) by Fiscal Year

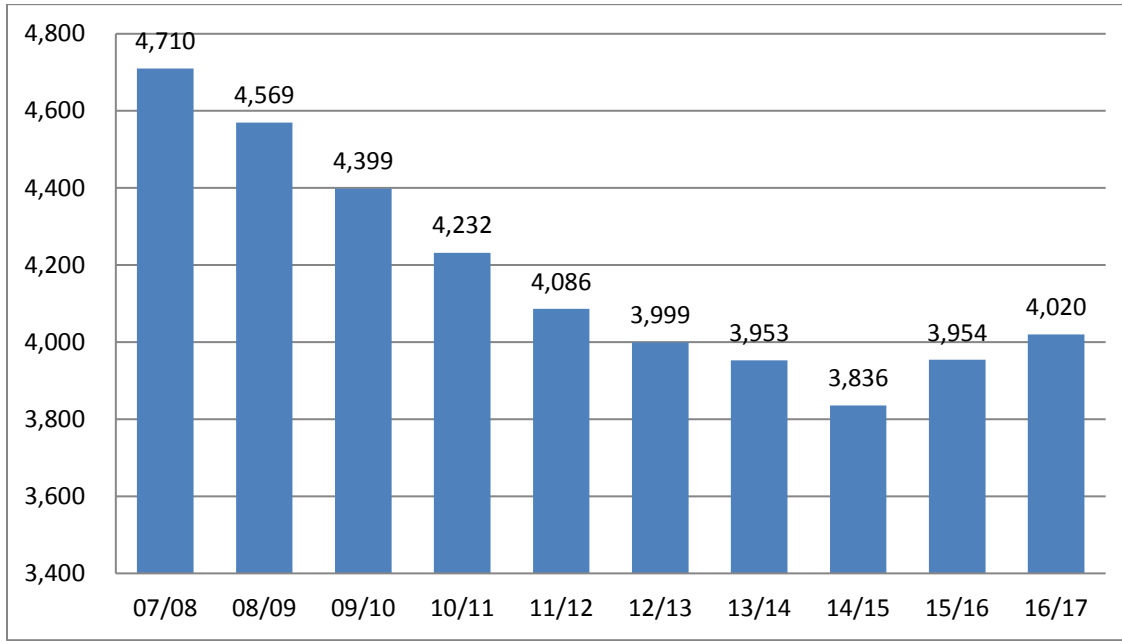


Over the past 10 years, significant financial pressure resulted from the combined effect of declining student enrolment and funding rates that did not pace inflation. These pressures contributed to some use of accumulated operating surplus as presented in Exhibit 1. Provincial operating grants, which comprise approximately 85% of total operating fund revenues, are determined largely based on student enrolment. As enrolment and funding declines, financial pressure results because many program expenditures such as facility and administration costs do not vary directly with student enrolment.

The trend in student enrolment is important for understanding both historical financial performance and the risk related to future budgetary balance. Under the per pupil funding formula, when enrolment increases a district is better able to fund overall program costs increasing financial flexibility. As shown in Exhibit 2, during the past 10 years the school district experienced a significant decline in student enrolment that has stabilized in the past three years.

Stable enrolment and moderate growth forecasted in the years ahead means that risk to program and financial stability is expected to improve.

Exhibit 2: Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2017, the district invested \$1,321,977 in capital additions that were funded by: Provincial capital funding (\$1,277,420) other capital (\$28,083) and other funds (\$15,474). The majority of this capital investment related to the following facility projects:

Project	Total Cost	Invested in 2016/17	Completion Date
Boiler Replacements	392,869	392,869	Summer 2016
Bus Replacements	297,650	297,650	Fall 2016, Spring 2017
Lighting upgrade at Errington and Oceanside	138,311	138,311	Winter 2017
Flooring Replacements at various sites	120,000	120,000	Winter 2017

Significant Events

In August 2016, the Ministry of Education announced new Student Transportation Funding to be used to eliminate transportation fees or to fund service enhancements. The Qualicum School District used its \$426,341 per year annual allocation to eliminate transportation fees, which had been budgeted at \$80,000.

In November 2016, a ruling by the Supreme Court of Canada resulted in the restoration of class size and composition language that had been removed from the teachers' contract in 2002. The Qualicum School District and other school districts are currently working towards full restoration of the contract language for the 2017-18 school year. Implementation will require the hiring of additional teachers and investment in the expansion or renovation of facilities to accommodate more but smaller classes. Most of the financial impact of implementation will occur next fiscal year; however, there were some measures that occurred in the 2016/17 fiscal year in preparation for full implementation in the fall of 2017. Following the court ruling, in January 2017 government announced "priority measures" funding to allow school districts to begin hiring more teachers during the second half of the 2016/17 school year. During the second half of the year, the district received \$396,646 in priority measures funding (reported in the special purpose fund), which was fully utilized to hire additional teachers during the second half of the school year. And towards the end of the fiscal year the district began to invest in expansion and renovation of facilities to accommodate more but smaller classes before the beginning of the 2017/18 school year.

In February 2017, the Ministry of Education announced the Student Learning Grant to be used for learning resources, supplies, and equipment to support implementation of the new curriculum and other learning innovations. The Qualicum School District's share of this one-time grant was \$208,297. This funding was reported in the operating fund and therefore a portion had been spent during fiscal year 2016/17, however the remainder forms part of the accumulated operating surplus balance at the end of the year.

In March 2017, the Industry Training Authority confirmed that, based on the funding application completed and submitted, the district had qualified for \$118,232 in funding over the next three years for youth trades tools and equipment. The district received \$67,040 in funding before the end of the fiscal year ending June 30, 2017, which was reported in the capital fund.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT

In this section, actual results are compared to the prior year and budget (where applicable). For the statement of operations, the analysis is performed for each of the three funds.

Statement of Financial Position (All Funds)

The table below includes explanations for significant variances in the statement of financial position relative to the prior year.

	2017	2016	Analysis of Variance
Cash	13,135,688	12,197,121	Increased by \$938,567 due to additional reserves for approved capital funds and timing of Accounts Payables.
Deferred Capital Revenue	46,568,035	47,448,107	Decreased by \$880,072 primarily due to amortization of deferred capital revenue outweighing funding for new capital.
Tangible Capital Assets	63,566,142	64,738,648	Decreased by \$1,172,506 due to amortization of capital assets being greater than additions.

Statement of Operations by Fund – Operating Fund

The 2016/17 Amended Budget included appropriation of \$874,888 of accumulated operating surplus comprised of: \$119,996 for school carry-forwards; \$109,502 for educational program carry-forwards; \$290,000 for capital maintenance of Family Place; \$74,432 for Student Learning Grant carry-forward and \$280,958 appropriated for 2017/18 budget contingency.

The remaining \$392,105 of the accumulated operating surplus balance remained unappropriated to reduce budgetary risk.

Detailed information on the operating fund is presented in schedules 2 to 2C following the notes to the financial statements. Revenues, expenditures and accumulated operating surplus are analysed in greater detail below.

Operating Fund Revenues

A high level summary of operating fund revenues is presented below and explanations of significant variances follows. A more detailed presentation of operating revenues is presented in schedule 2A following the notes to the financial statements.

	Amended Budget 2016/17	Actual 2016/17	Difference	Comments	Actual 2015/16
Provincial Grants	40,614,958	40,884,302	269,344		40,183,450
Other Provincial Revenues	101,450	100,535	-915		117,376
Offshore Tuition	3,500,000	3,607,652	107,652	ISP FTE up	3,060,513
Miscellaneous other	135,000	251,012	116,012	ROAMS/CEAP/French Monit	239,003
Rental and Leases	450,000	515,508	65,508	Rentals up	455,048
Investment Income	125,000	127,381	2,381		123,732
Total Revenues	44,926,408	45,486,390	559,982		44,179,122

Operating Fund Expenses

Expenses in the financial statements are presented both by object (category of expense) and by function (program). Operating fund expenses are presented below using each method with explanations of significant variances following. A more detailed presentation of operating expenses is presented in schedules 2B and 2C following the notes to the financial statements.

Analysis of Variances by Function

Operating Fund Expenditures by Function	Amended Budget 2016/17	Actual 2016/17	Difference	Comments	Actual 2015/16

Instruction	36,418,203	36,690,429	272,226	increased funding	35,697,685
District Administration	1,837,756	1,774,457	(63,299)		1,813,416
Operations and Maintenance	4,645,498	4,639,327	(6,171)		4,752,690
Transportation	1,656,401	1,596,904	(59,497)		1,500,863
Fund Transfers	368,550	523,436	154,886	grants for equipment	666,460
Total Expenditures	44,926,408	45,224,553	298,145		44,431,114

Analysis of Variances by Object

Operating Fund Expenditures by Object	Amended Budget 2016/17	Actual 2016/17	Difference	Comments	Actual 2015/16
Teachers	17,667,238	17,740,776	73,538		17,548,653
Principals and Vice Principals	2,599,983	2,615,952	15,969		2,348,614
Educational Assistants	3,228,237	3,121,242	(106,995)	allocation with replacement	3,043,238
Support Staff	4,448,981	4,410,934	(38,047)		4,585,093
Other Professionals	1,283,347	1,335,329	51,982	ISP manager	1,200,023
Substitutes	1,242,713	1,340,769	98,056		1,137,215
Benefits	8,152,811	8,180,308	27,497		8,444,593
Total Salaries and Benefits	38,623,310	38,745,310	122,000		38,307,429
Total Supplies and Services	5,934,548	5,955,807	21,259		5,457,225
Fund Transfers	368,550	523,436	(154,886)		666,460
Total Operating Expenditures	44,926,408	45,224,553	(11,627)		44,431,114

Statement of Operations by Fund – Special Purpose Fund

	Amended Budget 2016/17	Actual 2016/17	Difference	Comments	Actual 2015/16
Provincial Grants	1,616,606	1,997,807	381,201	Priority Measures grant	1,647,085
Other Revenue	1,350,000	1,520,855	170,855	School Generated Funds	1,881,043
Expenditures	(2,966,606)	(3,518,662)	(552,056)		(3,528,128)
Annual Surplus (Deficit)	0	0	0		0

Actual 2016/17 Provincial grants and expenditures were higher than budget due to the receipt of \$396,646 in priority measures funding for the hiring of additional teachers during the second half of the school year.

Detailed information on the special purpose fund is presented in schedules 3 to 3A following the notes to the financial statements.

Statement of Operations by Fund – Capital Fund

	Amended Budget 2016/17	Actual 2016/17	Difference	Comments	Actual 2015/16
Provincial Grants	2,493,494	2,574,030	80,536		2,470,295

Expenditures	(2,821,107)	(3,176,814)	(355,707)	School Enhancement	(3,134,519)
Fund Transfers	368,550	523,436	154,886		666,460
Change in Accumulated Surplus	40,937	(79,348)			2,236

Opening Accumulated Surplus		17,822,217			17,819,981
Closing Accumulated Surplus		17,742,869			17,822,217

Revenues and expenses are consistent with budget and the prior year. This is expected because revenues and expenses in the capital fund are predictable and consistent, as they reflect the recognition of capital funding (as revenue) and the usage of capital assets over their life (as amortization expense). Fund transfers from the operating fund were higher than budget as more expenditures in the operating fund met the criteria for capitalization as an asset.

Within the capital fund the following two balances are important as they represent funds available for future capital investment:

- Local Capital Reserve – this balance forms part of accumulated surplus in the capital fund and represents funds available for investment in capital assets at the discretion of the Board of Education. These funds are generated primarily from proceeds of disposition of assets that are allocated to the School Board.
- MEd Restricted Capital – this balance forms part of the deferred capital revenue balance in the capital fund and represents funds available for investment in capital assets at the discretion of the Ministry of Education. These funds are generated primarily from proceeds of disposition of assets that are allocated to the Minister of Education pursuant to the *School Act*.

The table below presents the 2016/17 closing balances in Local Capital and MEd Restricted Capital and what portion of the balances are already committed to future capital investment.

	Local Capital	MEd Restricted Capital
Balance at June 30, 2017	300,000	150,972
Committed for future investment	300,000	150,972
Uncommitted Balance	0	0

The local capital balance is committed to IT rewiring upgrades. MEd Restricted Capital balance is restricted for investment in the Errington Elementary parking and turnaround project along with an unspent portion of the 16/17 Annual Facility grant.

Detailed information on the capital fund is presented in schedules 4 to 4D following the notes to the financial statements.

CONTACTING THE SCHOOL DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District’s stakeholders with a general overview of the School District’s finances and to demonstrate the School District’s accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Secretary Treasurer’s office.