School District No. 69 (Qualicum)

Financial Statement Discussion & Analysis

For the Year Ended June 30, 2024

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2024. 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 4,300 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 2023 to 2028 which guides the Board of Education and its employees and partners in delivering educational programs through the period 2023/24 to 2027/28. The Plan identified the following Strategic Priorities:

- To Learn – Focusing on student curricular skills and competencies that lead to meaningful graduation and a successful life beyond school
- To Give – Students leading local and global change
- To Grow – Supporting all learners in pursuit of equity of outcomes
- To Belong – Developing critical social skills and all the strategies necessary for a healthy self

UNDERSTANDING SCHOOL DISTRICT FINANCIAL PERFORMANCE

Annual surplus and accumulated surplus[1] 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 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

[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.

performance for each fund is reported in the supplementary schedules that follow the notes to the financial statements.

Operating Fund 2024 Revenues: $58.9 million (2023-55.1M)	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 accumulated 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.
Special Purpose Fund 2024 Revenues: $8.5 million (2023-7.5M)	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.
Capital Fund 2024 Capital Funding Received or Receivable: $4.6M (2023-3.8M) 2024 Capital Assets Purchased: $3.0 million (2023-1.8M)	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. In short, capital fund revenues, expenses and annual deficit are not a meaningful indicator of annual financial performance.

FINANCIAL HIGHLIGHTS

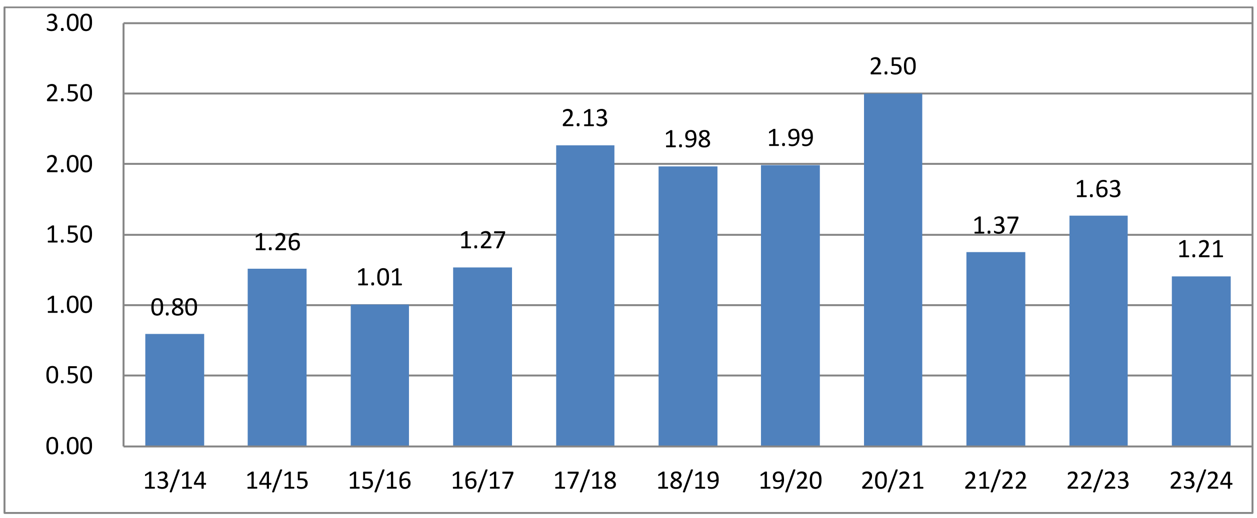
As reported in the Statement of Operations, for the year ended June 30, 2024 the district's expenses exceeded its revenues resulting in a combined annual deficit of $607,754 (2023 combined deficit was $72,824). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2024	June 30, 2023
Operating Fund	**-428,681**	**259,712**
Capital Fund	-179,073	-332,536
Combined	-607,754	-72,824

Looking at the operating fund, the annual deficit of $428,681 resulted in a decrease to accumulated operating surplus from $1,634,184 at the beginning of the year to $1,205,503 as at June 30, 2024. This overall decrease in accumulated operating surplus was the result of increased revenues that was exceeded by the increase in expenditures. While actual results in a number of expenditure areas were either higher or lower than budget, the impact of these variances came close to an increase of $4.39 million in expenditures.

Maintaining an accumulated operating surplus has alleviated some of the budget pressure over the past few fiscal years particularly due to impact of the pandemic and the economic uncertainties it created.   As shown in Exhibit 1, accumulated operating surplus had increased in previous years to a high of $2.50 million at the end of fiscal year 2021, however the unprecedented impact of the pandemic led to a need to use the surplus to balance the budget as Ministry funding has not kept up with inflationary and other pressures.

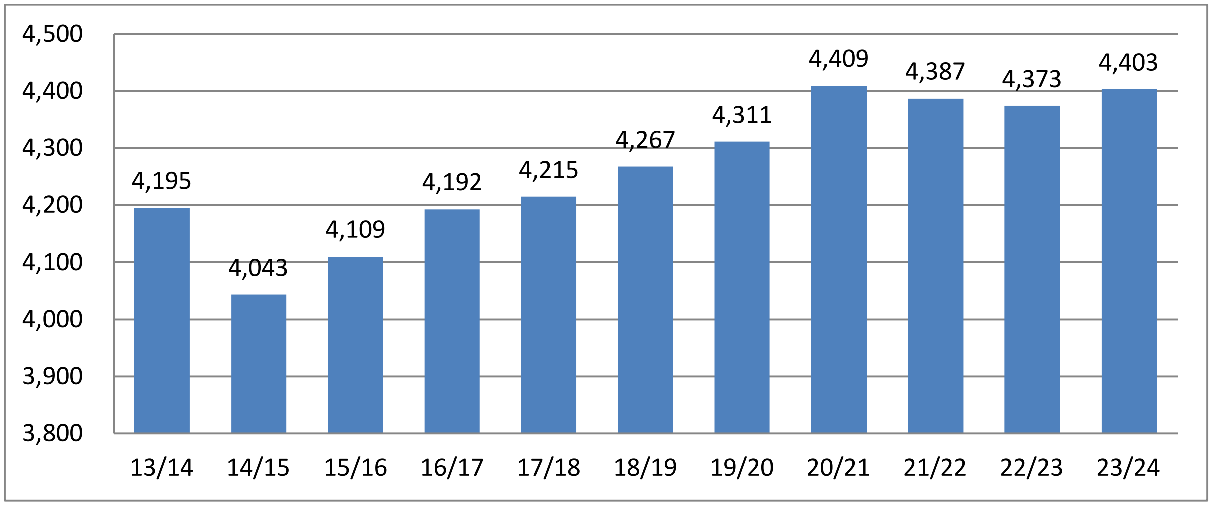
Exhibit 1: Accumulated Operating Surplus ($ millions) by Fiscal Year



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 90% 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 period of small growth followed by a small decline in student enrolment. The result of this stable enrolment means that there continues to be a risk to program and financial stability, i.e. no new students means no new revenues to support financial pressures.

Exhibit 2: Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2024, the district invested $2,981,191 in capital additions that were funded by: Provincial capital funding ($2,639,433) and other funds ($341,758). The majority of this capital investment related to the following facility projects:

Project	Total Allocation	Invested in 2023/24	Completion Date
Bowser Elementary Roof	480,000	480,000	Fall 2023
Winchelsea Learning Centre Roof	30,000	30,000	Fall 2023
Kwalikum Secondary Flooring	340,000	284,189	Fall 2023
Carbon Neutral Capital Projects	394,000	170,162	Fall 2023
Arrowview Elementary Playground	195,000	124,837	Fall 2023
2023-24 Annual Facilities Site Upgrades	1,048,671	316,162	Fall 2023
Bus Replacements	359,290	353,744	Spring 2024
Ballenas Secondary Ventilation Systems	1,182,000	569,066	In Progress
Ballenas Secondary Fire Alarm Systems	150,000	149,047	In Progress
Ballenas Secondary Interior Upgrades	400,000	45,653	In Progress
2024-25 Annual Facilities Site Upgrades	1,074,973	116,573	In Progress
Operating Fund Asset Purchases		153,761	
Local Capital Asset Purchases		187,997	
TOTAL INVESTED IN 2023/24		**2,981,191**	

Significant Events

Global Events – The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020 and on February 24, 2022, Russia invaded Ukraine. Both these events have had significant impact on social, financial and economic pressures faced globally by organizations.

Specifically, COVID self isolation periods have increased the sick costs for staff due to the number of sick occurrences and the length of the occurrence. Extended medical leaves due to various illnesses have also seen a marked increase in the past few years.

International supply chain constraints have continued to increase the costs of supplies resulting in a sustained period of high inflation. Energy market disruptions have also increased gas and fuel prices impacting heating and transportation costs.

International Student Program – As anticipated, the ISP program was profoundly affected by the pandemic and its ability to bring international students to the School District. The resultant rebound of the program in the following two years with an increase in enrolment has supported the financial impacts in other areas. However, we are now experiencing volatile enrolment due to homestay limitations for the program resulting in fluctuations in funding contributions.

School Capacity Constraints – with the restoration of class size language and enrolment growth (primarily at elementary) some elementary schools are close to capacity. Over the past two years, growth has been accommodated by renovating internal space to create more classrooms. To accommodate future growth the district has been reviewing several options starting with minor boundary changes, which have cost implications for both the capital plan (capital fund) and the operating fund. The District started review of its Long Range Facility Plan in early 2021/22 in order to better align facilities with district enrolment. The Plan continues to be monitored annually through the Finance and Operations Committee.

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.

	2024	2023	Analysis of Variance
Accounts Payable and Accrued Liabilities	5,277,673	4,522,972	Increased by $754,701 primarily due to an increase in expenses overall including significant capital projects.
Deferred Capital Revenue	44,316,226	43,484,830	Increased by $831,396 primarily due to a greater amount of capital additions than amortization of DCR.
Tangible Capital Assets	60,148,020	59,288,636	Increased by $859,384 due to a greater amount of additions to capital assets than capital asset amortization.

Statement of Operations by Fund – Operating Fund

The 2023/24 Annual Budget did not include any planned appropriation of accumulated operating surplus for educational programs. However other appropriations consist of future projects including a capital maintenance reserve, school/district budgets that are carried forward, the planned purchase of bus route software and future operational needs. There is no unrestricted accumulated operating surplus.

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 2023/24	Actual 2023/24	Difference to Budget	
Provincial Grants	53,242,916	53,388,833	145,917	new ICY grant
Other Provincial Revenues	150,000	159,560	9,560	
Offshore Tuition	3,900,000	3,654,088	-245,912	lower enrolment/homestay supply pressure
Miscellaneous other	225,000	402,684	177,684	add'l childcare revenue and misc. grants
Rental and Leases	700,000	745,368	45,368	add'l tenant revenues
Investment Income	600,000	594,397	-5,603	
Total Revenues	**58,817,916**	**58,944,930**	**127,014**	

Operating Fund Expenses

Expenses in the financial statements are presented both by function (program) and by object (category of expense). 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 2023/24	Actual 2023/24	Difference	
Instruction	46,136,699	46,655,966	519,267	increased costs incl. paid leaves
District Administration	2,904,700	2,978,142	73,442	legal fees/software implementation
Operations and Maintenance	7,102,369	7,347,852	245,483	escalations and increased capital expense
Transportation	2,174,148	2,237,889	63,741	routing software
Fund Transfers	500,000	153,762	(346,238)	lower than expected capital purchases
Total	**58,817,916**	**59,373,611**	**555,695**	

Analysis of Variances by Object

Operating Fund Expenditures by Object	Amended Budget 2023/24	Actual 2023/24	Difference	
Teachers	21,820,531	22,122,209	301,678	increased costs incl. paid leaves
Principals and Vice Principals	3,736,662	3,928,685	192,023	increased costs incl. paid leaves
Support Staff	10,117,971	10,194,889	76,918	staffing increases beyond add'l funds
Other Professionals	2,045,763	1,823,117	-222,646	capital planning transfers
Substitutes	2,296,853	2,506,986	210,133	increased usage /needs resource team NRT
Benefits	10,665,333	10,897,287	231,954	ben associated with incr. wage costs
Total Salaries and Benefits	**50,683,113**	**51,473,173**	**790,060**	
Total Supplies and Services	7,634,803	7,746,676	111,873	add'l costs from appropriated surplus
Fund Transfers	500,000	153,762	-346,238	lower than expected capital purchases
Total Operating Expenditures	**58,817,916**	**59,373,611**	**555,695**	

<u>Accumulated Operating Surplus</u>

Understanding the components of accumulated operating surplus is necessary for knowing how much of the balance relates to multi-year funding of programs (surplus carry-forwards) and how much of the balance is available to reduce financial risk associated with unforeseen expenditures or to fund additional expenditures in the future. The components of the closing accumulated surplus are presented in the table below:

	Actual 2021/22	Actual 2022/23	Actual 2023/24
School budgets	97,227	40,000	49,597
Capital maintenance	331,493	268,700	53,214
Indigenous Education	48,609	0	104,931
Software	0	125,000	90,234
Energy projects	62,337	0	0
Budgeted allocation of surplus	400,551	0	0
Appropriated for future years' operating budget	434,255	1,200,484	907,527
Internally restricted	**1,374,472**	**1,634,184**	**1,205,503**
Unrestricted operating surplus	0	0	0
Internally restricted	**1,374,472**	**1,634,184**	**1,205,503**

The appropriated operating surplus decreased from $1,634,184 to $1,205,503 and includes no use of surplus to balance the 2024/25 budget and an appropriation ($907,527) for future operational needs. There is no unrestricted operating surplus.

Detailed information on the operating fund is presented in schedules 2 to 2C following the notes to the financial statements.

Statement of Operations by Fund – Special Purpose Fund

	Amended Budget 2023/24	Actual 2023/24	Difference	
Provincial Grants	6,663,697	6,843,084	179,387	new Affordability/dual credit grants
Other Revenue	1,450,000	1,702,482	252,482	additional school generated revenues
Expenditures	(8,113,697)	(8,545,566)	(431,869)	
Annual Surplus (Deficit)	**0**	**0**	**0**	

Provincial Grants in 2023/24 increased over the amended budget by $179,387 primarily due to the additional Provincial Student and Family Affordability Fund allocation, as well as new dual credit grants for Health and Early Childhood Education.

Other Revenues derived from School Generated Funds, increased over the amended budget by $252,482 primarily due to schools receiving additional grants and funds for affordable meal delivery, and extracurricular and field trips activities.

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 2023/24	Actual 2023/24	Difference	
Provincial Grants	3,305,016	4,561,894	1,256,878	additional expenditure of Capital funds
Expenditures	(3,643,054)	(4,894,729)	(1,251,675)	additional expenditure of Capital funds
Fund Transfers	500,000	153,762	(346,238)	reduced operating transfers to Capital
Change in Accumulated Surplus	**161,962**	**(179,073)**	**(341,035)**	

Revenues and expenses have both increased over the budget and the prior year. This is a result of significant pre-spending on capital projects slated for completion in the following year. Revenues and expenses in the capital fund are generally 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 lower than budget as less 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 2023/24 closing balances in Local Capital and other Unspent Deferred Capital reserves and indicate what portion of the balances are already committed to future capital investments.

				Unspent Deferred Capital Reserves		
	Local Capital- 2022/23	23/24 Usage	Local Capital- 2023/24	M Ed Restricted Capital	Land Capital	Other Capital
Committed for:						
- mower replacement	50,000	(50,000)	0			
- Ballenas running track	133,633	(133,633)	0			789,391
- White Fleet purchases		(137,997)	(137,997)			
- land purchases			0		230,992	
Total commitments	**183,633**	**(321,630)**	**(137,997)**	**0**	**0**	**789,391**
Uncommitted balance	**129,377**	**8,620**	**137,997**	**15,984**	**0**	**0**
Balance, at end of year	**313,010**	**(313,010)**	**0**	**15,984**	**0**	**789,391**

There is no local capital balance remaining as all funds committed by the Board to fund the Ballenas running track renewal project, a mower replacement, and white fleet vehicle purchases have been fully spent.

Other Capital reserve includes contributions received from Regional District of Nanaimo, City of Parksville, Town of Qualicum and other public contributions to fund the Ballenas running track renewal project.

Other Capital reserve - List of Contributors	BSS Track Replacement	23/24 Additions	23/24 Balance
RDN	257,400	234,400	491,800
City of Parksville	250,000	500,000	750,000
Town of Qualicum	56,400	18,600	75,000
Public	101,747	8,220	109,967
Interest revenue	29,458	39,784	69,242
Costs to date			(706,618)
	695,005	**801,004**	**789,391**

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.