

School District No. 69 (Qualicum)
Financial Statement Discussion & Analysis
For the Year Ended June 30, 2018

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2018. 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>2018 Revenues: \$47.1 million (2017-45.5M)</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>2018 Revenues: \$5.2 million (2017-3.5M)</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>2018 Capital Funding Received or Receivable: \$3.3 million (2017-2.5M)</p> <p>2018 Capital Assets Purchased: \$1.8 million (2017-1.3M)</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

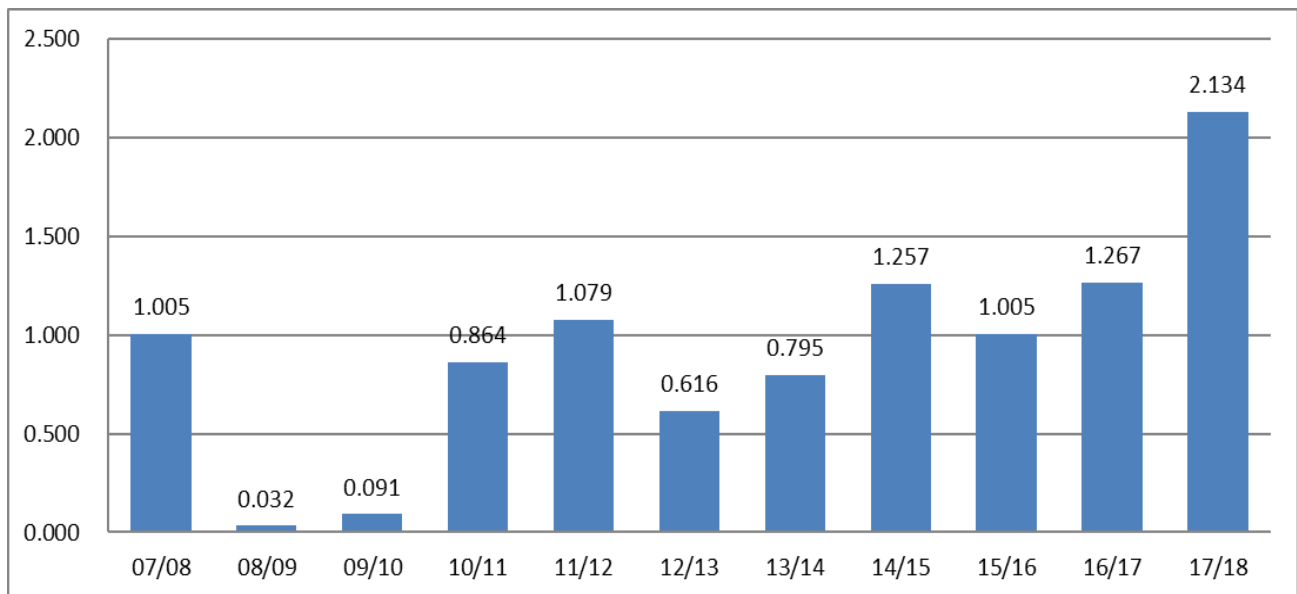
As reported in the Statement of Operations, for the year ended June 30, 2018 the district's expenses exceeded its revenues resulting in an annual surplus of \$1,454,160 (2017 surplus was \$182,489). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2018	June 30, 2017
Operating Fund	866,661	261,837
Capital Fund	587,499	(79,348)
Combined	1,454,160	182,489

Looking at the operating fund, the annual surplus of \$866,661 resulted in an increase to accumulated operating surplus from \$1,266,993 at the beginning of the year to \$2,133,654 as at June 30, 2018. This overall growth in accumulated operating surplus was the result of increased rental on properties of \$0.2 million in surplus; and additional ministry grants of approximately \$0.2 million. 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 a decrease of \$0.6 million in expenditures.

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 \$2.134 million at the end of fiscal year 2018.

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

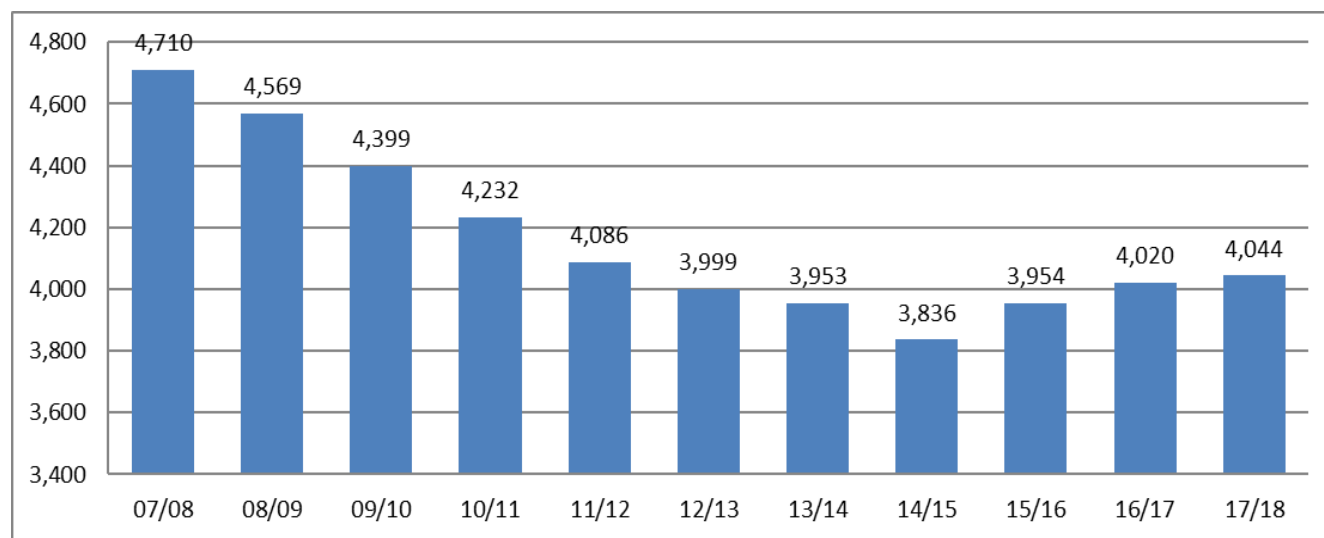


Over the past 10 years, significant financial pressure resulted from the combined effect of declining student enrolment and funding rates that did not pace inflation. These pressures contributed to some use of accumulated operating surplus as presented in Exhibit 1. Provincial operating grants, which 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, 2018, the district invested \$1,759,784 in capital additions that were funded by: Provincial capital funding (\$1,472,050) other capital (\$12,368) and other funds (\$275,366). The majority of this capital investment related to the following facility projects:

Project	Total Cost	Invested in 2017/18	Completion Date
Ballenas Secdy Transformer Replacement	186,150	186,150	Summer 2017
Bus Replacements	571,873	571,873	Fall 2017, Spring 2018
Ballenas Secondary Roof Replacement	523,085	523,085	Summer 2017
Additional classroom space	120,000	120,000	Summer 2017

Significant Events

Class Size and Composition Language – Following a ruling by the Supreme Court of Canada, in the fall of 2017 all school districts in the Province restored class size and composition language that had been previously removed from the teachers’ contract in 2002. This restoration was a significant undertaking in the Qualicum School District and involved hiring more than 27 teachers, developing new administrative processes and the creation of additional classroom space through reconfiguration of internal space. The district received \$2.9 million in additional funding through the Classroom Enhancement Fund (CEF) for teaching positions and for other overhead

costs related to the restoration. Funding for restoration (CEF) and the related costs are reported in the special purpose fund.

Industry Training equipment funds - 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 \$17,591 in funding before the end of the fiscal year ending June 30, 2018, which are reported in the capital fund.

Funding Model Review – During the year, the BC government initiated a review of the funding model for K-12 public education. In May 2018, the independent review panel concluded its stakeholder engagement and will next present a final report with recommendations to the Minister of Education. The new funding model is anticipated to be in place for the 2019/20 school year, with information provided to Boards of Education early enough to support their 2019/20 budget process.

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.

	2018	2017	Analysis of Variance
Cash	15,206,801	13,135,688	Increased by \$2,071,113 due to additional reserves for approved capital funds and sales of property.
Deferred Capital Revenue	45,884,157	46,568,035	Decreased by \$683,878 primarily due to amortization of deferred capital revenue outweighing funding for new capital.
Tangible Capital Assets	62,812,930	63,566,142	Decreased by \$753,212 due to amortization of capital assets being greater than additions.

Statement of Operations by Fund – Operating Fund

The 2017/18 Amended Budget included appropriation of \$1,323,816 of accumulated operating surplus comprised of: \$98,120 for school carry-forwards; \$183,077 for educational program carry-forwards; \$350,000 for capital maintenance of Family Place; \$250,000 for a photocopier and printer program; \$150,000 for the implementation of a new ERP software and \$292,619 appropriated for the 2018/19 budget.

The remaining \$809,838 of the accumulated operating surplus balance went into a Contingency reserve 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 2017/18	Actual 2017/18	Difference	Comments	Actual 2016/17
Provincial Grants	41,890,590	42,090,288	199,698	various new grants	40,884,302
Other Provincial Revenues	101,450	140,779	39,329		100,535
Offshore Tuition	3,900,000	3,952,621	52,621		3,607,652
Miscellaneous other	135,000	149,497	14,497		251,012
Rental and Leases	450,000	627,262	177,262	Rentals up	515,508
Investment Income	125,000	191,037	66,037		127,381
Total Revenues	46,602,040	47,151,484	549,444		45,486,390

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 Object

Operating Fund Expenditures by Object	Amended Budget 2017/18	Actual 2017/18	Difference	Comments	Actual 2016/17
Teachers	17,861,732	17,548,271	-313,461	balancing with CEF	17,740,776
Principals and Vice Principals	2,721,611	2,752,423	30,812		2,615,952
Educational Assistants	3,397,323	3,034,138	-363,185	allocation with replacement	3,121,242
Support Staff	4,700,989	4,671,567	-29,422		4,410,934
Other Professionals	1,396,784	1,446,325	49,541		1,335,329
Substitutes	1,393,576	1,638,698	245,122		1,340,769
Benefits	8,369,427	7,981,178	-388,249	MSP/benefits holiday	8,180,308
Total Salaries and Benefits	39,841,442	39,072,600	-768,842		38,745,310
Total Supplies and Services	6,392,048	6,636,857	244,809		5,955,807
Fund Transfers	368,550	575,366	206,816		523,436
Total Operating Expenditures	46,602,040	46,284,823	-317,217		45,224,553

Analysis of Variances by Function

Operating Fund Expenditures by Function	Amended Budget 2017/18	Actual 2017/18	Difference	Comments	Actual 2016/17
Instruction	37,546,019	37,018,731	-527,288	balancing w ith CEF	36,690,429
District Administration	1,897,758	1,908,386	10,628		1,774,457
Operations and Maintenance	5,081,682	5,206,684	125,002		4,639,327
Transportation	1,708,031	1,575,656	-132,375		1,596,904
Fund Transfers	368,550	575,366	206,816	add'l for capital	523,436
Total	46,602,040	46,284,823	-317,217		45,224,553

Accumulated Operating Surplus

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 2017/18	Actual 2016/17
School budgets	98,120	119,996
Capital maintenance	350,000	290,000
Educational Programs	183,077	109,502
ERP System	150,000	0
Photocopier and Printer Program	250,000	0
Student Learning Grant	0	74,432
Budgeted Allocation of Surplus	292,619	280,958
	1,323,816	874,888
Contingency reserve	809,838	0
Internally restricted	2,133,654	874,888
Unrestricted operating surplus	0	392,105
Total operating surplus	2,133,654	1,266,993

The appropriated operating of surplus grew from \$874,888 to \$1,323,816 (an increase of \$448,928) in part due to new project needs that were identified during the year. The remaining surplus is held in Contingency reserve, consistent with new board policy intended to mitigate risk related to unforeseen circumstances.

Statement of Operations by Fund – Special Purpose Fund

	Amended Budget 2017/18	Actual 2017/18	Difference	Comments	Actual 2016/17
Provincial Grants	4,226,711	3,882,781	-343,930	return of CEF surplus	1,997,807
Other Revenue	1,505,000	1,347,159	-157,841	School Gen Funds	1,520,855
Expenditures	-5,731,711	-5,229,940	501,771		-3,518,662
Annual Surplus (Deficit)	0	0	0		0

In the special purpose fund, Provincial grants and related expenditures were higher in 2017/18 compared to 2016/17 because of funding related to the restoration of class size and composition language. In 2017/18 the Classroom Enhancement Funds (CEF) was introduced and the district received \$3.2 million in funding (\$0.3 million was returned to the Ministry as notice of the revised allocation created a lag in hiring). In 2016/17, the district received priority measures of \$0.4 million to hire teachers in advance of full restoration and received the Teacher Learning Improvement Fund (LIF) of \$0.8 million. Both priority measures and the Teacher LIF were discontinued in 2017/18 and replaced by the CEF.

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 2017/18	Actual 2017/18	Difference	Comments	Actual 2016/17
Provincial Grants	3,126,307	3,282,679	156,372		2,574,030
Expenditures	-3,152,996	-3,270,546	-117,550		-3,176,814
Fund Transfers	368,550	575,366	206,816		523,436
Change in Accumulated Surplus	341,861	587,499	245,638	0	-79,348

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 2017/18 closing balances in Local Capital and Ministry of Education Restricted Capital and what portion of the balances are already committed to future capital investment.

	Local Capital	M Ed Restricted Capital
Balance at June 30, 2018	905,655	105,277
Committed for:		
- Wiring Project	274,000	
- Capital work at Qualicum Commons	200,000	
- Errington Elementary parking lot		105,277
Committed for future investment	474,000	105,277
Uncommitted Balance	431,655	0

The local capital balance is committed to IT rewiring upgrades and for Qualicum Commons capital work. 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.