

School District No. 69 (Qualicum)
Financial Statement Discussion & Analysis
For the Year Ended June 30, 2019

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2019. 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 2019 to 2023 which guides the Board of Education and its employees and partners in delivering educational programs through the period 2018/19 to 2022/23. The Plan identified the following Strategic Priorities:

- Increasing the engagement of our learners by providing students with Student Centered Learning opportunities
- Ensuring that the structures that shape and support learning include Quality Teaching and Leadership and
- Responding to the diverse social/emotional needs of our learners by providing more Social/Emotional Learning opportunities

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 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.

<p>Operating Fund</p> <p>2019 Revenues: \$48.3 million (2018-47.1M)</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>2019 Revenues: \$5.85 million (2018-5.2M)</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>2019 Capital Funding Received or Receivable: \$3.0 million (2018-3.3M)</p> <p>2019 Capital Assets Purchased: \$2.2 million (2018-1.8M)</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

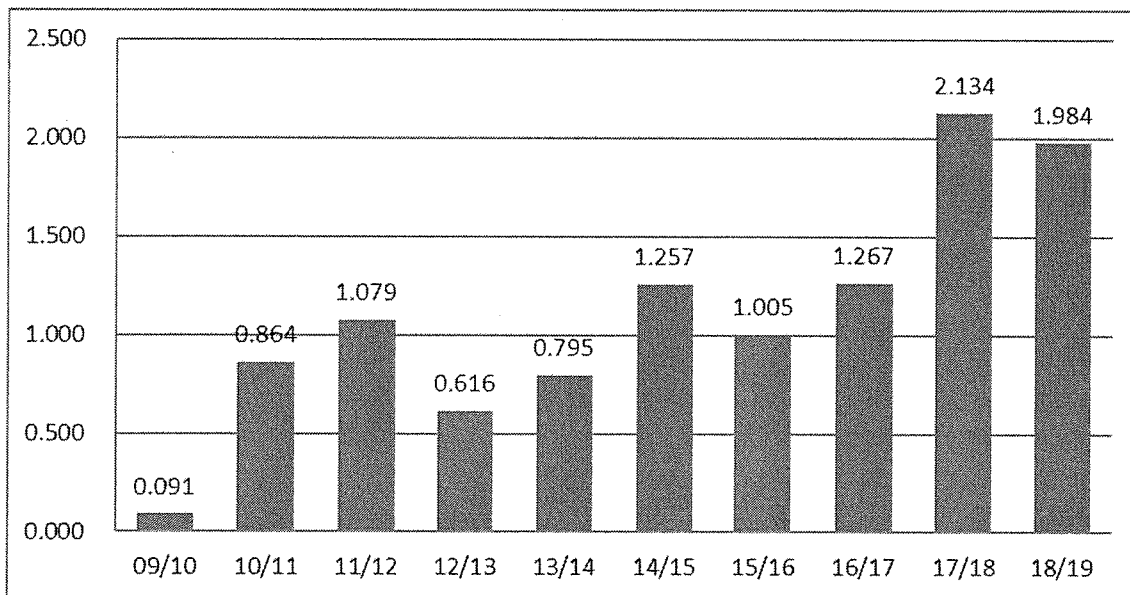
As reported in the Statement of Operations, for the year ended June 30, 2019 the district's expenses exceeded its revenues resulting in an annual deficit of \$485,482 (2018 surplus was \$1,454,160). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2019	June 30, 2018
Operating Fund	-149,331	866,661
Capital Fund	-336,151	587,499
Combined	-485,482	1,454,160

Looking at the operating fund, the annual deficit of \$149,331 resulted in a decrease to accumulated operating surplus from \$2,133,654 at the beginning of the year to \$1,984,323 as at June 30, 2019. This overall decline in accumulated operating surplus was the result of increased expenditures that was not fully matched by growth in revenues. While actual results in a number of expenditure areas were either higher or lower than budget, the impact of these variances came close to a increase of \$0.2 million in expenditures.

Maintaining an accumulated operating surplus has alleviated some of the budget pressure over the past few fiscal years particularly due to prior year's impact of funding protection. As shown in Exhibit 1, accumulated operating surplus has increased from \$91,000 at the end of fiscal year 2010 to its current level of \$1.984 million at the end of fiscal year 2019.

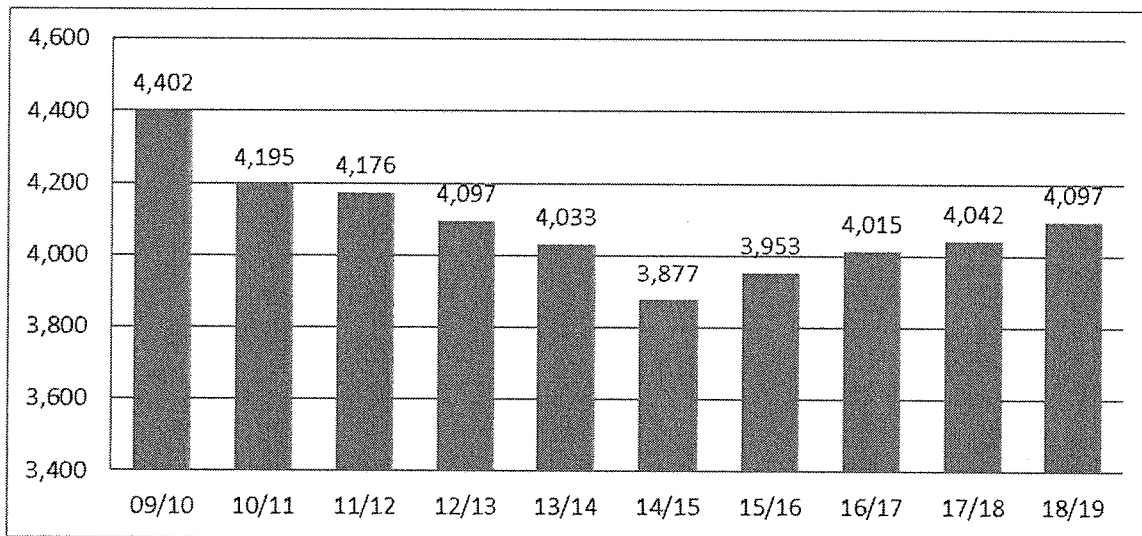
Exhibit 1: Accumulated Operating Surplus (\$ millions) by Fiscal Year



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 four years. Stable enrolment and moderate growth forecasted in the years ahead means that risk to program and financial stability is expected to improve. As will be discussed in the significant financial events section, the ministry is finalizing a comprehensive review of the funding model with the goal of implementing a new funding model for the 2020/2021 fiscal year.

Exhibit 2: Funded FTE Enrolment by Fiscal Year



Capital Investment

During the year ended June 30, 2019, the district invested \$2,207,399 in capital additions that were funded by: Provincial capital funding (\$1,977,061) other provincial capital (\$24,384) and other funds (\$205,954). The majority of this capital investment related to the following facility projects:

Project	Total Cost	Invested in 2018/19	Completion Date
Springwood Elementary Boiler	390,000	390,000	Summer 2018
Bus Replacements	780,535	447,252	Fall 2018
Ballenas Secondary Roof Replacement	486,620	486,620	Summer 2018
Errington Elementary Parking/Drop off	289,899	289,899	Fall 2018

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. During 2018/19, the district received \$3.5 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 its final installment of \$33,601 before the end of the fiscal year ending June 30, 2019, which are reported in the capital fund, as Other Provincial Capital.

Funding Model Review – following a comprehensive review of the education funding model in 2018, the Ministry of Education is conducting further work to review the recommendations and determine how they should be implemented. A new funding model is expected to be implemented for the 2020/21 school year. The implementation of a new funding model creates uncertainty regarding the district’s future budgetary balance.

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 will be reviewing several options, which have cost implications for both the capital plan (capital fund) and the operating 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.

	2019	2018	Analysis of Variance
Cash	15,044,284	15,206,801	Decreased by \$162,517 due to reduced operating surplus.
Deferred Capital Revenue	45,400,489	45,884,157	Decreased by \$483,668 primarily due to amortization of deferred capital revenue outweighing funding for new capital.
Tangible Capital Assets	62,426,020	62,812,930	Decreased by \$386,910 due to amortization of capital assets being greater than additions.

Statement of Operations by Fund – Operating Fund

The 2018/19 Amended Budget included appropriation of \$333,077 of accumulated operating surplus comprised of: \$183,077 for educational program carry-forwards and \$150,000 for the implementation of a new ERP software. Other appropriations consist of future projects including a capital maintenance reserve, copier and printer replacement program and school budgets carry forwards.

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 2018/19	Actual 2018/19	Difference	Comments	Actual 2017/18
Provincial Grants	42,632,537	42,964,166	331,629	new grants-Health tax/Supp bens	42,090,288
Other Provincial Revenues	101,450	169,625	68,175		140,779
Offshore Tuition	4,100,000	4,005,703	-94,297	reduced FTE	3,952,621
Miscellaneous other	150,000	159,387	9,387		149,497
Rental and Leases	650,000	699,144	49,144	increased rentals	627,262
Investment Income	300,000	287,405	-12,595		191,037
Total Revenues	47,933,987	48,285,430	351,443		47,151,484

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 2018/19	Actual 2018/19	Difference	Comments	Actual 2017/18
Teachers	18,033,301	18,349,632	316,331	balancing w ith CEF	17,548,271
Principals and Vice Principals	2,982,403	2,979,831	-2,572		2,752,423
Educational Assistants	3,594,542	3,256,262	-338,280	allocation w ith substitutes	3,034,138
Support Staff	4,836,586	4,732,464	-104,122	allocation w ith substitutes	4,671,567
Other Professionals	1,630,241	1,713,084	82,843		1,446,325
Substitutes	1,386,855	1,812,702	425,847	allocation w ith substitutes	1,638,698
Benefits	8,654,667	8,529,179	-125,488		7,981,178
Total Salaries and Benefits	41,118,595	41,373,154	254,559		39,072,600
Total Supplies and Services	6,729,919	6,960,930	231,011		6,636,857
Fund Transfers	418,550	100,677	-317,873	capital vs supply in nature	575,366
Total Operating Expenditures	48,267,064	48,434,761	167,697		46,284,823

Analysis of Variances by Function

Operating Fund Expenditures by Function	Amended Budget 2018/19	Actual 2018/19	Difference	Comments	Actual 2017/18
Instruction	38,660,796	38,920,817	260,021	balancing with CEF	37,018,731
District Administration	2,298,251	2,340,102	41,851		1,908,386
Operations and Maintenance	5,184,118	5,464,837	280,719	capital vs supply in nature	5,206,684
Transportation	1,705,349	1,608,328	-97,021		1,575,656
Fund Transfers	418,550	100,677	-317,873	capital vs supply in nature	575,366
Total	48,267,064	48,434,761	167,697		46,284,823

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 2018/19	Actual 2017/18
School budgets	49,248	98,120
Capital maintenance	410,000	350,000
Educational Programs	91,350	183,077
ERP System	0	150,000
Photocopier and Printer Program	250,000	250,000
Energy Projects	100,000	
Budgeted Allocation of Surplus	83,077	292,619
	983,675	1,323,816
Contingency reserve	1,000,648	809,838
Internally restricted	1,984,323	2,133,654
Unrestricted operating surplus	0	0
Total operating surplus	1,984,323	2,133,654

The appropriated operating surplus declined from \$1,323,816 to \$983,675 (a decrease of \$340,141) in part due to projects being completed during the year. The remaining surplus is held in Contingency reserve, which increased in 2018/19 by \$190,810, from \$809,838 to \$1,000,648, which is consistent with new board policy intended to mitigate risk related to unforeseen circumstances.

Statement of Operations by Fund – Special Purpose Fund

	Amended Budget 2018/19	Actual 2018/19	Difference	Comments	Actual 2017/18
Provincial Grants	4,548,825	4,542,363	-6,462		3,882,781
Other Revenue	1,350,000	1,308,049	-41,951	School Gen Funds	1,347,159
Expenditures	-5,898,825	-5,850,412	48,413		-5,229,940
Annual Surplus (Deficit)	0	0	0		0

Grants in 2018/19 were greater than grants in 2017/18 by 659,582 due primarily to increases to the Classroom Enhancement Fund (CEF) which is in its second year of implementation.

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 2018/19	Actual 2018/19	Difference	Comments	Actual 2017/18
Provincial Grants	2,527,436	2,986,410	458,974		3,282,679
Expenditures	-2,844,309	-3,423,238	-578,929		-3,270,546
Fund Transfers	418,550	100,677	-317,873		575,366
Change in Accumulated Surplus	101,677	-336,151	-437,828		0
					587,499

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 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 2018/19 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
Committed for:		
- Wiring Project	135,989	
- Capital work at Qualicum Commons	171,541	
- Ballenas running track	200,000	
Committed for future investment	507,530	0
Uncommitted Balance	253,785	0
Balance at June 30, 2019	761,315	0

The local capital balance is committed to IT rewiring upgrades, Qualicum Commons capital work and Ballenas running track, with a balance of 253,806 remaining uncommitted. MEd Restricted Capital balance is now depleted due to the completion of the Errington Elementary parking and turnaround project.

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.