

**School District No. 69 (Qualicum)**  
**Financial Statement Discussion & Analysis**  
**For the Year Ended June 30, 2020**

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2020. 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 4,200 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 surplus<sup>1</sup> 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

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<sup>1</sup> 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><b>Operating Fund</b></p> <p>2020 Revenues: \$50.5 million (2019-48.3M)</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><b>Special Purpose Fund</b></p> <p>2020 Revenues: \$5.75 million (2019-5.85M)</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><b>Capital Fund</b></p> <p>2020 Capital Funding Received or Receivable: \$3.0 million (2019-3.0M)</p> <p>2020 Capital Assets Purchased: \$2.7 million (2019-2.2M)</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

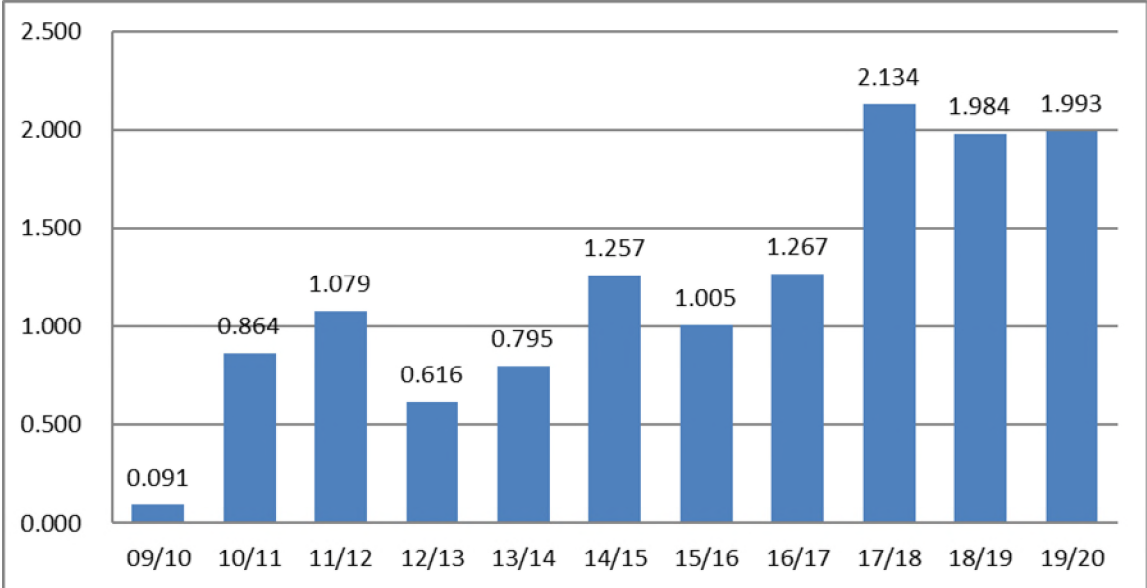
As reported in the Statement of Operations, for the year ended June 30, 2020 the district's expenses exceeded its revenues resulting in an annual deficit of \$73,478 (2019 deficit was \$485,482). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2020	June 30, 2019
<b>Operating Fund</b>	<b>8,946</b>	<b>-149,331</b>
Capital Fund	-82,424	-336,151
Combined	-73,478	-485,482

Looking at the operating fund, the annual surplus of \$8,946 resulted in an increase to accumulated operating surplus from \$1,984,302 at the beginning of the year to \$1,993,248 as at June 30, 2020. This overall increase in accumulated operating surplus was the result of increased revenues that was not fully matched by 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 \$2.0 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 \$1.993 million at the end of fiscal year 2020.

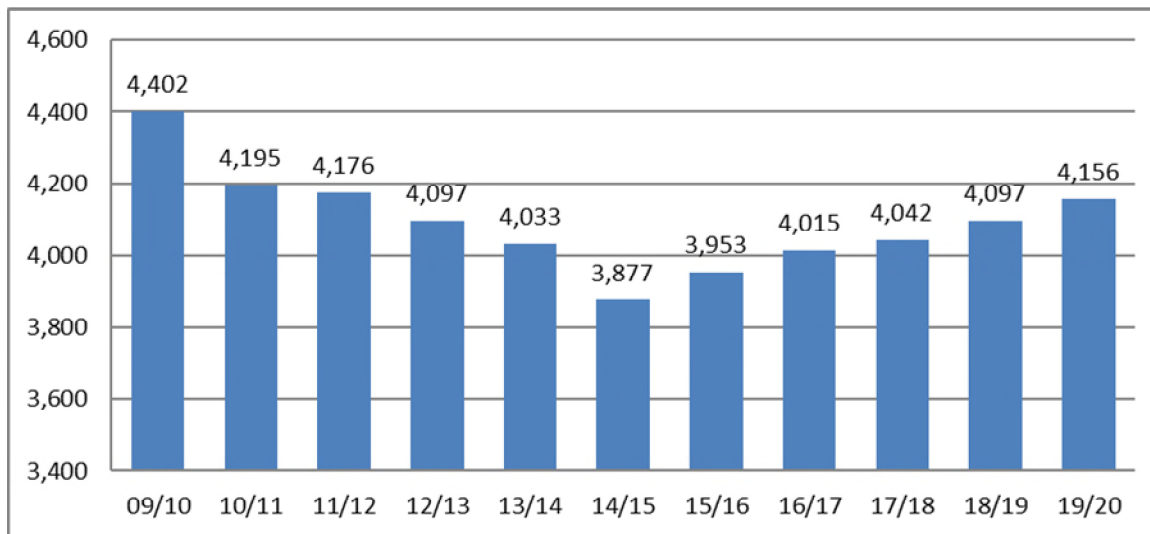
**Exhibit 1: Accumulated Operating Surplus (\$ millions) by Fiscal Year**



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 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, 2020, the district invested \$2,698,607 in capital additions that were funded by: Provincial capital funding (\$2,191,671) and other funds (\$506,936). The majority of this capital investment related to the following facility projects:

Project	Total Allocation	Invested in 2019/20	Completion Date
Ballenas/Kwalicum Dust Collection units	544,500	544,500	Summer 2019
Bus Replacements	442,765	757,383	Fall 2019-2 programs
Winchelsea Roof Replacement	219,180	219,180	Summer 2019
Bowser Elementary Playground Equipment	105,000	105,000	Fall 2019

Significant Events

**COVID Pandemic** – The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020 and has had a significant financial, market and social dislocating impact worldwide. Under direction of the Provincial Health Officer, all schools suspended in-class instruction in March 2020 and the District remained open to continue to support students and families in a variety of ways. Parents were given the choice to send their children back to school on a gradual and part-time basis beginning June 1 with new health and safety guidelines. The ongoing impact of the pandemic presents uncertainty over future cash flows, may have a significant impact on future operations including decreases in revenue, impairment of receivables, reduction in investment income and delays in completing capital project work. As the situation is dynamic and the ultimate duration and magnitude of the impact are not known, an estimate of the future financial effect on the District is not practicable at this time.

The 2020/21 Budget has made adjustments to reflect the impact of COVID with particular considerations in the area of the International Student Program and its ability to host students. The overall impact is still not known but conservative enrolment projections has been taken into account. Other cost pressures built into the 2020/21 budget are for custodial staff and custodial supplies needed to address additional cleaning.

**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 2019/20, the district received \$3.7 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.

**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.

	<b>2020</b>	<b>2019</b>	<b>Analysis of Variance</b>
Cash	14,007,248	15,044,284	Decreased by \$1,037,036 primarily due to reduced unearned revenues from ISP.
Deferred Capital Revenue	46,277,020	45,400,489	Increased by \$876,531 primarily due to the addition of other provincial capital for a Childcare project to be completed in 20/21.
Tangible Capital Assets	62,465,265	62,426,020	Increased by \$39,245 due to capital assets additions being greater then amortization of capital assets.

## Statement of Operations by Fund – Operating Fund

The 2019/20 Amended Budget included appropriation of \$341,350 of accumulated operating surplus comprised of: \$91,350 for educational program carry-forwards and \$250,000 for the replacement of District copiers and printers. Other appropriations consist of future projects including a capital maintenance reserve, an energy projects reserve and school budgets carry forwards.

The remaining \$994,204 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 2019/20	Actual 2019/20	Difference	Comments
Provincial Grants	44,919,321	45,475,829	556,508	teacher labour settlement
Other Provincial Revenues	120,000	146,391	26,391	
Offshore Tuition	4,100,000	3,829,455	-270,545	COVID related enrolment decline
Miscellaneous other	140,000	152,848	12,848	
Rental and Leases	650,000	653,214	3,214	slight decline due to COVID
Investment Income	290,000	222,467	-67,533	interest rate declined
<b>Total Revenues</b>	<b>50,219,321</b>	<b>50,480,204</b>	<b>260,883</b>	

### 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*

	Amended Budget 2019/20	Actual 2019/20	Difference	Comments
Operating Fund Expenditures by Function				
Instruction	40,294,522	40,328,635	34,113	
District Administration	2,313,650	2,398,481	84,831	
Operations and Maintenance	5,853,203	6,087,087	233,884	custodial and project costs
Transportation	1,680,746	1,404,181	-276,565	COVID related savings
Fund Transfers	418,550	252,874	-165,676	capitalize vs expense in nature
<b>Total</b>	<b>50,560,671</b>	<b>50,471,258</b>	<b>-89,413</b>	

*Analysis of Variances by Object*

Operating Fund Expenditures by Object	Amended Budget 2019/20	Actual 2019/20	Difference	Comments
Teachers	18,470,644	19,318,832	848,188	teacher labour settlement
Principals and Vice Principals	3,241,128	3,297,303	56,175	
Educational Assistants	3,826,735	3,786,620	-40,115	
Support Staff	5,147,352	5,250,800	103,448	addition, incl some COVID costs
Other Professionals	1,761,336	1,767,748	6,412	
Substitutes	1,574,898	1,440,897	-134,001	COVID related savings
Benefits	9,062,921	8,979,756	-83,165	
<b>Total Salaries and Benefits</b>	<b>43,085,014</b>	<b>43,841,956</b>	<b>756,942</b>	
Total Supplies and Services	7,057,107	6,376,428	-680,679	COVID-homestay/travel/supplies
Fund Transfers	418,550	252,874	-165,676	capitalize vs expense in nature
<b>Total Operating Expenditures</b>	<b>50,560,671</b>	<b>50,471,258</b>	<b>-89,413</b>	

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 2019/20	Actual 2018/19
School budgets	110,051	49,248
Capital maintenance	361,493	410,000
Educational Programs	27,500	91,350
Photocopier and Printer Program	0	250,000
Energy Projects	200,000	100,000
Budgeted Allocation of Surplus	300,000	83,077
	<b>999,044</b>	<b>983,675</b>
Contingency reserve	994,204	1,000,648
Internally restricted	<b>1,993,248</b>	<b>1,984,323</b>
Unrestricted operating surplus	0	0
<b>Total operating surplus</b>	<b>1,993,248</b>	<b>1,984,323</b>

The appropriated operating surplus increased from \$983,675 to \$999,044 (an increase of \$15,369) and includes an additional \$100,000 for energy projects and \$300,000 to balance the 2020/21 budget in anticipation of potential impact of COVID. The remaining surplus is held in Contingency reserve, which decreased in 2019/20 by \$6,444, from \$1,000,648 to \$994,204, 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 2019/20	Actual 2019/20	Difference	Comments
Provincial Grants	4,692,800	4,653,982	-38,818	
Other Revenue	1,350,000	1,094,480	-255,520	School Generated Funds
Expenditures	-6,042,800	-5,748,462	294,338	
<b>Annual Surplus (Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Provincial Grants in 2019/20 remained consistent with the previous year, with new grants for Mental Health, First Nations Student Transportation and Changing Results for Young Children.

Other Revenues derived from School Generated Funds, declined by \$255,520 primarily due to the impact of COVID and the suspension of in-class instruction.

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 2019/20	Actual 2019/20	Difference	Comments
Provincial Grants	2,815,074	3,010,562	195,488	
Expenditures	-3,109,362	-3,345,860	-236,498	
Fund Transfers	418,550	252,874	-165,676	
<b>Change in Accumulated Surplus</b>	<b>124,262</b>	<b>-82,424</b>	<b>-206,686</b>	<b>0</b>

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 2019/20 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	47,988	
- Ballenas running track	170,915	
- Errington Elementary playground	50,000	
<b>Committed for future investment</b>	<b>268,903</b>	<b>0</b>
<b>Uncommitted Balance</b>	<b>217,360</b>	<b>0</b>
<b>Balance at June 30, 2020</b>	<b>486,263</b>	<b>0</b>

The local capital balance is committed to IT rewiring upgrades, the Ballenas running track and the Errington Elementary playground replacement with a balance of 217,360 remaining uncommitted. MEd Restricted Capital balance is now depleted due to the completion of the Errington Elementary parking and turnaround project during the 2018/19 year.

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.