

**School District No. 69 (Qualicum)**  
**Financial Statement Discussion & Analysis**  
**For the Year Ended June 30, 2022**

The following is a discussion and analysis of the Qualicum School District's financial performance for the fiscal year ended June 30, 2022. 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 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>2022 Revenues: \$51.9 million (2021-49.6M)</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 deficit</u> 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>2022 Revenues: \$6.9 million (2021-7.3M)</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>2022 Capital Funding Received or Receivable: \$3.3M (2021-3.1M)</p> <p>2022 Capital Assets Purchased: \$2.0 million (2021-3.1M)</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

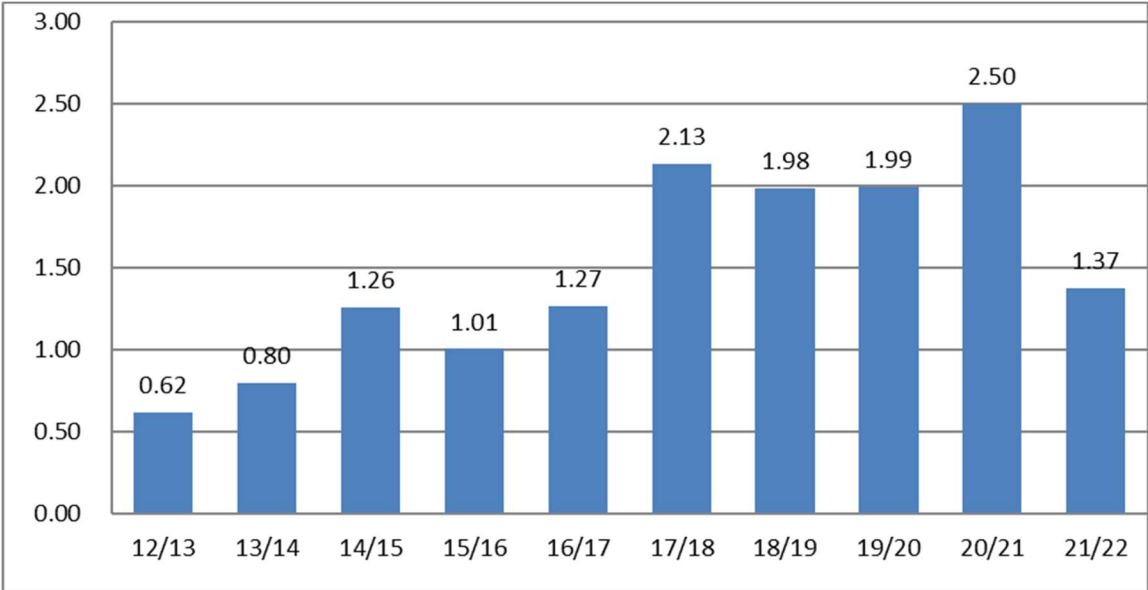
As reported in the Statement of Operations, for the year ended June 30, 2022 the district's expenses exceeded its revenues resulting in a combined annual deficit of \$1,329,458 (2021 combined surplus was \$289,744). This was comprised of the combined financial results of the operating fund and the capital fund as follows:

Annual Surplus (Deficit)	June 30, 2022	June 30, 2021
<b>Operating Fund</b>	<b>-1,126,688</b>	<b>507,912</b>
Capital Fund	-202,770	-218,168
Combined	-1,329,458	289,744

Looking at the operating fund, the annual deficit of \$1,126,688 resulted in a decrease to accumulated operating surplus from \$2,501,160 at the beginning of the year to \$1,374,472 as at June 30, 2022. This overall decrease in accumulated operating surplus was the result of increased expenditures that was not matched by 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 an increase of \$3.96 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 has led to a need to use the surplus to balance the budget as Ministry funding has not kept up with inflationary and COVID created pressures.

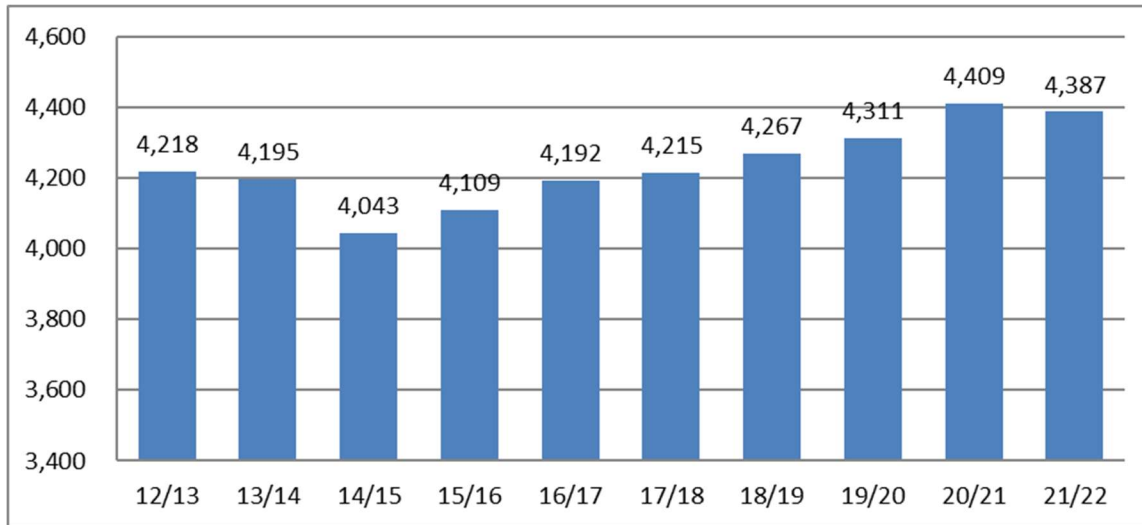
**Exhibit 1: Accumulated Operating Surplus (\$ millions) by Fiscal Year**



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 some decline in student enrolment that has stabilized in the past several 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, 2022, the district invested \$1,987,343 in capital additions that were funded by: Provincial capital funding (\$1,836,706) and other funds (\$150,637). The majority of this capital investment related to the following facility projects:

Project	Total Allocation	Invested in 2021/22	Completion Date
Ballenas Secondary Roof Replacement	1,000,000	384,397	Summer 2021
Ballenas Secondary Ventilation Systems	500,000	392,637	Spring 2022
Nanoose Bay Elementary Playground	165,000	165,000	Summer 2021
Qualicum Beach Elementary Solar panels	218,500	158,087	Summer 2021
Arrowview Child Care Centre	1,698,000	461,432	Summer 2021

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, supply chain constraints have increased the costs of supplies and the energy market disruptions have increased gas and fuel prices impacting heating and transportation costs.

**International Student Program** – As anticipated, the ISP program was been profoundly affected by the pandemic and its ability to bring international students to the School District. The

resultant rebound of the program in 2021/22 with an increase in enrolment has supported the financial impacts in other areas.

**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 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.

## **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>2022</b>	<b>2021</b>	<b>Analysis of Variance</b>
Cash	15,043,883	17,116,087	Decreased by \$2,072,204 primarily due to an operating deficit where expenditures exceeded revenues and capital purchases that were spent before the cash funds were received..
Deferred Capital Revenue	44,274,713	44,815,218	Decreased by \$540,805 primarily due to the use of other provincial capital for a Childcare project which was completed in spring 2021.
Tangible Capital Assets	60,455,942	61,383,826	Decreased by \$927,884 due to capital asset amortizations being greater then the additions of capital assets.

### **Statement of Operations by Fund – Operating Fund**

The 2022/23 Annual Budget included an appropriation of \$400,551 of accumulated operating surplus for educational programs. Other appropriations consist of future projects including a capital maintenance reserve, an energy projects reserve, school/district budgets that are carried forward 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 2021/22	Actual 2021/22	Difference	Comments
Provincial Grants	47,204,794	47,170,893	-33,901	2nd/3rd count down
Other Provincial Revenues	150,000	139,889	-10,111	
Offshore Tuition	3,000,000	3,661,653	661,653	ISP program rebounding
Miscellaneous other	140,000	153,658	13,658	
Rental and Leases	600,000	677,331	77,331	tenants returned
Investment Income	120,000	118,924	-1,076	
<b>Total Revenues</b>	<b>51,214,794</b>	<b>51,922,348</b>	<b>707,554</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*

Operating Fund Expenditures by Function	Amended Budget 2021/22	Actual 2021/22	Difference	Comments
Instruction	41,546,302	42,039,655	493,353	impact of COVID sick days/some add'l support
District Administration	2,373,985	2,412,317	38,332	
Operations and Maintenance	5,894,233	6,577,046	682,813	supply/utility cost escalations
Transportation	1,787,099	1,869,381	82,282	fuel/parts cost escalations
Fund Transfers	418,550	150,637	(267,913)	capitalize vs expense in nature
<b>Total</b>	<b>52,020,169</b>	<b>53,049,036</b>	<b>1,028,867</b>	

### *Analysis of Variances by Object*

Operating Fund Expenditures by Object	Amended Budget 2021/22	Actual 2021/22	Difference	Comments
Teachers	20,030,108	20,327,501	297,393	program adjustments
Principals and Vice Principals	3,495,970	3,487,859	-8,111	
Educational Assistants	3,804,695	3,633,828	-170,867	add'l supports from SP funding
Support Staff	5,313,964	5,439,729	125,765	additional custodial/COVID costs
Other Professionals	1,786,335	1,651,447	-134,888	reallocation for capital planning work
Substitutes	1,725,708	2,088,794	363,086	impact of COVID sick days
Benefits	9,365,834	9,156,174	-209,660	benefit rates are stabilizing
<b>Total Salaries and Benefits</b>	<b>45,522,614</b>	<b>45,785,332</b>	<b>262,718</b>	
Total Supplies and Services	6,079,005	7,113,067	1,034,062	add'l ISP & supply cost escalations
Fund Transfers	418,550	150,637	-267,913	capitalize vs expense in nature
<b>Total Operating Expenditures</b>	<b>52,020,169</b>	<b>53,049,036</b>	<b>1,028,867</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 2020/21	Actual 2021/22
School budgets	61,944	97,227
Capital maintenance	421,493	331,493
Indigenous education	0	48,609
Educational programs	53,300	0
Energy projects	112,337	62,337
Budgeted allocation of surplus	814,047	400,551
Appropriated for future years' operating budget	1,038,039	434,255
Internally restricted	<b>2,501,160</b>	<b>1,374,472</b>
Unrestricted operating surplus	0	0
<b>Total operating surplus</b>	<b>2,501,160</b>	<b>1,374,472</b>

The appropriated operating surplus decreased from \$2,501,160 to \$1,374,472 and includes \$400,551 to balance the 2022/23 budget in anticipation of additional impacts of COVID and an additional appropriation (\$434,255) for future operational needs. There is no unrestricted operating surplus.

### **Statement of Operations by Fund – Special Purpose Fund**

	Amended Budget 2021/22	Actual 2021/22	Difference	Comments
Provincial Grants	5,517,919	5,581,947	64,028	
Other Revenue	1,027,000	1,337,959	310,959	School Generated and Federal funds
Expenditures	(6,544,919)	(6,919,906)	(374,987)	
<b>Annual Surplus (Deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Provincial Grants in 2021/22 decreased over the previous year by \$1,104,255, due to reduction of one-time Federal Safe Return and Provincial Safe Return grants that were introduced in 2020/21 to offset the cost impacts of the Pandemic.

Other Revenues derived from School Generated Funds, increased over the previous year by \$745,182 primarily due to schools returning to pre-Pandemic levels of fundraising for 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 2021/22	Actual 2021/22	Difference	Comments
Provincial Grants	3,145,960	3,314,692	168,732	
Expenditures	(3,499,228)	(3,668,099)	(168,871)	
Fund Transfers	418,550	150,637	(267,913)	reduced operating transfers to Capital
<b>Change in Accumulated Surplus</b>	<b>65,282</b>	<b>(202,770)</b>	<b>(268,052)</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 2021/22 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- 2020/21	Local Capital- 2021/22	MEd Restricted Capital
Committed for:			
- mower replacement	0	50,000	
- Ballenas running track	163,415	160,059	
<b>Committed for future investment</b>	<b>163,415</b>	<b>210,059</b>	<b>0</b>
<b>Uncommitted Balance</b>	<b>161,732</b>	<b>115,263</b>	<b>15,984</b>
<b>Balance at end of year</b>	<b>325,147</b>	<b>325,322</b>	<b>15,984</b>

The local capital balance have funds committed to the Ballenas running track and a mower replacement with a balance of 111,907 remaining uncommitted. MEd Restricted Capital balance is mostly 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.