Lethbridge School District No. 51

Year End Report 2016

August 31st

This document is Management’s Discussion and Analysis of the Audited Financial Statements for the year ended August 31, 2016. This report should be read in conjunction with the Audited Financial Statements.

Report to the Board of Trustees
November 29th, 2016
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>2-6</td>
</tr>
<tr>
<td>Notes to Statement of Financial Position</td>
<td>7-11</td>
</tr>
<tr>
<td>Notes to Statement of Operations</td>
<td>12-15</td>
</tr>
<tr>
<td>Notes to the Schedule of Program Operations</td>
<td>16-17</td>
</tr>
<tr>
<td>Notes to Schedule of Capital Revenue</td>
<td>18-19</td>
</tr>
</tbody>
</table>
Lethbridge School District No. 51 expended $114.1 million to provide public education services to the citizens of the City of Lethbridge, Alberta, Canada in the 2015-2016 school year.

The School District was established in 1886 and has proudly served our community for over 129 years. Lethbridge School District No. 51 served approximately 10,500 students from early education (pre-school) to grade twelve in 2015-2016. The District provides high quality learning experiences for students through a broad range of educational programs in twenty one schools and four institutional programs. For the 2015-2016 school year, the District welcomed two new schools, Immanuel Christian Elementary and Immanuel Christian High School as alternate programs. Through Immanuel Christian Schools an additional 487 students were educated through Lethbridge School District No. 51.


Lethbridge School District No. 51 believes in fiscal accountability and transparency through regular financial monitoring and reporting. Under Policy 801.1 System Budgeting, the Board directs that the expenditure of funds be within the guidelines established and be the responsibility of the designated district or school-based administrator. The executive summary presents highlights of the school district’s financial operations for the period September 1, 2015 until August 31st, 2016 to provide fiscal accountability within the established guidelines.
Financial Position

As at August 31, 2016 Lethbridge School District No. 51 has total financial assets of $24.8 million and liabilities of $119.2 million for net financial debt of $94.4 million. A net debt position is not necessarily an indication that a District is in financial difficulty.

Net financial debt includes $109 million of deferred revenue related to the amortization of supported capital assets (Expended Deferred Capital Revenue), which will be amortized into revenues in subsequent years to offset the amortization cost of supported capital assets. Supported Capital Assets are those assets that have been funded by the Province of Alberta.

Before consideration of Expended Deferred Capital Revenue, the District had Net Assets of $14.6 million. Of this $14.6 million, $12 million is in operating reserves which have been restricted for future use with the majority related to instructional programming and school generated activities. Net financial assets also relate to $861,000 of unrestricted reserves, and $1.9 million of capital reserves.

There is $115.2 million of non-financial assets (tangible capital assets, prepaid expenses, and supplies inventory) which is represented mostly by Deferred Expended Capital Revenue of $109 million as explained above, the District’s investment in capital assets of $5.6 million, prepaid expenses, and other non-financial assets.

Together the Net Financial Debt (Financial Assets less Liabilities) plus Non-Financial Assets equal the total Accumulated Surplus of $20.8 million. The chart below compares the financial position of August 31st with the prior year.
The District had total revenues of $117 million for the school year ended August 31, 2016. This was $5.2 million higher than the budget approved in June 2015.

Revenue from Alberta Education increased by $3.2 million. Revenues were higher due to grants for increased enrolment, Inclusive Education, and early learners requiring specialized supports.

Due to an increase in school activities, fee revenue, other sales and services, and donations were higher than budget projections.

The chart below illustrates the source of funding for every $100 of revenue as at August 31st. 2016.

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**Expenditures**

Instructional Expenditures were higher than originally budgeted due to the addition of 5.4 full time equivalent (FTE) teachers and 16 additional support staff hired to address the increase in student enrolment as of September 30th, 2015. The total increase in teacher staffing in 2015-2016 over 2014-2015 was 45.17 FTE and support staff increased by 46.56 FTE. The significant increase between the two years is due to Immanuel Christian Elementary and High Schools joining the District, along with general enrolment growth and increased support staff to support early learners requiring specialized supports.
Plant Operations and Maintenance expenditures were higher than budgeted due to spending for Infrastructure Maintenance and Renewal projects and building maintenance during the year.

Transportation costs were higher than budget due to the District’s cost share to replace aging school buses and the cost to operate new buses to transport early education students for the District’s Early Education Program. Board and System administration spending was less than budget due to less spending on utility costs and computer services. External Services expenditures represent expenditures related to the District’s International Services program.

It cost approximately $11,580 to educate each full time equivalent student (early education to grade 12) in 2015-2016 compared to $11,415 in 2014-2015.

Spending by major program area for the year ended August 31, 2016 is illustrated below:

**Capital Expenditures**

During the 2015-2016 school year, capital expenditures included supported building construction and installation, such as work on the Wilson Middle School modernization, construction of the new West Lethbridge Elementary School and West Lethbridge Middle School, and installation of modular facilities. Capital expenditures that were district
funded included the District’s cost share of modular facilities, new maintenance vehicle, early learning buses, servers, digital light screen system, VOIP systems, and a new student information system.

Summary Comments

As of August 31, 2016, Lethbridge School District No. 51 had an operating surplus of $2.9 million. This surplus is due to a number of factors such as additional funds received during the year, prior year reserve funds not expended as originally planned, some operational costs lower than expected, and average salary costs for teachers being lower than projected due to retirements and new hires during the year, which resulted in additional funds being available.

The District is considered to be in good financial health due to additional funds received and costs being less than anticipated in 2015-2016. Prudent future use of these unexpended one-time funds will help to smooth staffing cost fluctuations in the next few years, target priority initiatives, and assist in sheltering the impact on the classroom and district operations from unexpected changes in the provincial fiscal climate.

Cap’s off to the grads!
Victoria Park Graduation Ceremony 2016
Financial Assets

Financial assets consist of assets that are readily converted to cash.

Cash and Cash Equivalents
Cash at August 31st, 2016 includes unspent capital contributions received for capital projects, deferred operating revenue, endowment funds, and Accumulated Surplus from Operations.

Accounts Receivable
Accounts receivable at August 31st, 2016 includes supported debenture debt to be paid by the Province on the District’s behalf, GST rebates receivable, capital contributions from the province, and other miscellaneous funds owing to the District.

Portfolio Investments
Portfolio investments represent one-year term savings certificates held at the school level for school generated activities.

Total Financial Assets of the District at August 31, 2016 are $24.8 million dollars.
Liabilities

Accounts Payable
Accounts payable at August 31, 2016 mostly includes payments construction holdbacks on the District’s capital projects. Other payables include employee benefits such as remittances to the Canada Revenue Agency, Local Authorities Pension Plan, and to the Alberta School Employee Benefit Plan.

Deferred Revenue
Included in Deferred Revenue is Unexpended Capital Revenue and Expended Capital Revenue. See the Statement of Capital Revenue.

Deferred revenue, excluding capital revenue noted above, is mainly unspent Infrastructure Maintenance and Renewal (IMR) grant funding. Funding is allocated to revenue as funds are expended. Deferred revenue also includes externally restricted School Generated Funds, such as student travel group deposits or school activity fees.

Employee Future Benefits
Consists of benefits earned but not utilized that relate to banked time that will be utilized in a future period.

Debt
Debt is debt supported by the Province of Alberta on school facilities.

Total liabilities at August 31, 2016 are $119.2 million.

Net Financial Assets (debt)
Net financial assets (debt), which is the funds available (owing) after discharging the District’s financial obligations, is a net debt position of $94.4 million. A net debt position does not necessarily mean the District is in financial difficulty. Net financial debt includes $109 million of deferred revenue related to supported capital from the Province of Alberta. These funds are related to the amortization of supported capital assets (Expended Deferred Capital Revenue), which will be amortized into revenues in subsequent years to offset the amortization cost of supported tangible capital assets. Supported tangible capital assets are those assets that have been funded by the Province of Alberta.

Before consideration of Expended Deferred Capital Revenue, the District had Net Assets of $14.6 million.
Non-Financial Assets
Non-financial assets are tangible assets that are used in the operations of the district and are not readily converted to cash.

Capital Assets
Capital assets include land, buildings, equipment and vehicles used in the operations of the district. These assets are amortized over their estimated useful lives to arrive at a net value of $101.5 million as of August 31, 2016. Capital activity during the period included construction costs associated with the modernization of Wilson Middle School, the construction of Coalbanks Elementary School in Copperwood and new middle school in Waterbridge.

Prepaid Expenses
Prepaid expenses represent insurance, licenses, and materials that are for a subsequent fiscal period.

Other Non-Financial Assets
Other financial assets represent inventories of supplies and materials on hand to be used in a subsequent fiscal period.

Total non-financial assets as of August 31st are $115.2 million.
**Accumulated Surplus**

Accumulated surplus is represented by accumulated surplus from operations which is made up of unrestricted reserves and operating reserves. Also included in accumulated surplus are capital funds which include investment in capital assets and capital reserves. Funds held by the District where the principal must be maintained permanently, called endowments, are also included in accumulated surplus. See *Note 11 in the notes to the Audited Financial Statements for a detailed breakdown of Accumulated Surplus.*

![Accumulated Surplus from Operations](chart)

From the chart above, 7% of accumulated surplus from operations is in unrestricted reserves. Restricted operating reserves consist of 80% related to school and instruction reserves which includes reserves held at school sites for future operating expenditures, reserves for the future replacement of technology, reserves to be spent over the next three years for curriculum and system improvement, funds to support inclusive learning, funds to provide for the planning, programming and resources required for new school facilities, and unspent funds related to school generated activities. Support related reserves are 13% of the restricted operating reserves.
Unrestricted surplus are funds that are not designated for a specific purpose and operating reserves are funds that have been designated for a specific program of the District.

Investment in capital assets represents the net book value of capital assets that have been paid from district revenues and are not supported by the Province or external contributions.

Capital reserves are funds that have been set aside for future replacement of District assets that are not supported by the Province or external contributions. The District contributes the budgeted amount of amortization on unsupported assets into the capital reserve fund, as per the approved budget, to fund future asset replacement.

The total accumulated surplus for the District which consists of both operating and capital funds is $20.8 million. The total of net financial assets (debt) plus total non-financial assets equates to the total accumulated surplus at August 31st, 2016.
Lethbridge School District No. 51
Notes to the Statement of Operations
For the year ended August 31st, 2016

REVENUES

Government of Alberta
Revenues from Alberta Education exceeded budget projections by $3.2 million. This increase is mainly attributed to an increase in enrolment over budget projections as of September 30, 2016. The District has also received an increase in the Program Unit Funding grant to provide specialized supports to students. Also included in Alberta Education revenues is $3.3 million related to capital allocation revenue to offset the amortization of supported tangible capital assets.

Other Government of Alberta
This revenue relates to interest paid on debenture debt that is paid on the District’s behalf by Alberta Education to Alberta Treasury and Finance. It also includes grants received from Alberta Mental Health and Southwest Child and Family Services for the Making Connections Program.

Federal Government and First Nations
Represents amounts billed for tuition for students living on the Kainai reserve. There was an increase in the number of students as compared to original budget projections.

Fees
Reflects funds collected by schools for school fees, early learning program fees, and international students. Fees for school generated activities are also included. There was an increase in fee revenue over budget projections of $559,985. This is mainly attributed to fees collected at schools sites for extracurricular activities and option courses at the school.

Other Sales and Services
Mainly includes funds received for staff that are seconded to the University of Lethbridge. Other sales and services are mainly from school generated activities.

Investment Income
Interest earned on operating revenue. Investment income has increased due to increased revenue received and unexpended throughout the year.
Gifts and donations
Gifts and donations that have been received directly by schools for student activities is higher than budgeted. Donations are more than the prior year due to donations received for playground replacement projects. Donations also include donations received for the District’s Poverty Intervention program.

Rental of Facilities
Funds charged for use of facility space for external programs and operations such as the Southern Alberta Professional Development Consortia and the Boys and Girls Club of Lethbridge.

Fundraising
Funds raised for the benefit of school generated activities that are co-curricular in nature. Fundraising August include a-thons, and fundraising sales.

Overall, revenues are higher at August 31, 2016 due to increased enrolment grants, PUF grant revenue, secondments, fees and donations from school generated activities, and increased investment income.

EXPENSES
Expenditures are reported as a total for each functional area within the district. For further information on types of expenditures and spending in these functional areas please see the Schedule of Program Operations that follows in this document.

<table>
<thead>
<tr>
<th>BUDGET AREA</th>
<th>EXPENDITURES</th>
<th>PERCENT OF TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction - ECS</td>
<td>$ 6,843,288</td>
<td>5.99%</td>
</tr>
<tr>
<td>Instruction – Grades 1 - 12</td>
<td>$ 88,033,813</td>
<td>77.13%</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>$ 12,853,689</td>
<td>11.26%</td>
</tr>
<tr>
<td>Transportation</td>
<td>$ 2,593,368</td>
<td>2.27%</td>
</tr>
<tr>
<td>Board and System Administration</td>
<td>$ 3,561,515</td>
<td>3.12%</td>
</tr>
<tr>
<td>External Services</td>
<td>$ 257,647</td>
<td>0.23%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$114,143,320</td>
<td>100.0%</td>
</tr>
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Instruction - ECS
Instruction ECS, represents expenditures from early education to kindergarten, which includes the early education program, program unit funding for early learners requiring specialized supports, and the kindergarten program at elementary schools.

Instructional expenditures in ECS are greater than budget by $507,300 due to increased numbers of students requiring specialized supports under the Program Unit Funding (PUF) program.

Instruction- Grades 1 - 12
Instruction Grades 1 – 12, represent expenditures from grade one to grade twelve, school generated activities and supporting programs such as Inclusive Education, Technology, Instructional support, counselling, First Nations Metis and Inuit programming, and Institutional programs.

Instructional expenditures were greater than budget by $736,876. This is due to 5.4 full time equivalent teaching staff and 16 support staff hired in September 2015 to address enrolment growth. These increases brought the total increase in teacher staffing in 2015-2016 over 2014-2015 to 45.17 FTE and support staff increased by 46.56 FTE. The significant increase between the two years is due to Immanuel Christian Elementary and High Schools joining the District, along with general enrolment growth and increased support staff to support early learners requiring specialized supports.

Although expenditures were higher than budget projections, due to retirements after original budget projections were developed and the hiring of beginning teachers in the fall, the average cost of teacher salaries was lower than budgeted. There were also planned expenditures for resources by program and school sites that did not occur as originally planned. This resulted in unexpended funds at the end of the school year. Unexpended funds have been allocated to restricted reserves to address moving to a five year technology evergreening, funds set aside to assist with planning, programming and resources for new school facilities, literacy resources, and inclusive learning support.

Plant Operations and Maintenance
Plant operations and maintenance expenditures represent spending on operating and maintaining the District’s schools and facilities. These expenditures include maintenance and caretaking personnel, utilities, contracted maintenance, and Infrastructure Maintenance and Renewal (IMR) projects.

Maintenance expenditures are higher than budget due to increased funding provided for IMR projects. Any unspent funds for IMR have been deferred to the 2016-2017 school year.
**Transportation**
Transportation expenditures represent the cost of contracted bussing to bus students who reside more than 2.4 km away from their resident school. These costs include the operation of buses, cost sharing arrangements between the City of Lethbridge and Holy Spirit Catholic Schools, and the future replacement of yellow school buses. Costs include the provision of specialized bussing needs for students with disabilities.

Transportation costs are higher than budgeted at year-end due to costs associated with the addition of busses for early education program students and the payment for replacement of school buses.

**Administration**
Administration expenditures represent the cost of the Board of Trustees, Finance, Human Resources, System Instructional Support, and the Office of the Superintendent.

Administration costs are less than budgeted at year end due to lower utility costs on the Education Centre building and less spending required for contracted services than anticipated.

**External Services**
An external service represents costs that are outside regular provincially mandated instruction and operations. For the District, the International Services program provides programming to students from other countries who pay tuition fees to attend District schools. Costs include costs of homestay providers, student insurance, student recruitment, and administration of the program. Tuition fees are collected from international students in this program.

**Operating Surplus**
The operating surplus for the year ended August 31, 2016 is above budgeted projections. The surplus is attributed to spending not occurring as anticipated at school and program sites, and lower costs on average teacher salaries due to additional teachers hired that were at the beginning of their career, along with the replacement of retired teachers, and those on leave, with beginning teachers.
About The Statement
The Schedule of Program Operations shows the type of expenditure by each functional area of the District and the totals compared with the prior year. The expenditures are noted as a total for each functional area on the previous statement, the Statement of Operations.

Certificated Salaries and Benefits
Certificated salaries and benefits are higher than in 2016 by 11.9% due to the addition of 45.17 full time equivalent teaching staff over the prior year and a 2% negotiated salary increase. There was a significant increase in teaching staff due to the addition of Immanuel Christian Elementary and High Schools. Although there is the cost of experience increments for teachers as they gain experience each year, the result of retirements and the hiring of beginning teachers resulted in total costs being less than anticipated, despite the growth in teaching staff.
**Non-Certificated Salaries and Benefits**
Non-certificated salaries and benefits are higher than in 2015 by 10.17%. There was an increase of 46.56 support staff over 2014-2015. This is due to the addition of Immanuel Christian Elementary and High Schools as well as due to additional staffing costs for additional support staff that work with early learning students as funded from Program Unit Funding from the Province of Alberta. There were negotiated salary increases of 2% with support staff in 2015-2016.

**Services, Contracts and Supplies**
Services, Contracts, and Supplies are lower than in 2015 by 5.48%. Instruction expenditures are lower than in 2015 due to the evergreening of technology at the secondary school level that occurred in 2014-2015. Plant Operations and Maintenance expenditures are higher due to increased spending on IMR projects due to an increase in the IMR grant. Transportation costs increased due to the additional costs of bussing early education students and the replacement of school buses. Administration expenditures decreased due to a decrease in contracted services such as utilities costs and computer services.

**Amortization of Supported Tangible Capital Assets**
Reflects the amortization of capital assets that have been acquired through specific financial support by the Province of Alberta, such as school facilities.

**Amortization of Unsupported Tangible Capital Assets**
Reflects the amortization of capital assets that have been funded through the use of district operating funds.

**Supported Interest on Capital Debt**
Interest charges are based on debenture debt that is paid on behalf of the District by the Province of Alberta.

**Other Interest and Finance Charges**
Mainly service charges for online banking acceptance of credit cards. Also includes increased costs for changes in foreign currency payments.
Notes to the Schedule of Capital Revenue
For the year ended August 31st, 2016

Unexpended Deferred Capital Revenue

This column shows restricted capital revenue that is unspent from the prior year, new capital contributions received by the district during the period, capital revenue that is still owing to the District, and funds expended on capital projects during the period.

Unexpended Capital Revenue Received

In the period September 1, 2015 to August 31, 2016, the district received $18.4 million of funding from Alberta Education for capital projects and $250,000 from the City of Lethbridge related to the new Westside elementary school gymnasium.

Unexpended Capital Revenue Receivable

At the end of August 2016, $4 million of grant funding was receivable from the province to support capital projects.

Expended Capital Revenue

In the period September 1, 2015 to August 31, 2016, the District expended $25.5 million on capital projects. These funds were expended on construction costs for the new Coalbanks Elementary School in Copperwood and West Lethbridge middle school, installation of modular facilities, and construction costs for Wilson Middle School Modernization. This amount also appears as an addition in the Expended Deferred Capital Revenue column.

West Lethbridge Middle School

Start of gym walls August 2016 (above) and progress Sept 1, 2016 (right)
Expended Deferred Capital Revenue

Expended Deferred Capital Revenue shows the amount of supported capital funds that have been spent but have yet to be amortized over the useful life of the supported tangible capital assets purchased.

Capital Revenue Recognized

The amount of capital allocations recognized as revenue in the period September 1, 2015 to August 31, 2016 is $3.3 million. This revenue is included under revenues from Alberta Education. This amount is equal to amortization expense charged on supported capital assets. The purpose of this allocation is to create a revenue/expense neutral situation as the assets are supported by an external party.

Coalbanks Elementary School

Getting Closer!

Trustees and Senior Administration touring the progress of the new school