Lethbridge School Division

# Financial Health Indicators Report

## For the year ended August 31, 2022

November 2022

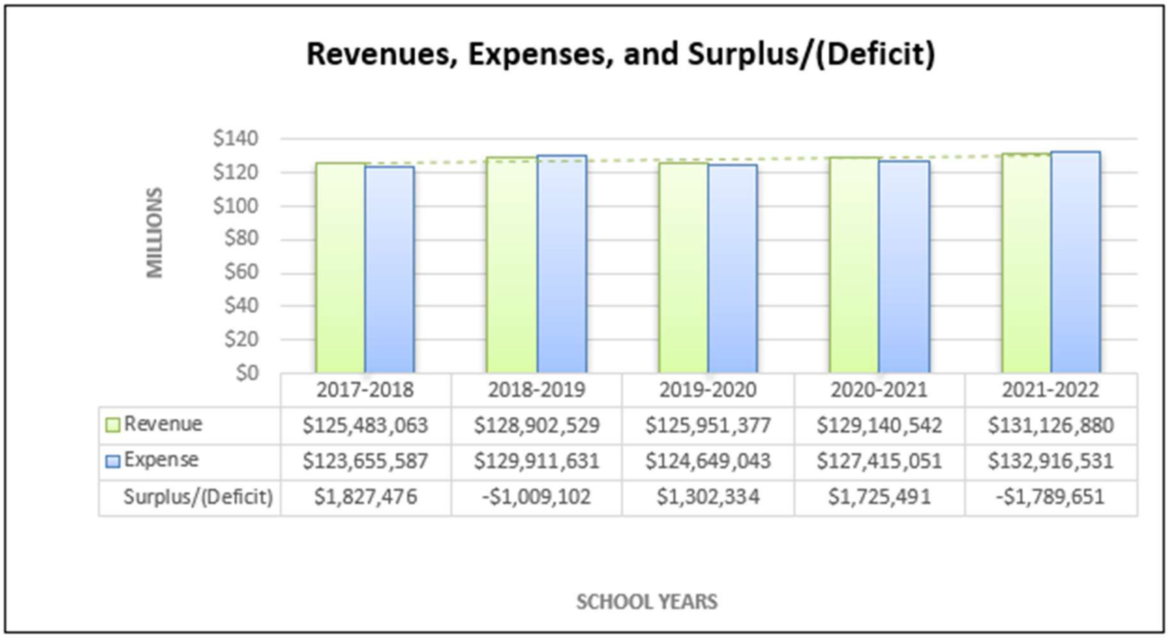
Prepared by the Department of Business and Operations

# *Lethbridge School Division*

## Indicators of Financial Health

This document captures the financial health indicators for Lethbridge School Division (the Division). This report includes comparisons of Lethbridge School Division with other school jurisdictions that have full time equivalent (FTE) student enrolment of comparable size or a comparison of the average of all school jurisdictions for the periods 2017-2018 to 2020-2021 with only the Division's data available for the 2021-2022 school year.

## Revenues, Expenses, and Operating Surplus



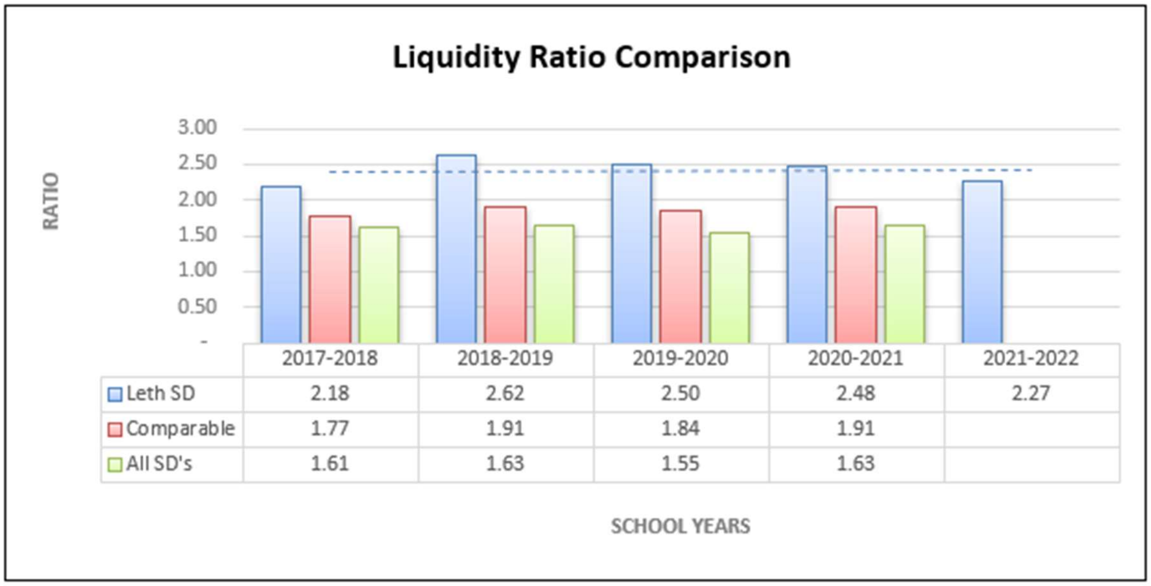

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Revenue | $125,483,063 | $128,902,529 | $125,951,377 | $129,140,542 | $131,126,880 |
| Expense | $123,655,587 | $129,911,631 | $124,649,043 | $127,415,051 | $132,916,531 |
| Surplus/(Deficit) | $1,827,476 | -$1,009,102 | $1,302,334 | $1,725,491 | -$1,789,651 |

This chart shows Lethbridge School Division's operating revenues, expenses and net operating surplus (deficit) over a five-year period. This chart demonstrates that there is an upward trend in revenues and expenditures. However, there is fluctuation in surplus or deficit over the five-year period. Revenues are impacted by enrolment and grant rate increases, while expenditures are mainly impacted by staffing.

In 2017-2018, the Division saw its surplus increased to levels similar in prior years. There was reduced staffing costs due to beginning teachers hired during the year and funds set aside for technology replacement in the future. In 2018-2019, the Division budgeted a deficit to utilize some of the operating reserves (actual deficit was less than planned). In 2019-2020 and 2020-2021, the Division generated surpluses as the expenses were significantly less than budgeted with COVID-19 grant funding and spending conservatively during times of uncertainty. The Division also received additional one-time revenues from the transportation capital replacement reserves and proceeds on bus sales previously held by the City of Lethbridge (no longer providing services to the Division). In 2021-2022 the Division again has budgeted to utilize some of their operating reserves to ensure that the Division is meeting Alberta Education's reserve cap of 3.15% by August 31, 2023. The average yearly surplus over the five-year period is $411,310, which would equal 0.31% of operating expenditures.

## Liquidity

Liquidity is measured by taking financial assets, less liabilities (excluding the spent deferred capital contributions). A liquidity ratio greater then one is desirable. This means that the Division has the ability to pay current liabilities as they are due. A liquidity ratio less than one indicates that the Division will have to borrow to meet short term obligations. Liquidity = flexibility. A higher liquidity ratio means that the Division can better respond to rapidly changing circumstances.

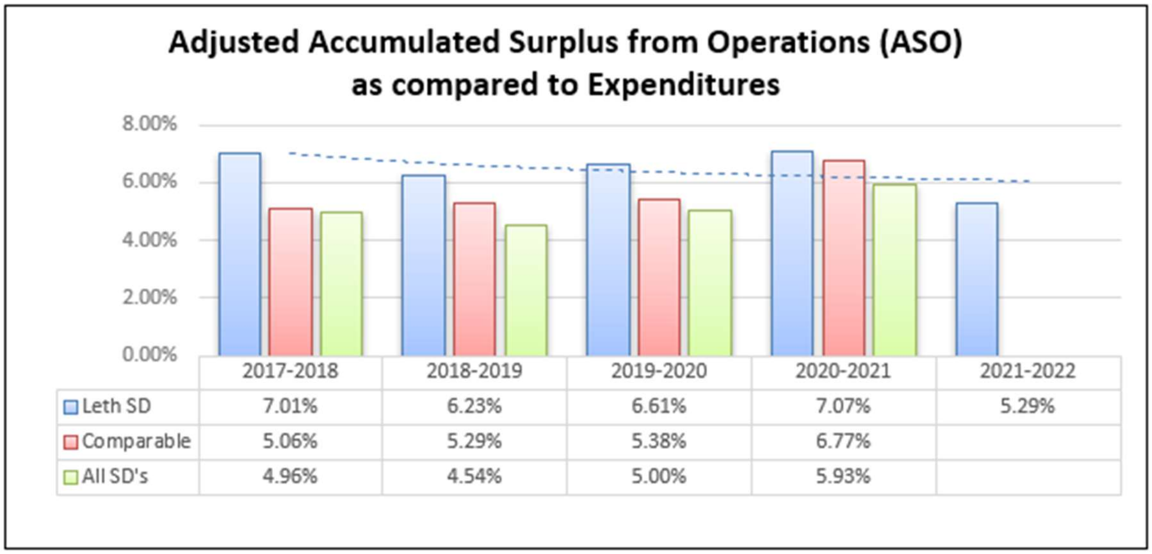



| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Leth SD | 2.18 | 2.62 | 2.50 | 2.48 | 2.27 |
| Comparable | 1.77 | 1.91 | 1.84 | 1.91 | |
| All SD's | 1.61 | 1.63 | 1.55 | 1.63 | |

The chart above shows that the Division has a liquidity ratio greater than one. The Division's liquidity has remained relatively consistent over the last five fiscal years (2017-2018 to 2021-2022) with an average of 2.41. The majority of the Division's financial assets are comprised of cash, cash equivalents and short-term portfolio investments (representing approximately 79%), therefore, further increasing the liquidity of the Division.

## Accumulated Surplus from Operations Compared to Expenditures

Accumulated surplus from operations (ASO), which is the Division's savings, is compared to expenditures to determine the Division's ability to react to emergent situations and the ability to fund special initiatives. Alberta Education considers a division's financial health to be a concern if ASO is less than 1%. If an ASO is higher than 5% there could be a reason, such as one time funding received late in the year that will be used in a following year, or long term savings at the schools for special projects or equipment replacement. At the end of August 31, 2023, Alberta Education will be capping school division's reserves to 3.15%. The Division is monitoring and spending our reserves carefully to ensure that this threshold will be met on time.




The chart above shows the five-year comparison of the adjusted accumulated surplus from operations (ASO) as compared to expenditures of Lethbridge School Division, comparable, and all other school divisions in the province. Adjusted accumulated surplus from operations is the accumulated surplus from operations less school generated funds that are now included in surplus.

The Division has had an adjusted ASO between 5.29% and 7.07% in the last five years. In 2017-2018, the adjusted ASO decreased significantly as the technology evergreening funds were reallocated from operating reserves to capital reserves. The technology evergreening projects are to be capitalized in future years.

In 2018-2019, the adjusted ASO continued to be decreased, as there was a planned increase in expenditures for new school startup costs, reimplementation of human resources/payroll software, and other Division initiatives.

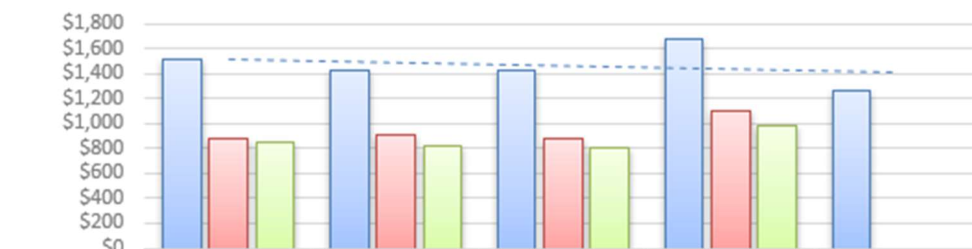
In 2019-2020 and 2020-2021, the adjusted ASO had a slight increase, as there were surpluses generated from reduced expenditures, additional COVID-19 grants received, and additional transportation revenues. The adjusted ASO rate also increased as there was a reduction in expenditures which is the factor in calculating the rate.

It was expected that the ASO percentage would decrease in 2021-2022 as the Division planned to use some of their operating reserves in the year to help assist with the effects of reduced enrolment though the weighted moving average (WMA) due to student enrolment reductions from COVID-19.

The Division is in good financial health and is currently higher than comparable divisions in prior years. Although the ASO percentage is 5.29% in 2021-2022, reserves have been committed in the 2022-2023 budget that will reduce the ASO to below the 3.15% cap implemented by Alberta Education for August 31, 2023.

## Working Capital per Student

Working capital is the amount of money available after discharging all the Division's liabilities. Working capital allows the Division to meet emergent needs and new initiatives. Working capital is compared to student enrolment to determine the amount of funds available per student that could be spent in the future.



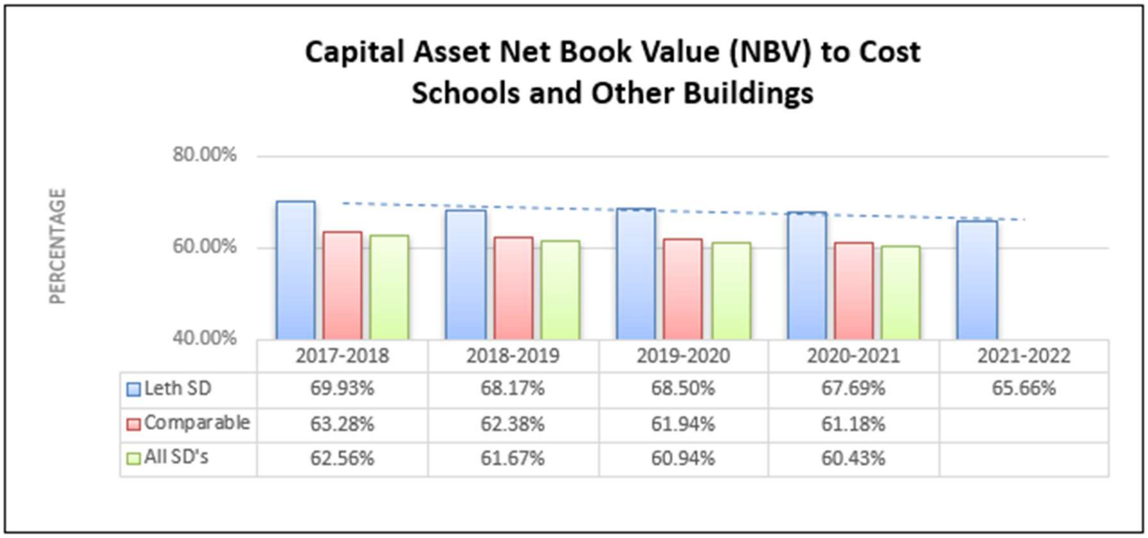

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Leth SD | $1,517 | $1,424 | $1,429 | $1,669 | $1,260 |
| Comparable | $874 | $901 | $871 | $1,094 | |
| All SD's | $854 | $818 | $803 | $987 | |

The chart above shows working capital per student over a five-year period. Lethbridge School Division's working capital has remained relatively consistent from year to year, ranging from $1,260 to $1,669. The Division has maintained a strong working capital, which has allowed the Division to meet emergent needs and to provide new initiatives as the Division continues to grow.

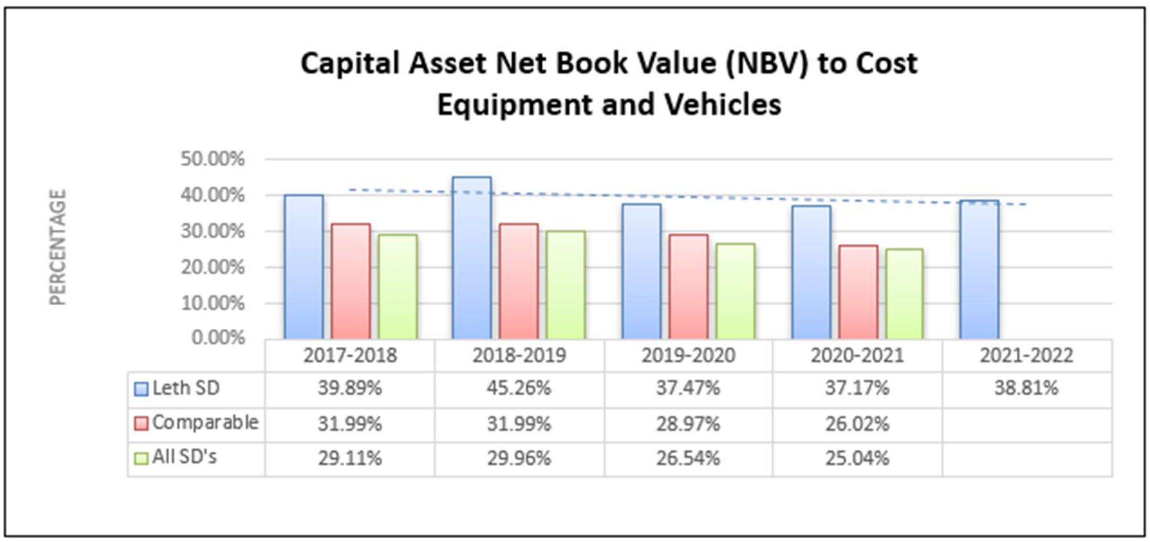
## Capital Assets – Net Book Value Compared to Historical Cost

School division's build new school facilities and purchase vehicles and equipment. The cost of these items, when built or purchased, is called the historical cost. These capital assets are depreciated (amortized) over their useful lives. For example, a maintenance truck purchased is considered to have a useful life of five years resulting in the value being amortized over a five-year period. It is expected that a vehicle will likely have to be replaced after five years (although it may still remain in service for another five years).

The percentage of net value to historical cost illustrates how new a division's assets are. A relatively high percentage indicates newer assets, while a lower percentage indicates older assets. The concern with a low ratio is that capital assets may not be replaced on a regular basis, which may be an indication of potential health and safety issues, or a significant cost in the future to replace capital assets.




| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Leth SD | 69.93% | 68.17% | 68.50% | 67.69% | 65.66% |
| Comparable | 63.28% | 62.38% | 61.94% | 61.18% | |
| All SD's | 62.56% | 61.67% | 60.94% | 60.43% | |



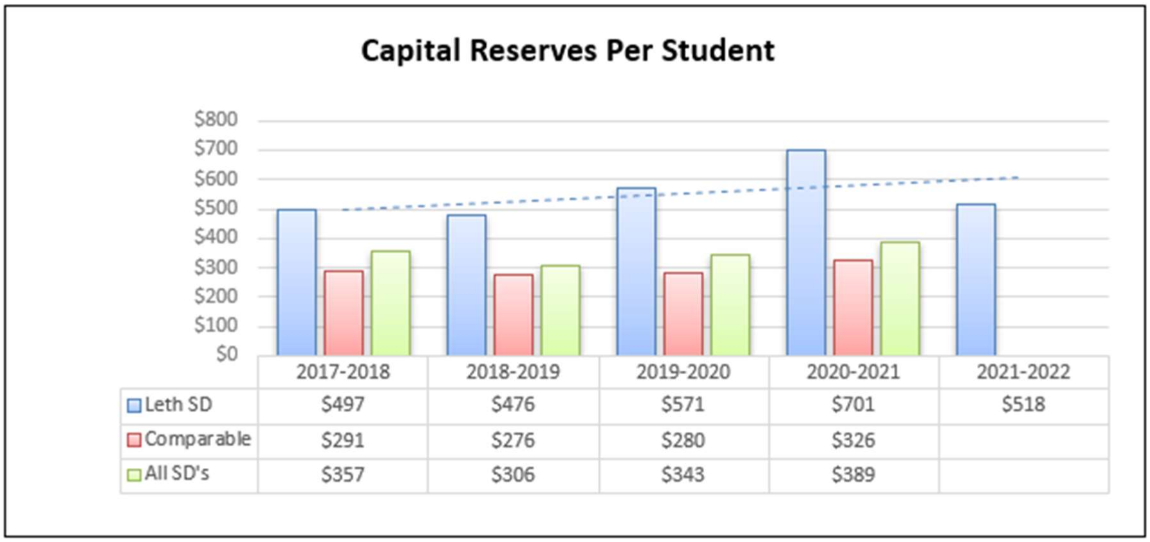

| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Leth SD | 39.89% | 45.26% | 37.47% | 37.17% | 38.81% |
| Comparable | 31.99% | 31.99% | 28.97% | 26.02% | |
| All SD's | 29.11% | 29.96% | 26.54% | 25.04% | |

Over the five-year period, the Division's percentage of Net Book Value to cost for schools and other buildings and vehicles and equipment has fluctuated, however has been higher than the average of all school divisions and comparable FTE student divisions. This means that Lethbridge School Division has newer buildings, equipment and vehicles.

In relation to schools and other buildings, the increases over the last couple of years correlate to the construction of the new school sites (Coalbanks Elementary School, Senator Joyce Fairbairn Middle School, and Dr. Robert Plaxton Elementary School) and the modernization of Wilson Middle School. These new schools also has had increases in equipment as new equipment has been acquired for these new sites.

## Capital Reserves per student

Divisions put money into capital reserves for the future replacement of capital assets. Capital reserves per student indicates the amount of capital reserves on a per student basis.




| | 2017-2018 | 2018-2019 | 2019-2020 | 2020-2021 | 2021-2022 |
|---|---|---|---|---|---|
| Leth SD | $497 | $476 | $571 | $701 | $518 |
| Comparable | $291 | $276 | $280 | $326 | |
| All SD's | $357 | $306 | $343 | $389 | |

Prior to 2017-2018, the Division had less capital reserves per student. However, in 2017-2018, capital reserves increased significantly (2016-2017 had been $188) with the technology evergreening funds being moved from operating to capital reserves. The elementary phase of evergreening occurred in 2021-2022, which resulted in a decrease on capital reserves. The secondary phase is projected for 2024-2025 which will use up a large portion of these reserves.

It is important to compare both the capital reserves per student and net book value compared to historical costs financial health indicators related to capital. There would be a concern if the net book value to cost percentage was very low and capital reserves were low. This would indicate capital assets are very old and in need of replacement, with no capital funds to replace the assets if necessary. Also, accumulated surplus may be required for the future replacement of assets.

## Overall Financial Health

Overall, Lethbridge School Division is in a strong financial position when in comparison to similar sized school divisions throughout the province. This is shown throughout this report, including liquidity, accumulated surplus, working capital, and in its tangible capital assets. This strong financial health can be contributed to sound financial management, planning, and governance.