Financial Health Indicators Report

For the year ended August 31, 2023

November 2023

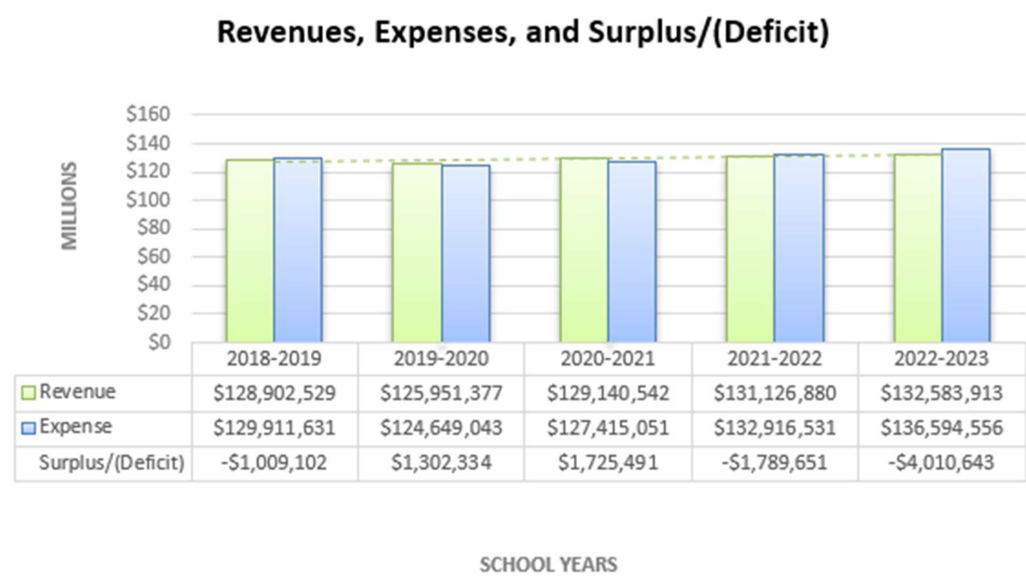
Prepared by the Department of Business and Operations

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 2018-2019 to 2021-2022 with only the Division's data available for the 2022-2023 school year.

Revenues, Expenses, and Operating Surplus



	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Revenue	$128,902,529	$125,951,377	$129,140,542	$131,126,880	$132,583,913
Expense	$129,911,631	$124,649,043	$127,415,051	$132,916,531	$136,594,556
Surplus/(Deficit)	-$1,009,102	$1,302,334	$1,725,491	-$1,789,651	-$4,010,643

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 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 and 2022-2023 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 3.20% by August 31, 2023.

Liquidity

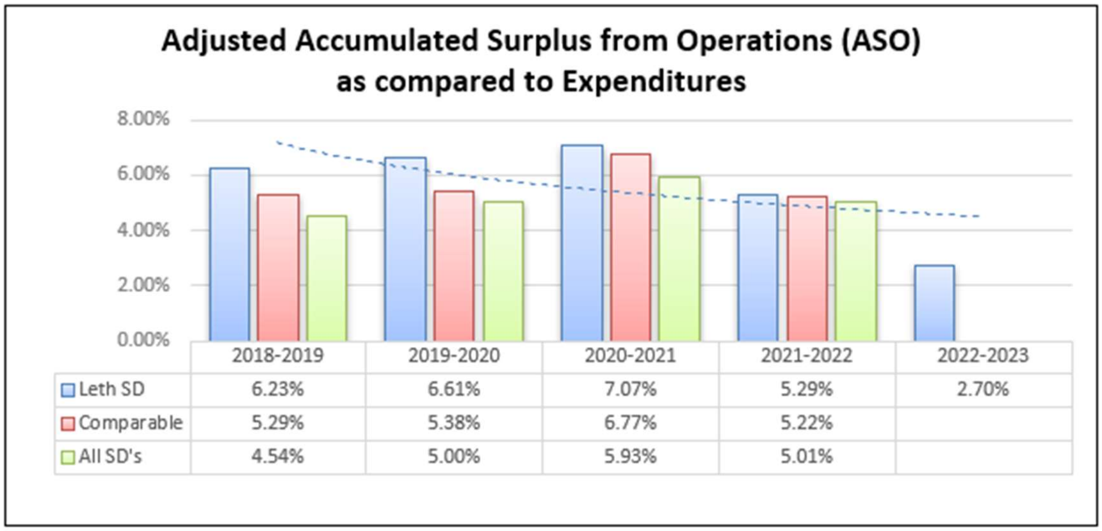
Liquidity is measured by taking financial assets, less liabilities (excluding the spent deferred capital contributions). A liquidity ratio greater then one is desirable. This means that the Division has the ability to pay current liabilities as they are due. A liquidity ratio less than one indicates 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.

	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Leth SD	2.62	2.50	2.48	2.27	1.28
Comparable	1.91	1.84	1.91	1.86	
All SD's	1.63	1.55	1.63	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 (2018-2019 to 2022-2023) with an average of 2.23. The addition of the new asset retirement obligation (ARO) in 2022-2023 also impacted the Division's liquidity rate (if the ARO liability is removed, the liquidity rate for 2022-2023 increases to 2.14). The majority of the Division's financial assets are comprised of cash, cash equivalents and short-term portfolio investments (representing approximately 88.5%), 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 3.20%. The Division has met this target and the reserve balance at August 31, 2023 is 2.70%.



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 2.70% and 7.07% in the last five years. In 2018-2019, the adjusted ASO decreased from the prior year, as there was a planned increase in expenditures for new school startup costs, reimplementation of human resources/payroll software, and other Division initiatives.

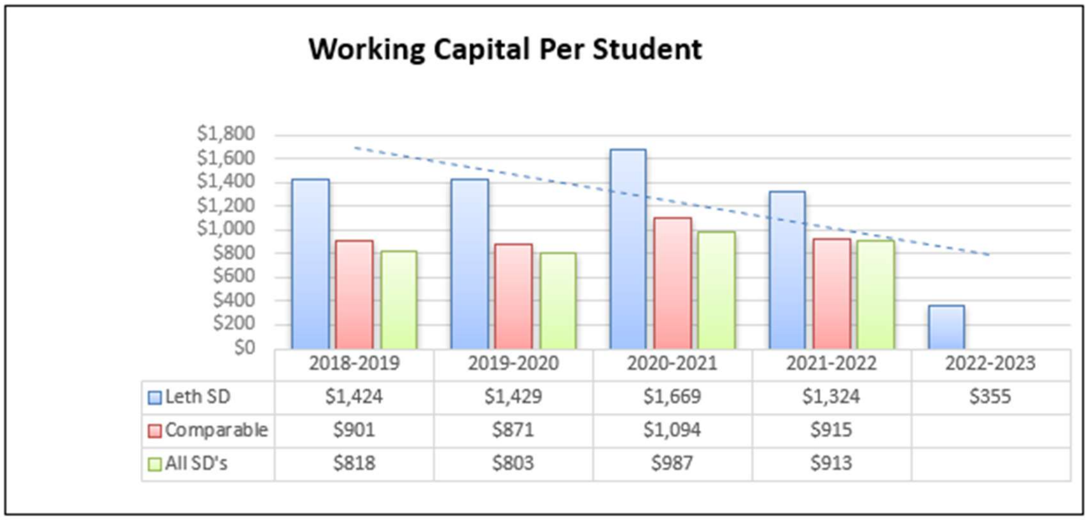
In 2019-2020 and 2020-2021, the adjusted ASO had a slight increase, as there were surpluses generated from reduced expenditures, additional COVID-19 grants received, and additional transportation revenues. The adjusted ASO rate also increased as there was a reduction in expenditures which is the factor 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 continues to be in good financial health and the ASO ratio is higher than comparable divisions with the most recent financial information from Alberta Education.

The Division has met Alberta Education's ASO requirement of being below 3.20% as at August 31, 2023. The Division's ASO is at 2.70% as at 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.



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 $1,324 to $1,669 from 2018-2022. The reasons for there being such a decrease in 2022-2023 is due to the increase in students to the Division, and both the spending of reserves to meet the Alberta Education cap (decrease in cash), and the introduction of the asset retirement obligation (ARO) accounting standard which resulted in a $6 million liability being added to the Division's financial statements.

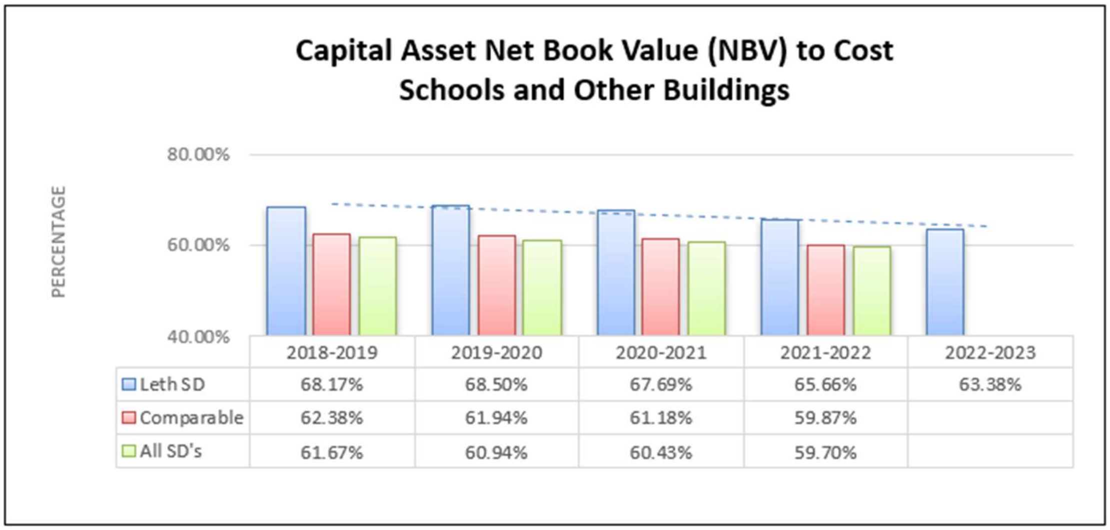
Capital Assets – Net Book Value Compared to Historical Cost

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).

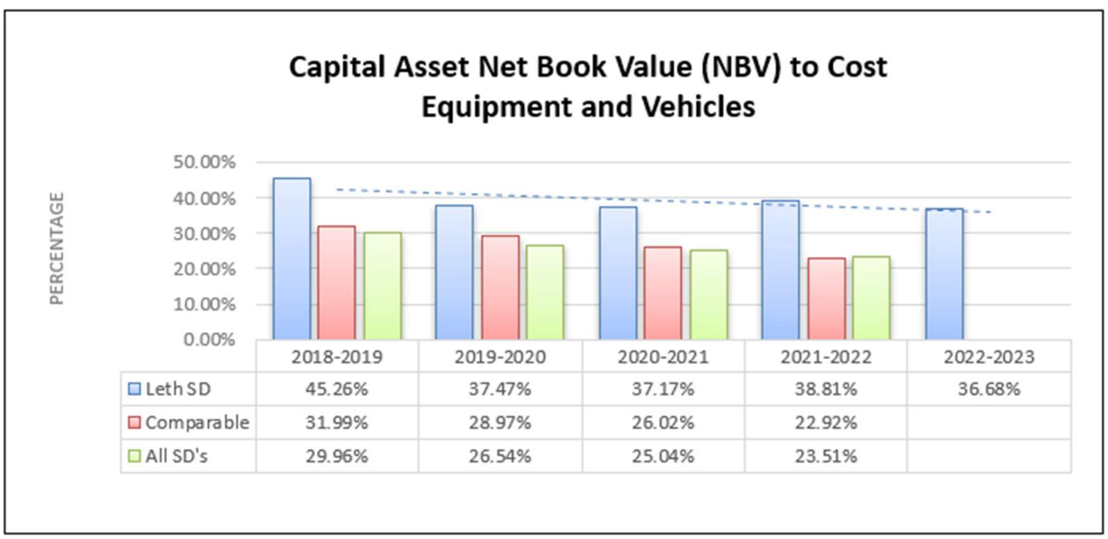
The percentage of net value to historical cost illustrates how new a division's assets are. A relatively high percentage indicates newer assets, while a lower percentage indicates older assets. The concern with a low ratio is that capital assets may not be replaced on a regular basis, which may be an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

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 have had increases in equipment as new equipment has been acquired for these new sites.



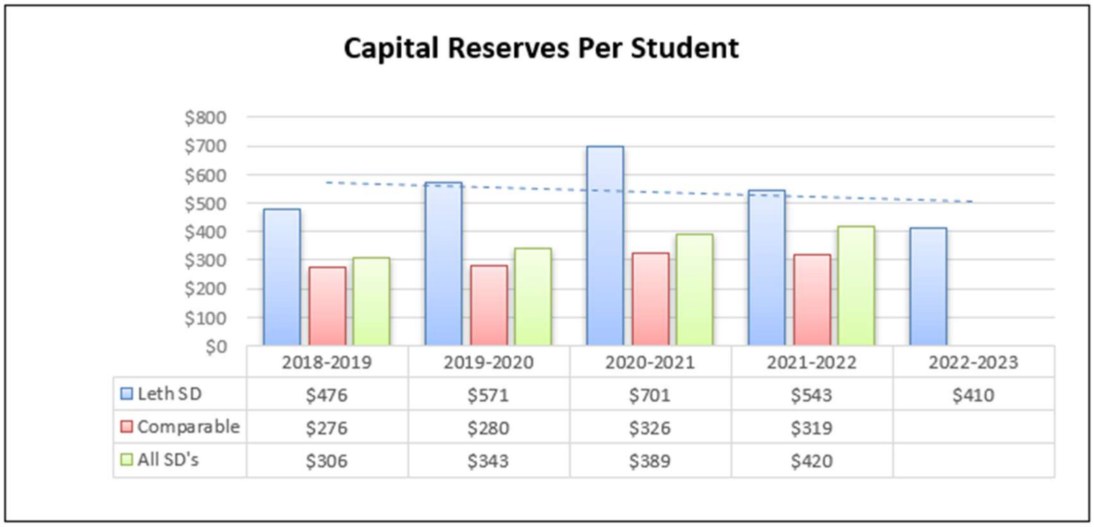
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Leth SD	68.17%	68.50%	67.69%	65.66%	63.38%
Comparable	62.38%	61.94%	61.18%	59.87%	
All SD's	61.67%	60.94%	60.43%	59.70%	



	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Leth SD	45.26%	37.47%	37.17%	38.81%	36.68%
Comparable	31.99%	28.97%	26.02%	22.92%	
All SD's	29.96%	26.54%	25.04%	23.51%	

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.



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. Technology evergreening continues to occur as just over $1 million was spent in 2022-2023 on technology upgrades.

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 from 2018-2019 to 2021-2022. This is shown throughout this report, including liquidity, accumulated surplus, working capital, and in its tangible capital assets. There are some significant changes in 2022-2023 due to the introduction of the asset retirement obligations accounting standard resulting in an increase of $6 million to the Division’s liabilities, and the use of reserves in order to meet Alberta Education’s cap at August 31, 2023.