Lethbridge SCHOOL DIVISION

# Financial Health Indicators Report

**For the year ended August 31, 2024**

November 2024

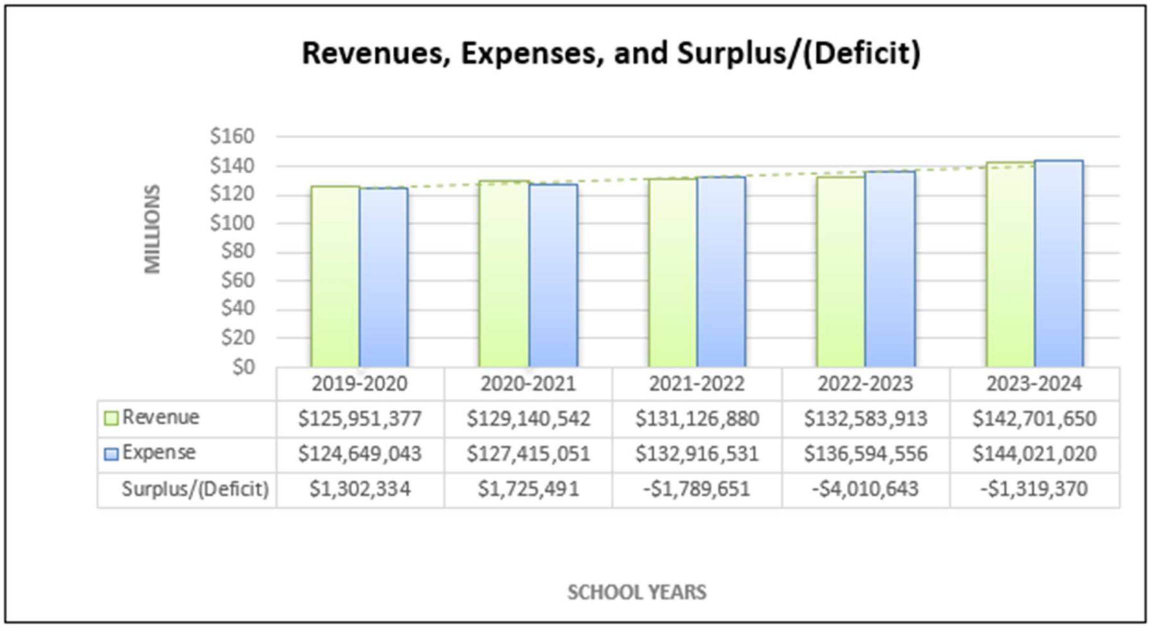
Prepared by the Department of Business and Operations

# *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 2019-2020 to 2022-2023 with only the Division's data available for the 2023-2024 school year.

### Revenues, Expenses, and Operating Surplus



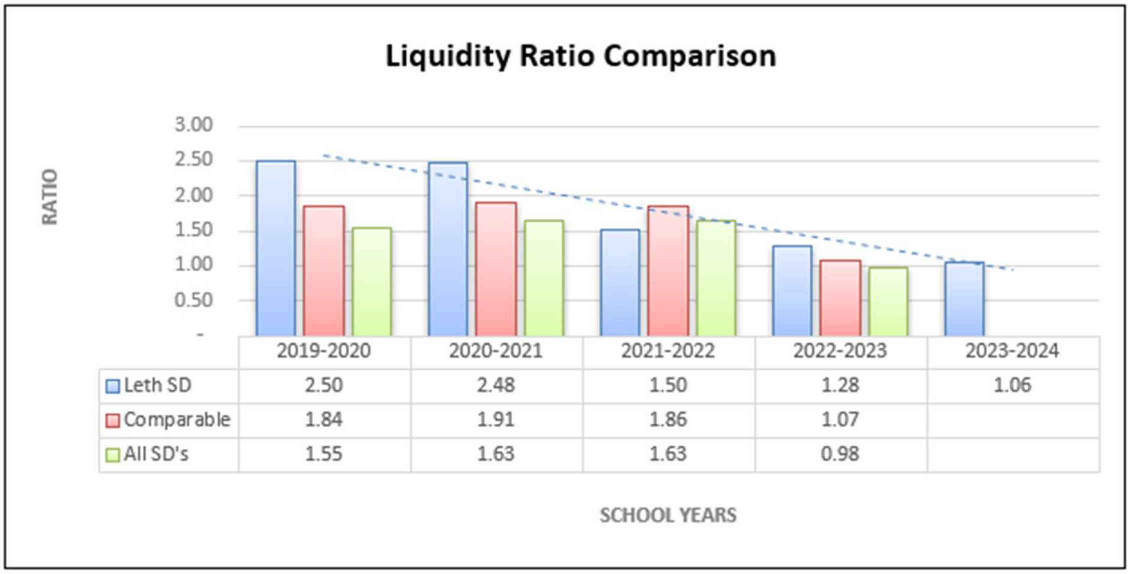

| | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 |
|---|---|---|---|---|---|
| Revenue | $125,951,377 | $129,140,542 | $131,126,880 | $132,583,913 | $142,701,650 |
| Expense | $124,649,043 | $127,415,051 | $132,916,531 | $136,594,556 | $144,021,020 |
| Surplus/(Deficit) | $1,302,334 | $1,725,491 | -$1,789,651 | -$4,010,643 | -$1,319,370 |

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 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 the last three years, including 2023-2024, the Division 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, 2024 as well as to maintain programming due to the impacts of the weighted moving average funding model (WMA).

## Liquidity

Liquidity is measured by dividing the financial assets by the financial liabilities of the Division. A liquidity ratio greater than 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.

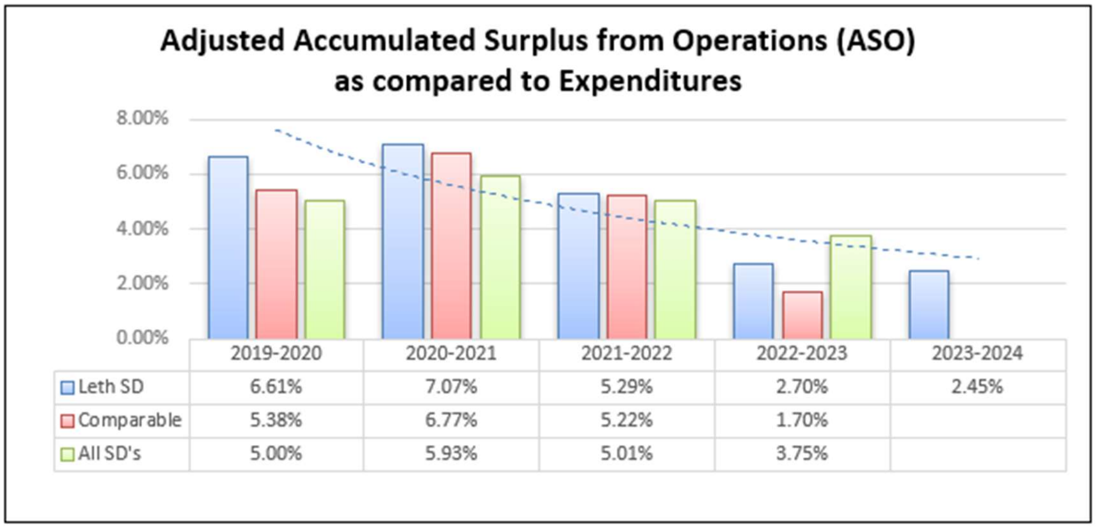



| | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 |
|---|---|---|---|---|---|
| Leth SD | 2.50 | 2.48 | 1.50 | 1.28 | 1.06 |
| Comparable | 1.84 | 1.91 | 1.86 | 1.07 | |
| All SD's | 1.55 | 1.63 | 1.63 | 0.98 | |

The chart above shows that the Division has a liquidity ratio greater than one, however there has been a downward trend in the last number of years. The addition of the new asset retirement obligation (ARO) in 2022-2023 impacted the Division's liquidity rate (if the ARO liability is removed, the liquidity rate for 2023-2024 increases to 1.61), as well as the Division's reserve balances (the Division's savings) have decreased. The majority of the Division's financial assets are comprised of cash, cash equivalents and short-term portfolio investments (representing approximately 80%), therefore, further supporting 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, 2024, Alberta Education continues to be capping school division's reserves to 3.20%. The Division has met this target and the reserve balance at August 31, 2024 is 2.45%.




| | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 |
|---|---|---|---|---|---|
| Leth SD | 6.61% | 7.07% | 5.29% | 2.70% | 2.45% |
| Comparable | 5.38% | 6.77% | 5.22% | 1.70% | |
| All SD's | 5.00% | 5.93% | 5.01% | 3.75% | |

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 2.45% and 7.07% in the last five years. 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.

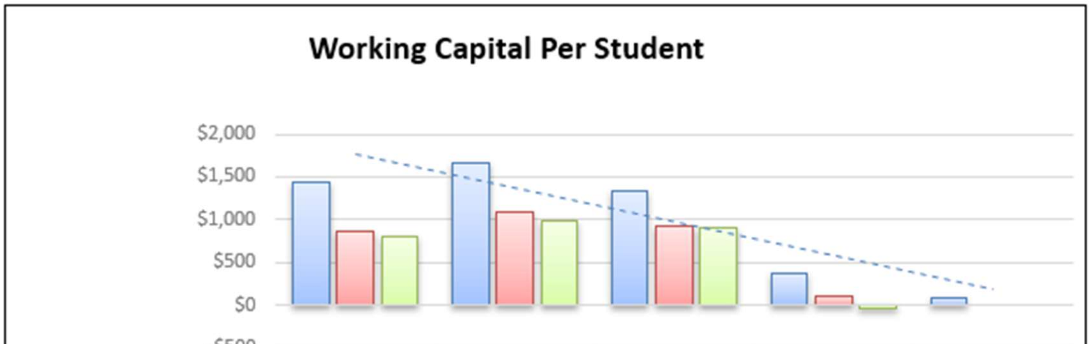
It was expected that the ASO percentage would decrease in 2021-2022 as the Division planned to use some of their operating reserves in the year to help assist with the effects of reduced enrolment though the weighted moving average (WMA) due to student enrolment reductions from COVID-19.

There is continued planned use of reserves in 2022-2023 and 2023-2024 as the Division continues to use its savings to help offset the impacts of the weight moving average (WMA) framework as well as ensure that the Division met Alberta Education’s ASO cap of 3.15% at August 31, 2023 and 3.20% at August 31, 2024.

The Division continues to be in reaonsbale financial health and the ASO ratio is higher than comparable divisions with the most recent financial information from Alberta Education.

## 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.




| | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 |
|---|---|---|---|---|---|
| Leth SD | $1,429 | $1,669 | $1,324 | $369 | $86 |
| Comparable | $871 | $1,094 | $915 | $101 | |
| All SD's | $803 | $987 | $913 | -$46 | |

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 2019-2021. The reasons for there being such a decrease in 2022-2023 which has continued into 2023-2024 is due to the increase in students to the Division, and both the spending of reserves (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 for the August 31, 2023 and remains unchanged for the August 31, 2024 year-end due to no remediation work being required during the year.

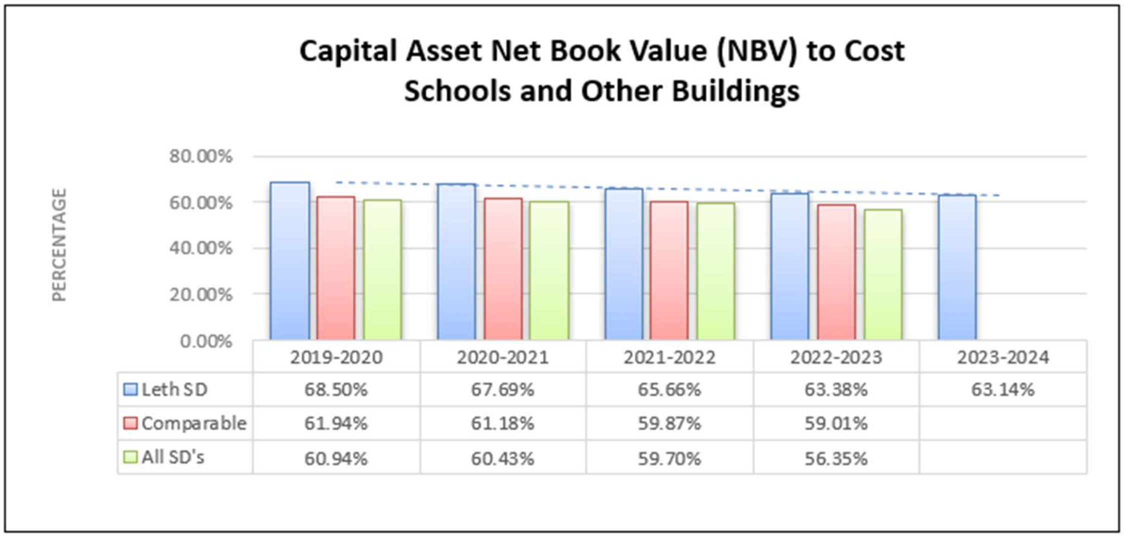
## Capital Assets – Net Book Value Compared to Historical Cost

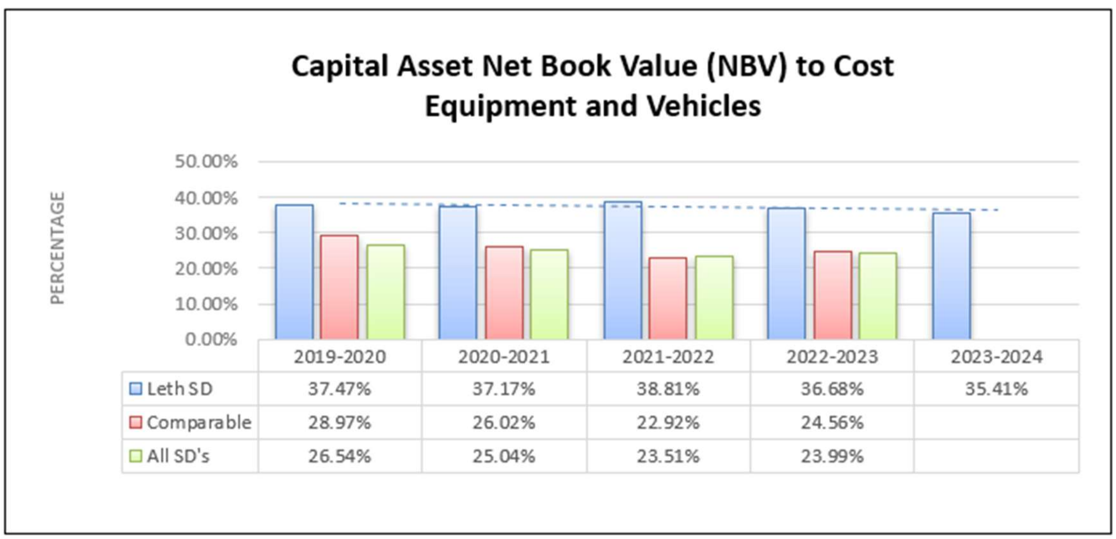
School division's build new school facilities and purchase vehicles and equipment. The cost of these items, when built or purchased, is called the historical cost. These capital assets are depreciated (amortized) over their useful lives. For example, a maintenance truck purchased is considered to have 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 decrease, 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.

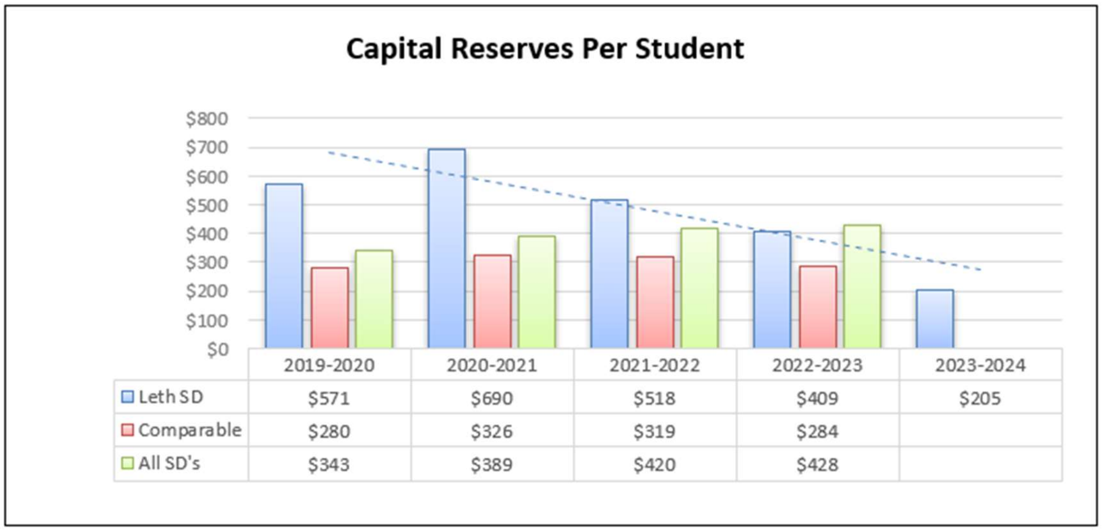
In relation to schools and other buildings, the increases over the last couple of years correlate to the construction of the new school sites (Senator Joyce Fairbairn Middle School, and Dr. Robert Plaxton Elementary School) and the construction of West Coulee Station Elementary School (to open in September 2025). These new schools also have 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.




| | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 |
|---|---|---|---|---|---|
| Leth SD | $571 | $690 | $518 | $409 | $205 |
| Comparable | $280 | $326 | $319 | $284 | |
| All SD's | $343 | $389 | $420 | $428 | |

In 2020-2021, there was a surplus from the sale of the Division's school buses with the City of Lethbridge that was put into capital reserves. Technology evergreening continues to occur as just over $1.8 million was spent in 2023-2024 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 reasonable 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. There continues to be some challenges with the decrease of the Division's reserves to maintain programming to compensate for the shortfall from the weighted moving average (WMA) framework and to meet Alberta Education's reserve cap that was implemented at the end of August 31, 2023. However, the Division will continue to monitor to ensure prudent financial decisions are being made for students of today and into the future.