Supplementary Financial Information

Responses to Questions raised at the December 6, 2011 Conference Committee Meeting for the Audit Committee

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1. How will we make up the deficit of $18.1 million shortfall in operating reserves compared to surplus carry forward commitments?

A new guideline, approved by the Superintendent in September 2011 regarding the carry forward of funds, will enhance accountability of both surplus and deficit funds. The guideline provides minimum requirements for repayment of deficits, in addition to restrictions on carrying forward surplus funds over 10 percent, which indicates that these funds may be returned to general surplus. During the year, Assistant Superintendents will be monitoring schools and DU budgets to ensure compliance with budget proposals. During the 2012/13 budget process, we will include information regarding the operating reserve shortfall and alternatives for reducing the gap.

2. In the unaudited schedules, Operation and Maintenance of schools and maintenance shops expenses exceed revenues by $26 million. Why does this deficit exist, and where do the funds come from to cover this overage?

Funding for Operations and Maintenance is provided almost entirely through a weighted per student funding allocation. The per student funding allocation does not adequately address the actual costs of operating our schools, which includes utilities, custodial, facility services administration, and property insurance, as well as school maintenance costs. It does not take into consideration the amount of square metres we currently have in our school buildings, in both our current operating schools and in our closed school buildings. Under-utilized schools also increase our capacity costs.

An additional IMR block funding grant is also received for larger maintenance renewal projects. Maintaining our assets is a challenge due to the significant demands for lifecycle improvements based on our aging school building infrastructure.

Funds to cover these expenses have come primarily from instruction block funding allocations and also contributes to the operating deficit.

3. **What impact does adding new programs at Avonmore have on the deficit? What support is offered for new programs?**

The decision to add programs at Avonmore was not done in consultation with all relevant departments. This has created some issues surrounding the viability of the programs and the need to financially support programs that do not have sufficient enrollment to fund the costs of the program. This process has been revised with collaboration being established by all relevant parties in order to ensure sustainability.

The newest program at Avonmore is the Waldorf program, which was established in March 2009 as an alternative program. The new program received a program establishment grant of $11,165 in 2009/10 and a second program establishment grant in 2010/11 of $8,932.

In addition, the school receives multiple program allocations (2010/11- $45,106; 2011/12- $47,411). Enrollment in the Waldorf program is as follows:

School Year	Program Enrollment
2009/10	32
2010/11	40
2011/12	46

The actual enrollment is lower than initially predicted upon establishment of this alternative program and continues to be lower than is required to meet the costs of the program.

Avonmore also has two Community Living Skills programs which receive funding allocations based on a minimum guaranteed enrollment of 10 students per class.

4. **Why is the Information Technology Services 2010/11 surplus carry forward of $839,247 more than six times or 606.07 percent higher than budget?**

This decision unit is responsible for the ITS Store and, in conjunction with Purchasing Services, supplies schools and central decision units with District-standard computers and technology at large volume negotiated prices. Although the Information Technology Services budget includes the expense for the initial purchase of computers and technology, it is then significantly reduced by the amount recovered from schools and central decision units who are ultimately responsible for the purchase. The actual gross budget upon which this surplus is based is as follows:

2010/11 Expenditure Budget	138,338
Add Back: Internal Recoveries	21,205,767
2010/11 Expenditure Budget - RESTATED	**$21,344,105**
2010/11 Information Technology Services Surplus	$839,247
2010/11 Surplus as percent of RESTATED Budget	3.9 percent

Therefore, the surplus carry forward is within normal parameters.

5. Gifts and donations revenue of $6.1 million is significantly higher than the budget of $1.7 million. Is there a potential for better revenue projection in this area?

Gifts and donations include those amounts collected by schools and also by the EPS Foundation. Compared to 2009/10, gifts and donations revenue is down slightly by $0.4 million or 6.3 percent. Budgeting for such revenues is difficult due to the uncertainty of collection, particularly in difficult financial times where families and businesses may have to forego charitable contributions. Therefore, a more conservative amount is typically budgeted in order to prevent over-forecasting and over-spending if the funds are not received. For 2011/12, the budget has been increased to $3 million to more closely reflect the trend in actual donations received.

6. Why is there such a large increase in Amortization of Capital Assets?

The District assumed control of the six new ASAP schools in August 2010, adding $243 million in building assets. Also, the Victoria School capital project was considered substantially complete at August 31, 2010 resulting in an additional $63 million of building assets. 2010/11 was the first year of amortization on these schools, resulting in a significant increase from 2010 actuals and 2011 budget, where these amounts had not been included. The total amount of amortization for these schools in 2010/11 was $38.2 million.

7. Explain the Statement of Cash Flows decrease of $31 million in investing activities relating to the purchase of buildings.

There were no new capital building projects in 2010/11, but simply a continuation of those projects previously approved. As these projects are winding up, fewer costs were incurred in 2010/11. Infrastructure Maintenance Renewal (IMR) projects have also decreased. A summary of the changes by school and IMR funding year are shown below:

	2010-11	2009-10	Change
Balwin	1,168	1,208	(40)
Bennett Centre	0	1,690	(1,690)
Earl Buxton	0	315	(315)
Eastglen	1,202	5,495	(4,293)
Eastglen Phase II	3,612	396	3,216
Ellerslie	0	156	(156)
Forest Heights	259	1,520	(1,262)
Holyrood	654	559	95
Lillian Osborne	128	2,234	(2,107)
Prince Charles	720	2,457	(1,737)
Prince Charles Phase II	388	52	336
Strathcona	2,006	6,407	(4,401)
Strathcona Phase II	367	0	367
Victoria	1,063	12,266	(11,202)
2006 IMR	0	738	(738)
2007 IMR	0	2,430	(2,430)
2008 IMR	983	5,133	(4,149)
2009 IMR	1,975	3,067	(1,092)
2010 IMR	2,628	2,202	426
	17,153	**48,326**	**(31,173)**

8. On the Statement of Financial Position, why did Capital Assets decrease by $8.9 million if six new ASAP schools were added?

2010/11 was the first year for amortization of the six new schools and Victoria School, resulting in an overall decrease to the carrying value of the capital assets reflected in the financial statements.

9. What process is in place to address schools that are on a Deficit Reduction Plan but have increased, rather than decreased, their deficit?

In September 2011, the Superintendent approved formal guidelines regarding the carry forward of funds for schools and decision units. Included in the guidelines is a requirement for schools with deficits exceeding $200,000, or 5 percent of their annual operating budget, to submit a three-year payment projection to their Assistant Superintendent for approval, with a copy provided to the Superintendent. The Assistant Superintendents are responsible to work with the principal to monitor spending in order to meet deficit reduction plans. Those schools with deficits less than 5 percent of their budget will see future budget allocations reduced by the lesser of their outstanding debt or 2 percent of the budget allocation until the deficit has been repaid.

10. When will we receive information on whether we will be following government not-for-profit accounting framework?

We continue to work with Alberta Education and our auditors, KPMG, on the new accounting framework that will be implemented for the September 2012 school year.

We have some preliminary information, but at this time, it would be premature to bring anything forward to the Board or Administration in detail. A report identifying some of the major changes could be prepared and presented to the Board for the March Conference Committee meeting. This report would provide some narrative highlights of the concept changes that will be forthcoming.

11. Questions specifically related to variances in the financial statements year over year.

These have been addressed in the *Highlights of the Financial Results for the Year Ended August 31, 2011* and the *Analysis of Deficit* reports, which are attached.

HIGHLIGHTS OF THE FINANCIAL RESULTS FOR THE YEAR ENDED AUGUST 31, 2011
Attached for information (Attachment I)

ANALYSIS OF DEFICIT YEAR ENDED AUGUST 31, 2011
Attached for information (Attachment II)

EDMONTON PUBLIC SCHOOLS

HIGHLIGHTS OF THE FINANCIAL RESULTS FOR THE YEAR ENDED AUGUST 31, 2011

1. Summary of major changes in operating revenues and expenses

Revenue

Provincial Grants

The total increase in Provincial Funding for 2010/11 was $22.4 million or 3.0% more than the previous year. For 2010/11, Base Instruction and Class Size Alberta Education funding rates increased by 2.92%. All other funding rates remained the same. In response to an expected continual increase in the number of students in earlier grades, in 2010/11 the province's distribution of funds for Small Class Size changed to focus on a per student/CEU grant rate. As well, CEU funding rates were differentiated according to three different tiers rather than one funding rate. The one-time High School Completion grant and the Daily Physical Activity grant were discontinued in 2010/11. While there was no funding for new school capital projects, the Audited Financial Statements recognize revenue of $1.7 million for maintenance expenses for the ASAP I schools, paid by Alberta Education on behalf of Edmonton Public School Board.

Amortization of Capital Allocations

Amortization of capital allocations increased 92.0% or $10.4 million over the previous year mainly due to 2011 being the first year of amortization of government funding for six new ASAP schools and Victoria School. This is entirely offset by an equal increase in the amortization expense of supported capital assets.

Expenses

Salaries and Employee Benefits

Salaries and employee benefits costs were 3.4% or $22.0 million higher than the previous year. This increase was attributable to standard salary increases and increased rates on the employer portion of benefit costs.

Services Contracts and Supplies

Services, contracts, and supplies increased slightly by 1.8% or $2.4 million. Major changes are summarized below:

	Increase (Decrease) $ Millions
IMR Expenses (Supported)	$7.9
Electricity	0.9
Election Expenses	0.7
Natural Gas	0.4
Internal Recoveries (Closed Service Requests)	(2.8)
Furniture & Equipment (Mainly computers)	(1.4)
Outside Consulting	(0.9)
General Professional Services	(0.9)
General Supplies	(0.9)
Maintenance Contracts (More done through IMR)	(0.5)
Transportation of Pupils	(0.2)
Advertising & Promotion	(0.2)
Other Variances	0.3
Total	**$2.4**

Gross School Generated Funds

A reduction in the expenses incurred to support school generated activities of 3.7% or $0.6 million is entirely offset by a decrease in revenues generated for school funded activities.

Amortization of Capital Assets

Amortization of capital assets has increased by 37.6% or $10.4 million over the previous year primarily due to 2011 being the first year of amortization of six new ASAP schools and Victoria School. The amortization expense is offset by an equal increase in revenue for the amortization of capital allocations.

Interest on Capital Debt

Interest on capital debt is 21.0% lower than the previous year solely as a result of declining debt principal.

2. Administration's comments on the financial statements

A. Statement of Financial Position

Assets

On August 31, 2011, the District's total assets, including school generated funds, were $731.8 million as compared to $769.2 million the previous year, a decrease of $37.4 million made up of:

		Increase (Decrease) $000
i)	A decrease in cash and temporary investments is primarily due to net cash outflows required to complete current and prior year capital projects.	$ (32,655.8)
ii)	The increase in accounts receivable is due primarily to changes in the accrued revenue account. The most significant changes were $3.2 million increase for IMR projects, $3.1 million increase for capital projects, and $1.0 million decrease for insurance proceeds.	4,594.1
iii)	Prepaid expenses are lower primarily due to a building lease which was prepaid in the 2009/10, but not paid until September 1st this year.	(268.3)
iv)	Other current assets, comprised of various inventory accounts, showed a small decrease of 1.2% over the previous year.	(70.2)
v)	School generated assets decreased from the previous year and are offset by a corresponding decrease in school generated liabilities.	(165.7)
vi)	Trust assets increased primarily due to an increase in the EPS Foundation Trust. The amount is offset by a corresponding increase in trust liabilities.	254.0

vii)	The decrease in long term accounts receivable is due to the removal of the asset retirement obligation receivable and is offset by a corresponding decrease in other long term liabilities.	(157.0)
viii)	The net decrease in capital assets is mainly due to the fact that the six additional ASAP schools added in the prior year and Victoria School are now being amortized resulting in a decrease in the net book value of the capital assets.	(8,928.1)
	Total	$ (37,397.0)

Liabilities

District's liabilities at the end of the year were $579.6 million as compared to $603.5 million at August 31, 2010, lower by $23.9 million. This decrease is attributable to:

		Increase (Decrease) $000
i)	The decrease in accounts payable and accrued liabilities is due to a $17.4 million reduction in accrued liabilities as a result of leaving the accounts payable system open longer during year end and fewer capital projects in progress. This was partially offset by higher accounts payable as the cheque run was not processed until September 1st as opposed to August 31st in the prior year and higher payroll related liabilities.	$ (9,827.6)
ii)	The decrease in deferred revenue is attributable to a reduction of $0.4 million in the deferral of capital block funding, and a net increase in other deferred funds of $0.8 million.	374.3
iii)	The decrease in deferred capital allocations is the net difference between capital grant received and receivable of $4.6 million offset by capital expenditures of supported capital funds of $15.6 million during the year.	(11,008.5)

iv)	Current portion of long term-debt is lower due to the decrease in outstanding debt principal.	(526.3)
v)	The decrease in school generated funds liabilities is offset by a corresponding decrease in school generated funds assets.	(165.7)
vi)	Trust liabilities increased primarily due to an increase in the EPS Foundation Trust and are offset by an equivalent increase in trust assets.	254.0
vii)	The reduction in long-term debt represents debenture debt principal repaid during the year.	(2,883.1)
viii)	The amount in other long term liabilities represented by Asset Retirement obligation has been eliminated as remediation is complete.	(157.0)
ix)	The decrease in unamortized capital allocations is comprised of $18.6 million in supported capital expenditures, $3.1 million for supported debt repayment transferred to unamortized allocations during the year, less the transfer of $21.7 million to revenue for the current year to offset the amortization expense for supported capital assets.	(13.7)
	Total	$ (23,953.4)

Net Assets

The District's net assets at the end of the year were lower by $13.4 million at $152.2 million compared to $165.6 million at August 31, 2009. This decrease is attributable to:

		Increase (Decrease) $000
i)	The decrease in investment in capital assets, which represents the net cost of capital assets financed from operating funds and block grant funding less the amortization of capital assets financed from operating and block funding.	$ (5,505.0)
ii)	The decrease in capital reserve which is made up of the net of capital assets financed	

	through operations, interest on the capital reserve and lease revenue received from the YMCA.	(1,355.5)
iii)	The decrease in operating reserve is represented by a transfer from operating surplus.	(6,583.1)
	Total	$ (13,443.6)

B. Statement of Revenues and Expenses

Revenues

Total District revenues for the year were $849.1 million, $32.3 million or 4.0% higher than the previous year. The factors contributing to this increase are:

		Increase (Decrease) $000
i)	Revenue from Alberta Education increased as a result of Base Instruction and Class Size funding rates increasing by 2.92%; there was also a marginal increase in enrolment.	$22,371.5
ii)	Revenue from the Federal government decreased in 2010/11 by 14.6%. While non-resident revenue from Indian and Northern Affairs increased, LINC funding decreased and Federal Language funding was reclassified to Alberta Education.	(415.8)
iii)	Other School Authorities decreased by 7.7%. The 2011/12 budget challenges appear to have had an impact on revenue from Other School Authorities. Book Depository and Consulting Services external revenue sales decreased; however, this decrease was marginally offset by an increase in ERECS external sales.	(311.4)

iv)	Revenues from Instructional Resource fees increased by 3.5% in direct correlation to fee revenue being collected at schools.	136.4
v)	Revenues from Transportation Fees increased by 6.38% as a result of an increase in the price of both Yellow and ETS passes. The numbers of bus passes sold were actually lower than the previous year.	567.8
vi)	Revenue from Other Sales and Services decreased by 4.3% as result of lower Book Depository Sales, Distribution Centre Sales, and secondments to outside Organizations.	(930.9)
vii)	Revenues from investment income were higher by 77.4% primarily due to an increase in the overnight deposit rate.	464.5
viii)	Revenue from Gifts and Donations decreased by 6.3% as a result of lower than normal donations from local Society groups. This decrease is also a direct result of a slower economy.	(410.5)
ix)	Revenue from Rental of Facilities increased by 26.2% as a result of a new lease tenants at closed schools.	1,079.6
x)	School generated funds revenue decreased by 3.67% and is offset by a corresponding decrease in school generated funds expense.	(635.1)
xi)	Amortization of capital allocations increased by 77.49% due to 2011 being the first year of amortization of the six new ASAP schools and Victoria School.	10,405.1
Total		$ 32,321.2

Expenses

The total expenses for the year, excluding capital expenditures funded by block funding for Infrastructure Maintenance Program and Modernization projects, amounted to $862.5 million as compared to $828.3 million for the previous year, an increase of $34.3 million or 4.1%. This increase is made up of:

		Increase (Decrease) $000
i)	An increase in certificated salaries of 3.0% as a result of standard increases.	$ 12,125.1
ii)	An increase in certificated benefits of 5.9% resulting from increases to employer benefit premiums.	2,625.2
iii)	An increase in non-certificated salaries and wages of 3.15% as a result of standard increases.	5,369.9
iv)	An increase in non-certificated benefits of 5.3% resulting from increases to employer benefit premiums.	1,905.6
v)	A small overall increase in services, contracts and supplies of 1.8% (additional details on Page 2).	2,375.6
vi)	A decrease in expenditures on activities funded out of school generated funds of 3.7%. This is entirely offset by a corresponding decrease in school generated funds revenue.	(635.1)
vii)	An increase in asset amortization of 37.6% due to 2011 being the first year the six new ASAP schools are being amortized. This increase is offset by the amortization of capital allocations in revenues.	10,433.3
viii)	A decrease in interest on supported and unsupported debt of 21.0% as a result of declining debt balances.	(199.4)

ix)	An increase in other interest and charges of 262.6% as a result of higher bad debt write off costs for uncollectable LAPP premiums from employees on leave.	254.9
x)	A reduction in losses on disposal of capital assets due to there being no losses recorded in 2011.	(4.9)
	Total	$ 34,250.2

Excess of Expenses Over Revenues

The excess of expenses over revenues for the year resulted in a deficit of $13.4 million as compared to a deficit of $11.5 million in 2009-2010.

Investment in Capital Assets

The amount as at August 31, 2011 of $119.2 million, as compared to $124.7 million as at August 31, 2010, represents the accumulated cost of assets financed from operating funds and block grant funding to August 31, 2011 less the related outstanding long term debt and accumulated amortization.

Capital Reserve

The Capital Reserve as at August 31, 2011 was $5.5 million as compared to $6.8 million on August 31, 2010. The decrease of $1.3 million is attributable to the funding of barrier free accommodation upgrades for four schools from capital reserve offset by proceeds on disposal of unsupported capital assets, revenue for repayment of funds, and interest income on sale of land in St. Albert.

Operating Reserve

The Operating Reserve as at August 31, 2011 was $27.5 million, a decrease of $6.6 million from last year which is represented by a transfer from operating reserve to offset the net deficit position in unrestricted net assets.

Unrestricted Net Assets

The unrestricted net assets received a transfer of $6.6 million from operating reserves to arrive at a balance at August 31, 2011 of nil, comparable to last year's balance of nil.

EDMONTON PUBLIC SCHOOL BOARD
ANALYSIS OF DEFICIT
YEAR ENDED AUGUST 31, 2011
(Amounts in Thousands)

2010/11 Planned Budget Deficit	**(8,526)**
Increase deficit by:	
Unbudgeted Infrastructure Maintenance Renewal Expenses	(12,332)
Shortfall of Unit Costs Compared to Actual Payroll Costs	(3,266)
Central Non-Carryforward Decision Unit Deficits to be Absorbed	(1,620)
Decrease deficit by:	
School & Decision Unit Capital Purchases moved from Operating	5,173
Increase in Central Carryforward Decision Unit Net Surpluses	4,666
Increase in School Net Surpluses	1,829
Investment Income Exceeding Budget	564
Unreconciled	68
Deficit at August 31, 2011	**(13,444)**