

MANAGEMENT REPORT

Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements of Hanover School Division (the "Division") are the responsibility of the Division's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. A summary of the significant accounting policies are described in Note 2 to the consolidated financial statements.

The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Division management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements. These systems are monitored and evaluated by management.

The Board of Trustees of the Division met with management and the external auditors to review the consolidated financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The consolidated financial statements have been audited by MNP LLP, independent external auditors appointed by the Board. The accompanying Auditors' Report outlines their responsibilities, the scope of their examination and their opinion on the Division's consolidated financial statements.

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Chairperson

Original Document Signed

Secretary-Treasurer

October 1, 2019

Independent Auditors' Report

To the Board of Trustees of Hanover School Division:

Opinion

We have audited the consolidated financial statements of Hanover School Division (the "School Division"), which comprise the consolidated statement of financial position as at June 30, 2019, and the consolidated statements of revenues and expenses and accumulated surplus, changes in net debt and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the School Division as at June 30, 2019, and the results of its consolidated operations, changes in net debt and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the School Division in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements. The supplemental information presented in the attached schedules is presented for the purpose of additional analysis and is not a required part of the consolidated financial statements. Such supplemental information has been subjected only to auditing procedures applied in the audit of the consolidated financial statements, taken as a whole.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the School Division's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the School Division or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the School Division's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School Division's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the School Division's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the School Division to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Winnipeg, Manitoba

October 1, 2019

MNP LLP

Chartered Professional Accountants

I hereby certify that this report and the statements and reports referenced herein have been presented to the members of the board of the Hanover School Division.

10/01/19
DATE

Original Document Signed
CHAIRPERSON

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30

Notes		2019	2018
	Financial Assets		
	Cash and Bank	-	-
	Due from - Provincial Government	3,476,909	3,890,635
	- Federal Government	96,336	57,530
	- Municipal Government	16,183,099	15,752,284
	- Other School Divisions	-	-
	- First Nations	-	-
	Accounts Receivable	191,511	205,278
	Accrued Investment Income	-	-
*	Portfolio Investments	10	10
		<u>19,947,865</u>	<u>19,905,737</u>
	Liabilities		
*	Overdraft	7,993,994	3,955,354
	Accounts Payable	2,170,897	2,050,657
	Accrued Liabilities	8,873,881	9,222,805
*	Employee Future Benefits	1,155,593	834,006
	Accrued Interest Payable	1,780,541	1,780,675
	Due to - Provincial Government	-	-
	- Federal Government	-	-
	- Municipal Government	-	-
	- Other School Divisions	-	-
	- First Nations	-	-
*	Deferred Revenue	2,789,959	2,370,883
*	Borrowings from the Provincial Government	91,098,187	88,712,407
	Other Borrowings	-	-
	School Generated Funds Liability	-	115,739
		<u>115,863,052</u>	<u>109,042,526</u>
	Net Assets (Debt)	<u>(95,915,187)</u>	<u>(89,136,789)</u>
	Non-Financial Assets		
*	Net Tangible Capital Assets (TCA Schedule)	124,410,387	116,333,989
	Inventories	308,936	249,965
	Prepaid Expenses	900,719	664,076
		<u>125,620,042</u>	<u>117,248,030</u>
*	Accumulated Surplus	<u>29,704,855</u>	<u>28,111,241</u>

See accompanying notes to the Financial Statements

**CONSOLIDATED STATEMENT
OF REVENUE, EXPENSES
AND ACCUMULATED SURPLUS**

For the Year Ended June 30

Notes	2019	2018
Revenue		
Provincial Government	72,036,237	69,907,225
Federal Government	-	-
Municipal Government	26,956,842	26,195,562
- Property Tax		
- Other	-	-
Other School Divisions	124,350	65,650
First Nations	-	-
Private Organizations and Individuals	553,700	597,536
Other Sources	284,685	271,837
School Generated Funds	2,157,496	2,077,333
Other Special Purpose Funds	-	-
	<u>102,113,310</u>	<u>99,115,143</u>
Expenses		
Regular Instruction	57,125,602	55,099,606
Student Support Services	12,539,740	12,116,226
Adult Learning Centres	-	-
Community Education and Services	190,777	184,935
Divisional Administration	2,352,879	2,194,498
Instructional and Other Support Services	2,622,663	2,663,514
Transportation of Pupils	3,957,748	3,949,571
Operations and Maintenance	9,070,925	8,995,494
* Fiscal	4,012,726	4,019,843
- Interest		
- Other	1,464,456	1,251,289
Amortization	5,091,548	5,055,514
Other Capital Items	-	119,902
School Generated Funds	2,090,632	2,081,746
Other Special Purpose Funds	-	-
	<u>100,519,696</u>	<u>97,732,138</u>
Current Year Surplus (Deficit) before Non-vested Sick Leave	<u>1,593,614</u>	<u>1,383,005</u>
Less: Non-vested Sick Leave Expense (Recovery)	<u>0</u>	<u>0</u>
Net Current Year Surplus (Deficit)	<u>1,593,614</u>	<u>1,383,005</u>
Opening Accumulated Surplus	28,111,241	26,728,236
Adjustments:		
Tangible Cap. Assets and Accum. Amort.	-	-
Other than Tangible Cap. Assets	-	-
Non-vested sick leave - prior years	-	-
Opening Accumulated Surplus, as adjusted	<u>28,111,241</u>	<u>26,728,236</u>
Closing Accumulated Surplus	<u>29,704,855</u>	<u>28,111,241</u>

See accompanying notes to the Financial Statements

* NOTE REQUIRED

CONSOLIDATED STATEMENT OF CHANGE IN NET DEBT

For the Year Ended June 30, 2019

	2019	2018
Net Current Year Surplus (Deficit)	<u>1,593,614</u>	<u>1,383,005</u>
Amortization of Tangible Capital Assets	5,091,548	5,055,514
Acquisition of Tangible Capital Assets	(13,167,946)	(9,401,218)
(Gain) / Loss on Disposal of Tangible Capital Assets	(8,500)	(19,295)
Proceeds on Disposal of Tangible Capital Assets	<u>8,500</u>	<u>19,295</u>
	<u>(8,076,398)</u>	<u>(4,345,704)</u>
Inventories (Increase)/Decrease	(58,971)	(8,177)
Prepaid Expenses (Increase)/Decrease	<u>(236,643)</u>	<u>64,300</u>
	<u>(295,614)</u>	<u>56,123</u>
(Increase)/Decrease in Net Debt	<u>(6,778,398)</u>	<u>(2,906,576)</u>
Net Debt at Beginning of Year	(89,136,789)	(86,230,213)
Adjustments Other than Tangible Cap. Assets	<u>-</u>	<u>-</u>
	<u>(89,136,789)</u>	<u>(86,230,213)</u>
Net Assets (Debt) at End of Year	<u><u>(95,915,187)</u></u>	<u><u>(89,136,789)</u></u>

CONSOLIDATED STATEMENT OF CASH FLOW

For the Year Ended June 30, 2019

	2019	2018
Operating Transactions		
Net Current Year Surplus (Deficit)	1,593,614	1,383,005
Non-Cash Items Included in Current Year Surplus/(Deficit):		
Amortization of Tangible Capital Assets	5,091,548	5,055,514
(Gain)/Loss on Disposal of Tangible Capital Assets	(8,500)	(19,295)
Employee Future Benefits Increase/(Decrease)	321,587	(197,797)
Due from Other Organizations (Increase)/Decrease	(55,895)	722,835
Accounts Receivable & Accrued Income (Increase)/Decrease	13,767	1,227
Inventories and Prepaid Expenses - (Increase)/Decrease	(295,614)	56,123
Due to Other Organizations Increase/(Decrease)	-	-
Accounts Payable & Accrued Liabilities Increase/(Decrease)	(228,818)	279,576
Deferred Revenue Increase/(Decrease)	419,076	576,676
School Generated Funds Liability Increase/(Decrease)	(115,739)	(30,223)
Adjustments Other than Tangible Cap. Assets	-	-
	<u>6,735,026</u>	<u>7,827,641</u>
Cash Provided by (Applied to) Operating Transactions		
	<u>6,735,026</u>	<u>7,827,641</u>
Capital Transactions		
Acquisition of Tangible Capital Assets	(13,167,946)	(9,401,218)
Proceeds on Disposal of Tangible Capital Assets	8,500	19,295
	<u>(13,159,446)</u>	<u>(9,381,923)</u>
Cash Provided by (Applied to) Capital Transactions		
	<u>(13,159,446)</u>	<u>(9,381,923)</u>
Investing Transactions		
Portfolio Investments (Increase)/Decrease	-	-
	<u>-</u>	<u>-</u>
Cash Provided by (Applied to) Investing Transactions		
	<u>-</u>	<u>-</u>
Financing Transactions		
Borrowings from the Provincial Government Increase/(Decrease)	2,385,780	766,585
Other Borrowings Increase/(Decrease)	-	-
	<u>2,385,780</u>	<u>766,585</u>
Cash Provided by (Applied to) Financing Transactions		
	<u>2,385,780</u>	<u>766,585</u>
Cash and Bank / Overdraft (Increase)/Decrease	(4,038,640)	(787,697)
Cash and Bank (Overdraft) at Beginning of Year	(3,955,354)	(3,167,657)
Cash and Bank (Overdraft) at End of Year	<u>(7,993,994)</u>	<u>(3,955,354)</u>

SCHEDULE OF TANGIBLE CAPITAL ASSETS

at June 30, 2019

	Buildings and Leasehold Improvements		School Buses	Other Vehicles	Furniture / Fixtures & Equipment	Computer Hardware & Software *	Land	Land Improvements	Assets Under Construction	2019 TOTALS	2018 TOTALS
	School	Non-School									
Tangible Capital Asset Cost											
Opening Cost, as previously reported	143,892,909	5,200,351	9,289,293	455,615	3,334,634	4,139,847	6,623,557	-	5,056,533	177,992,739	168,975,256
Adjustments	-	-	-	-	-	-	-	-	-	-	-
Opening Cost adjusted	143,892,909	5,200,351	9,289,293	455,615	3,334,634	4,139,847	6,623,557	-	5,056,533	177,992,739	168,975,256
Add:											
Additions during the year	2,580,744	-	559,749	-	139,980	32,829	1,079,427	-	8,775,217	13,167,946	9,401,218
Less:											
Disposals and write downs	-	-	231,476	-	-	-	-	-	-	231,476	383,735
Closing Cost	146,473,653	5,200,351	9,617,566	455,615	3,474,614	4,172,676	7,702,984	-	13,831,750	190,929,209	177,992,739
Accumulated Amortization											
Opening, as previously reported	49,485,140	1,940,116	5,794,571	343,930	2,348,608	1,746,385	-	-	-	61,658,750	56,986,971
Adjustments	-	-	-	-	-	-	-	-	-	-	-
Opening adjusted	49,485,140	1,940,116	5,794,571	343,930	2,348,608	1,746,385	-	-	-	61,658,750	56,986,971
Add:											
Current period Amortization	3,628,345	124,019	625,902	41,954	256,445	414,883	-	-	-	5,091,548	5,055,514
Less:											
Accumulated Amortization on Disposals and Writedowns	-	-	231,476	-	-	-	-	-	-	231,476	383,735
Closing Accumulated Amortization	53,113,485	2,064,135	6,188,997	385,884	2,605,053	2,161,268	-	-	-	66,518,822	61,658,750
Net Tangible Capital Asset	93,360,168	3,136,216	3,428,569	69,731	869,561	2,011,408	7,702,984	-	13,831,750	124,410,387	116,333,989
Proceeds from Disposal of Capital Assets	-	-	8,500	-	-	-	-	-	-	8,500	19,295

* Includes network infrastructure.

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

1. Nature of Organization and Economic Dependence

The Hanover School Division (the “Division”) is a public body that provides education services to residents within its geographic location. The division is funded mainly by grants from the Province of Manitoba (the “Province”), and a special levy on the property assessment included in the Division’s boundaries. The Division is exempt from income tax.

The Division is economically dependent on the Province for the majority of its revenue and capital financing requirements. Without this funding, the Division would not be able to continue its operations.

2. Significant Accounting Policies

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (“PSAB”) of the Chartered Professional Accountants of Canada.

a) Reporting Entity and Consolidation

The consolidated financial statements reflect the assets, liabilities, revenues and expenses of the operating fund, capital fund, and special purpose fund of the Division. The Division reporting entity includes school generated funds controlled by the Division.

All inter-fund accounts and transactions are eliminated upon consolidation.

b) Basis of Accounting

Revenues and expenses are reported on the accrual basis of accounting except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenses are recognized as they are incurred and measurable as a result of the receipt of goods or services and the creation of a legal obligation to pay. Expenses also include the amortization of tangible capital assets.

c) Fund Accounting

The fund method of accounting is employed by the Division to record financial transactions in separate funds as defined by Financial Reporting and Accounting in Manitoba Education (“FRAME”) in accordance with the purpose for which the funds have been created.

The Operating Fund is maintained to record all the day to day operating revenues and expenses. The Capital Fund is used to account for the acquisition, amortization, disposal and financing of capital assets. The Special Purpose Fund is used to account for school generated funds and charitable foundations controlled by the Division.

d) School Generated Funds

School generated funds are monies raised by the school, or under the auspices of the school, through extracurricular activities for the sole use of the school that the Principal of each school, subject to the rules of the school board, may raise, hold, administer and expend for the purposes of the school.

Only revenue and expenses of school generated funds controlled by the Division are included in the Consolidated Statement of Revenue, Expenses and Accumulated Surplus. To be deemed as controlled, a school must have the unilateral authority to make the decisions as to when, how and on what the funds are to be spent.

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

2. Significant Accounting Policies – Continued

d) School Generated Funds - Continued

Year end cash balances of all school generated funds are included in the Consolidated Statement of Financial Position. The uncontrolled portion of this amount is reflected in the School Generated Funds Liability account. Examples of uncontrolled school generated funds are parent council funds, other parent group funds, student council funds and travel club funds. Revenues and expenses of uncontrolled school generated funds are not included in the consolidated financial statements.

e) Tangible Capital Assets

Tangible capital assets are non-financial assets that are used by the Division to provide services to the public and have an economic life beyond one fiscal year. Tangible capital assets include land, buildings, buses, other vehicles, furniture and equipment and assets under construction.

To be classified as tangible capital assets, each asset other than land must individually meet the capitalization threshold for its class.

Asset Description	Capitalization Threshold (\$)	Estimated Useful Life (years)
Land Improvements	25,000	10
Buildings - bricks, mortar and steel	25,000	40
Buildings - wood frame	25,000	25
School buses	20,000	10
Vehicles	10,000	5
Equipment	10,000	5
Network Infrastructure	25,000	10
Computer Hardware, Servers & Peripherals	5,000	4
Computer Software	10,000	4
Furniture and Fixtures	5,000	10
Leasehold Improvements	25,000	Over term of lease

Grouping of assets is not permitted except for computer work stations.

Tangible capital assets are initially recorded at cost, which includes purchase price, installation costs and other costs incurred to put the asset into service.

All land acquired prior to June 30, 2006 has been valued by the Crown Lands and Property Agency.

For buildings acquired prior to June 30, 2005 where the actual cost was not known, the replacement value for insurance purposes as at June 30, 2005 was regressed to the date of acquisition using a regression index based on Southam and CanaData construction cost indices.

All tangible capital assets, except for land and assets under construction are amortized on a straight-line basis over their estimated useful lives. Land is not amortized.

One-half of the annual amortization is charged in the year of acquisition and in the year of disposal if not fully amortized.

Assets under construction are not amortized until the date of substantial completion. Interest on funds used to finance school buildings under construction is capitalized for the periods preceding the date of substantial completion.

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

2. Significant Accounting Policies – Continued

f) Employee Future Benefits

The Province of Manitoba pays the employer portion of the Teachers' Retirement Allowances Fund ("TRAF"), the pension plan for all certified teachers of the Division. The Division does not contribute to TRAF, and no costs relating to this plan are included in the Division's financial statements.

The Division provides retirement and other future benefits to its administrative employees as a defined contribution plan, under the Manitoba School Boards Association ("MSBA"). The Division adopted the following policy with respect to accounting for these employee future benefits:

Defined contribution plan

Under this plan, specific fixed amounts are contributed by the Division each period for services rendered by the employees. No responsibility is assumed by the Division to make any further contribution.

Non-vested sick leave benefits

Non-vested sick leave benefits are estimated using a net present value technique on the expected future utilization of sick benefits in excess of the amounts earned per year, to a maximum entitlement. The calculated dollar value of non-vested sick leave as at June 30, 2019 is \$557,304 (\$433,116 in 2018). These amounts are disclosed for compliance with PS2120 only and are not considered material for inclusion in the financial statements.

g) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Amortization is based on the estimated useful lives of capital assets. Employee future benefits are based on estimates of future obligations to the Division. Actual results could differ from management's best estimates, as additional information becomes available in the future.

h) Financial Instruments

Fair values:

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Division's designation of such instruments.

Classification:

Cash and bank, portfolio investments and overdraft	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities, employee future benefits, accrued interest payable, debenture debt, other borrowings, and school generated funds liability	Other financial liabilities

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

2. Significant Accounting Policies – Continued

h) Financial Instruments - Continued

Held for trading:

Held-for-trading financial assets and liabilities are typically acquired for resale prior to maturity or are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment income.

Loans and receivables:

Financial assets designated as loans and receivables are recorded at amortized cost using the effective interest method. Given the short-term nature of accounts receivable, their carrying value approximates fair value.

Other financial liabilities:

Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities. Given the short-term nature of accounts payable and accrued liabilities, employee future benefits, accrued interest payable and school generated funds liability, their carrying value approximates fair value. The carrying value of the debenture debt and other borrowings also approximates their fair value as there have been no significant changes to the underlying characteristics of the parties to the agreements.

Interest, currency and credit risk:

It is management's opinion that the Division is not exposed to significant interest, currency or credit risk from financial instruments. The Division is exposed to some credit risk from the potential non-payment of accounts receivable, however as the majority of the receivables are from local, provincial and federal governments, credit risk is minimal.

i) Liability for Contaminated Sites

A liability for remediation of a contaminated site is recognized at the best estimate of the amount required to remediate the contaminated site when contamination exceeding an environmental standard exists, the School Division is either directly responsible or accepts responsibility, it is expected that future economic benefits will be given up, and a reasonable estimate of the amount is determinable. The best estimate of the liability includes all costs directly attributable to remediation activity and is reduced by expected net recoveries based on information available at June 30, 2019.

At each financial reporting date, the School Division reviews the carrying amount of the liability. Any revisions required to the amount previously recognized is accounted for in the period revisions are made. The School Division continues to recognize the liability until it is settled or otherwise extinguished. Disbursements made to settle the liability are deducted from the reported liability when they are made.

j) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. At the inception of a capital lease, an asset and payment obligation is recorded at an amount equal to the lesser of the present value of the minimum lease payments and the asset's fair market value. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

3. Overdraft

The Division has an authorized line of credit with the Steinbach Credit Union of \$27,000,000 (\$27,000,000 in 2018) by way of overdrafts and is repayable on demand at prime less 0.875%; interest is paid monthly. Overdrafts are secured by temporary borrowing by-laws. As at June 30, 2019, the prime rate was 3.95%.

4. Employee Future Benefits

The Division sponsors a defined contribution pension plan, run by MSBA. The defined contribution plan is provided to administrative employees based on their age at the beginning of the year and rates of pay. Each age group under the MSBA pension plan has a specific percentage for the employees to contribute. The Division contributions equal the employee contributions to the plan. No pension liability is included in the financial statements.

The employee future benefit expense is a part of the Employee Benefits and Allowances expense account. It includes the Division’s contribution of \$1,221,580 for the year ended June 30, 2019 (\$1,100,485 in 2018).

Employee future benefits recorded as a liability represents maternity and parental leave payable for administrative employees.

5. Deferred Revenue

The deferral method of accounting is used for revenues received that, pursuant to legislation, regulation or agreement, may only be used for specific purposes. These amounts are recognized as revenue in the fiscal year the related expenses are incurred or services performed. The following is a breakdown of the account balance:

	Balance as at June 30, 2018	Additions for the year	Revenue recognized during year	Balance as at June 30, 2019
Education Property Tax Credit (“EPTC”)	\$ 2,240,710	\$ 2,671,211	\$ 2,240,710	\$ 2,671,211
Special grant	6,419	5,000	6,419	5,000
Other amounts	123,754	113,748	123,754	113,748
	<u>\$ 2,370,883</u>	<u>\$ 2,789,959</u>	<u>\$ 2,370,883</u>	<u>\$ 2,789,959</u>

6. School Generated Funds Liability

The cash and bank (overdraft) balance in the statement of financial position includes the non-controlled portion of school generated funds in the amount of \$nil (\$115,739 in 2018).

7. Debenture Debt

The debenture debt of the Division is in the form of twenty-year debentures payable, principal and interest, in twenty equal yearly installments and maturing at various dates from 2020 to 2039. Payment of principal and interest is funded entirely by grants from the Province of Manitoba, except for the debt on self-funded capital projects. The debentures carry interest rates that range from 3.000% to 7.250%. Debenture interest expense payable as at June 30, 2019, is accrued and recorded in Accrued Interest Payable, and a grant in an amount equal to the interest accrued on provincially funded debentures is recorded in Due from the Provincial Government. The debenture principal and interest repayments in the next five years are:

	Total
2020	\$ 9,797,755
2021	9,370,337
2022	9,095,653
2023	8,735,238
2024	8,438,082
	<u>\$ 45,437,065</u>

**HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019**

8. Net Tangible Capital Assets

The Schedule of Tangible Capital Assets (TCA), page 23 of the audited financial statements, provides a breakdown of cost, accumulated amortization and net book value by class. The amount of interest capitalized in the period included in Assets under Construction was \$66,701 in 2019 (\$16,092 in 2018).

9. Accumulated Surplus

The consolidated accumulated surplus is comprised of the following:

	2019	2018
Operating Fund		
Designated Surplus	\$ -	\$ -
Undesignated Surplus	3,407,529	3,412,887
	<u>3,407,529</u>	<u>3,412,887</u>
Capital Fund		
Reserved Accounts	\$ 1,023,526	\$ 807,355
Equity in Tangible Capital Assets	24,814,995	23,499,058
	<u>25,838,521</u>	<u>24,306,413</u>
Special Purpose Fund		
School Generated Funds	\$ 458,805	\$ 391,941
Total Accumulated Surplus	<u>\$ 29,704,855</u>	<u>\$ 28,111,241</u>

10. Municipal Government - Property Tax and related Due from Municipal Government

Education property tax or Special Levy is raised as the Division's contribution to the cost of providing public education for the students' resident in the division. The Municipal Government-Property Tax shown on the consolidated revenue and expense is raised over the two calendar (tax) years; 40% from 2018 tax year and 60% from 2019 tax year. Below are the related revenue and receivable amounts:

	2019	2018
Revenue - Municipal Government - Property Tax	<u>\$26,956,842</u>	<u>\$ 26,195,562</u>
Receivable - Due from Municipal - Property Tax	<u>\$16,183,099</u>	<u>\$ 15,752,284</u>

11. Interest Received and Paid

The Division received interest during the year of \$5,219 (\$3,744 in 2018) and interest paid during the year was \$4,079,427 (\$4,035,935 in 2018). Interest paid is comprised of interest expense of \$4,012,726 (\$4,019,843 in 2018) as outlined below, plus capitalized interest of \$66,701 (\$16,092 in 2017) included in construction in progress on the consolidated statement of financial position.

Interest expense is included in Fiscal and is comprised of the following:

	2019	2018
Operating Fund		
Fiscal-short term loan, interest and bank charges	\$ 214,794	\$ 190,181
Capital Fund		
Debenture interest	3,797,932	3,829,662
Total	<u>\$ 4,012,726</u>	<u>\$ 4,019,843</u>

The accrual portion of debenture debt interest expense of \$1,780,541 (\$1,780,675 in 2018) included under the Capital Fund – Debenture interest, is offset by an accrual of the debt servicing grant from the Province of Manitoba.

HANOVER SCHOOL DIVISION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019

12. Expenses by Object

Expenses in the consolidated statement of revenue, expenses and accumulated surplus are reported by function as defined by FRAME. Below is the detail of expenses by object:

	Actual 2019	Budget 2019	Actual 2018
Salaries	\$ 68,969,500	\$ 68,996,800	\$ 66,849,010
Employees benefits and allowances	4,842,817	4,731,000	4,683,325
Services	4,719,484	4,823,700	4,561,533
Supplies, materials and minor equipment	7,207,608	7,132,700	7,271,399
Interest	4,012,726	175,400	4,019,843
Payroll tax	1,464,456	1,420,900	1,251,289
Amortization	5,091,548	-	5,055,514
Transfers	2,120,925	1,918,800	1,838,577
Other capital items	-	-	119,902
School generated funds	2,090,632	-	2,081,746
	<u>\$ 100,519,696</u>	<u>\$ 89,171,100</u>	<u>\$ 97,732,138</u>

13. Non Financial Information

The 2019 student enrolments (FRAME) and transportation statistics, full time equivalent personnel, and senior staff allocations are unaudited and have been presented for information purposes only.

14. Capital Management

The Division's objective when managing capital is to ensure that its expenditures closely match their revenues. Capital consists of the various fund balances in the amount of \$29,704,855 (\$28,111,241 in 2018). The Division is not subject to externally imposed capital requirements. There have been no changes in the Division's approach to capital management during the period.

15. Special Levy Raised for La Division Scolaire Franco-Manitobaine

In accordance with Section 190.1 of The Public Schools Act, the Division is required to collect a special levy on behalf of la Division scolaire franco-manitobaine. As at June 30, 2019 the amount of this special levy was \$320,477 (\$270,407 in 2018). These amounts are not included in the Division's consolidated financial statements.

16. Commitments

The Division has equipment lease agreements. Future annual minimum operating lease commitments as at June 30, 2019 are as follows:

2019/20	\$ 897,143
2020/21	565,584
2021/22	412,327
2022/23	229,059
2023/24	11,218
Thereafter	nil

17. Subsequent Event

Hanover School Division received a debenture on July 15, 2019 in the amount of \$3,304,500 in fulfillment of Hanover School Division By-law No.5/2019. This debenture reimburses Hanover for certain capital projects recently undertaken.