

**DISTRICT PRACTICE:**

The Secretary Treasurer shall be responsible for:

1. Recommending the appropriate balances to be maintained in the internally restricted, contingency reserve and unrestricted accumulated operating surpluses.
2. Recommending any increases/decreases and transfers to/from the operating surplus. Approval by the Board shall be through the School District's annual budgeting process.
3. Recommending any revisions or amendment to this policy, as may be required from time to time, as a result of changes in Ministry of Education and Child Care "Ministry" directives, accounting standards, or economic conditions.
4. Present in the annual budgeting process transfers to local capital which are sufficient to allow efficient replacement or acquisition of assets consistent with the School District's capital plan. Transfers to local capital should be authorized through the budget bylaw or by separate board motion. They should be supported by a planned use of the local capital balance.
5. Present any transfer of funds between the operating fund and the capital fund not included in the School District's annual budgeting process to the Finance and Audit Committee and for approval by the Board.
6. Reporting to the public and Board.

**INTERNALLY RESTRICTED**

The accumulated operating surplus built up in the School District's operating fund that has been designated for specific uses is referred to as internally restricted. The following are examples of internally restricted categories:

1. Internally restricted due to nature of constraints on the funds. In recognition of some monies having constraints as to how they can be spent, funds may need to be internally restricted at the end of the fiscal year. Funds with external restrictions are to be included in Special Purpose Funds. Examples of categories are as follows:
  - Contractual obligations; and
  - Indigenous education spending target.

2. Internally restricted due to anticipated unusual expenses identified. To support effective planning, there may be situations where district management has identified unusual non-recurring expenses anticipated to be spent in the upcoming fiscal year that will not be funded by revenues of that year. Examples of categories (one-time expenses) are as follows:
  - Exempt staff compensation;
  - Staffing and labour relations;
  - Employee benefits;
  - Anticipated severance; and
  - Implementation of new curriculum.
  
3. Internally restricted due to operations spanning multiple school years:
  - Future years operations (not beyond the next two fiscal years);
  - Schools and department surpluses and carry-forwards (not beyond the next two fiscal years);
  - Online learning and international student programs;
  - Operating projects in progress;
  - Technology, financial software transition, utilities, equipment, and capital projects not specifically identified for specific initiatives; and
  - Strategic planning in context to the long-term facilities plan.

#### **CONTINGENCY RESERVE OR UNRESTRICTED OPERATING SURPLUS**

A portion of unrestricted surplus established to mitigate any negative impact that short-term volatility or emergent needs might cause.

1. Upon review of the annual financial statements, the Board will restrict a portion of accumulated operating surplus for the purpose of forming a contingency reserve.
  
2. The contingency reserve will be sufficient to reduce, to an appropriate level, financial forecast risk and/or unforeseen circumstances.
  - a. **For major emergent operating situations:** Such emergent situations cannot be anticipated and budgeted for (inclement weather, forest fires, and major equipment failure) and it may not be feasible to absorb the cost of such events in other budget areas in any given year.

- b. **For one-time and intermittent projects:** The School District undertakes certain one-time and/or intermittent projects that are larger in terms of costs. If these projects were funded from annual per-pupil based operating grants from the Ministry, annual fluctuations in educational service levels may result; therefore, it is not prudent to fund these projects from current annual per-pupil based operating grants from the Ministry.
- c. **To offset unrealized revenues:** Some of the school districts revenue sources (International Student Program, facility rentals) are cyclical in nature and thus are subject to downturns in the economy. The School District tries to anticipate economic downturns by budgeting for a base dollar amount of these revenues in its general operations. Despite its best efforts, the School District is exposed to the possibility of unrealized revenues and/or declines in base revenues from year to year. It is not always possible to count on budgetary savings or other revenues to offset these shortfalls.
3. If accumulated operating surplus available and restricted for the purpose of the contingency reserve is not sufficient, the Board will allocate additional funds from the annual budget of the subsequent fiscal year to increase the contingency reserve.
4. The contingency reserve is to be used only to fund additional cost pressures that result from circumstances beyond the school district's control, or, with the Board's approval, in response to unforeseen circumstances.
5. When use of the contingency reserve reduces the balance below what is determined to be sufficient, the Board will adopt strategies for replenishing the contingency reserve within an appropriate timeframe.
6. The School District needs to maintain unrestricted operating surplus balances for working capital purposes to maintain operating expenditures before operating grants from the Ministry are received.
7. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.
8. The School District may also require emergency funds from time to time, from its unrestricted operating surplus balance, for unforeseen costs.
9. The amount of Unrestricted Operating Surplus at the end of a fiscal year should be no less than 1% and no more than 3% of total operating budget.

**RESTRICTED FOR FUTURE CAPITAL COST SHARE**

To support major capital projects that are identified in the board’s 5-year Capital Plan and approved by the Ministry for concept plan or business case development, boards may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval.

**ACCUMULATED DEFICITS**

Under section 156(12) of the *School Act*, a board must not incur a deficit of any kind unless the Board has the approval of the minister or meets criteria prescribed by order of the minister. The criteria for incurring a deficit is prescribed in Section 3 of the Accounting Practices Ministerial Order.

Consistent with this primary and secondary legislation, under ministry policy, a request to incur an accumulated operating deficit will only be approved if it is submitted by the Board Chair, or on a motion from the Board and only if the Board can explain why the accumulated deficit has been incurred. The Board must not have a history of multi-year accumulated deficits, must have retired any previous accumulated deficits as required by the ministry, and must:

- Indicate the nature of the accumulated deficit;
- Demonstrate how the accumulated deficit will be repaid (generally within one to three years);
- Indicate the percentage that the accumulated operating deficit is under budgeted expenditures;
- Have appropriated, to the current year, all accumulated surplus from prior years; and
- Submit a deficit retirement plan.

The Minister may seek additional information to evaluate a Board’s request if the Board does not meet the above criteria. Approval will be considered on a case-by-case basis. The Minister may specify terms or conditions directly related to the retirement of the deficit prior to approving the request (e.g., that a debt be retired at a minimum of 1/3 the total debt over a three-year period). The Minister will require audited financial statements to approve the accumulated deficit.

**PLANNING, REPORTING AND COMMUNICATING TO PUBLIC**

1. The Board will provide opportunities for local First Nations, Métis Community, partner groups and the public to provide input through the three-year financial plan and budget development process to allow consultation on the accumulated operating surplus. The engagement process and the accumulated operating surplus documents will be provided on the School District’s website.
2. Accumulated Operating Surplus balances and changes will be reported in the Annual Financial Statements.



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### ACCUMULATED OPERATING SURPLUS

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3. The School District must provide the Ministry with an annual report on the budget allocation decisions (including operating surplus and local capital) demonstrating that approved allocations support Boards' strategic objectives. Appendix A will be used to report on operating surplus and Appendix B to report on Capital surplus.
4. To ensure the Ministry receives all information relevant to operating surplus the Secretary Treasurer will provide additional information explaining how the funds were accumulated and how the operating surplus will be used through the Financial Statement Discussion and Analysis (FSD&A). The FSD&A will explain how operating surplus was used to support Board strategic plans.