



School District No. 22 (Vernon)

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Use of Surplus Budget Report to the Board

April 27, 2016

Introduction

The purpose of this document is to provide an overview of financial reporting requirements, the current status of surpluses, and recommendations related to surpluses.

The Board manages its financial resources in three distinct areas: the operating fund, special purpose funds, and capital funds. The Board's annual budgets and financial statements encompass all three of these areas.

The Board goes through a budget development process in the spring of each year to adopt an Annual Budget Bylaw for the next fiscal year of July 1st to June 30th. This is based upon a number of projections and assumptions.

The Ministry of Education recalculates funding allocations in the fall based upon actual enrolments as at September 30th of each year. The Minister then typically requires an Amended Annual Budget to be prepared, adopted by bylaw by the Board and submitted to the Ministry by February 28th for that current fiscal year.

The Board's current operating revenue is approximately \$78 million. Budget estimates are developed to reflect anticipated costs. Within the operations of the school district, there are numerous expenses that are outside of the control of the school district. Staff absences and weather conditions are two examples of issues that can impact the actual costs the district incurs. Spending and expense patterns vary over the years making it difficult to accurately predict the actual surplus that will be realized at the end of the year.

Boards of Education are not permitted to incur a deficit of any kind and therefore must plan appropriately. This results in surpluses being realized at the end of each year.

It is recognized that the fiscal resources allocated may be greater or less than the cost of providing the service. All those involved in managing the budget are expected to at all times be governed by prudence, remembering that the object is to meet the District's educational and operational objectives. Any funds remaining after the objectives have been met will become reserved for general budget management purposes. (Policy 2.15)

At the end of each year, financial statements are prepared and approved by the Board. This includes the actual surpluses realized. The Board is then in a position to determine how best to utilize these surpluses.



Legislative Background

The following sections of the School Act are provided for reference and background. These sections are not a complete and exhaustive list of all legislation or regulations related to budgets and financial statement reporting.

Pursuant to section 156 (1) of the *School Act* the Board must

- (a) maintain budgetary control over expenditures,
- (b) in accordance with orders of the minister,
 - (i) account and keep accounting records for funds, and
 - (j) prepare and submit to the minister financial reports and statements, in the form, with the information and at the time required by the minister, and
- (c) designate specific funds in accordance with the requirements specified by the minister.

Pursuant to section 156 (12) of the *School Act*, a Board must not incur a deficit of any kind unless the board

- (a) has the approval of the minister, or
- (b) meets criteria prescribed by order of the minister.

Pursuant to section 111 of the *School Act*, Boards of Education must prepare an annual budget in the form and containing the content specified by the Minister. Estimated expenditures must not exceed estimated revenues plus appropriated operating reserves.

Pursuant to section 113 (1) of the *School Act* the Board, by bylaw,

- (a) must adopt an annual budget on or before June 30 of each year for the next fiscal year, and
- (b) may amend the annual budget adopted under paragraph (a).

Pursuant to section 113 (2) of the *School Act*, if an operating grant to a Board is amended under section 106.3 (6) or a grant is withheld or reduced under section 117 (1), the minister may order that

- (a) the Board, by bylaw, must amend its annual budget, and
- (b) the Board must send a certified copy of the amended annual budget to the minister within 60 days of the order of the minister.

Pursuant to section 157 (1) of the *School Act*, the Board must cause to be prepared each fiscal year by the secretary treasurer or other person authorized by it, financial statements of the school district respecting the preceding fiscal year.

Pursuant to section 157 (2) of the *School Act*, the financial statements required under subsection (1) must be prepared on or before September 15 of each year, in accordance with

- (a) subject to paragraph (b), generally accepted accounting principles, and
- (b) the directions of the minister.



Operating Accumulated Surplus (June 30, 2015)

The district ended the 2014/15 school year with an Accumulated Operating Surplus of \$4,285,027. This amount was reported in the Financial Statements that were audited and approved by the board in a public board meeting.

In the budget report provided to the Board at their public board meeting on November 25, 2015, the following information was provided.

An operating surplus of \$4,285,027 was carried forward at the end of the 2014/15 fiscal year. Within that amount, a variety of department or school level unused budget surpluses were rolled forward into the following fiscal year. The following operating surpluses will be included in the amended 2015/16 operating budget and will be offset by increased budgeted expenses:

School Supplies and Projects	\$ 254,835
Special Education Programs	\$ 275,943
Curricular Programs	\$ 151,385
Professional Development	\$ 141,314
CUPE Union Obligations	\$ 305,169
Aboriginal Education	\$ 184,021
Maintenance Projects	\$ 100,000
<u>TOTAL</u>	<u>\$ 1,412,667</u>

The district has established a contingency fund or approximately 1.3 % of operating expenses for unforeseen issues.

Based on the need to provide budgets to support the capital needs to purchase computers, equipment, furniture, vehicles, and other improvements that are required to be capitalized and funded out of operating revenues through the Capital Fund, budgets need to be established to cover the costs of these items through the transfer to Local Capital.

The following will be included in the amended budget documents:

District Contingency Fund	\$ 1,000,000
Interfund Transfer to Local Capital	\$ 1,872,360
<u>TOTAL</u>	<u>\$ 2,872,360</u>

The above details were included in the 2015/16 Amended Annual Budget Bylaw. The contingency fund amount was slightly revised in the bylaw to an amount of \$1,075,329.

This Bylaw was read a first time on January 27, 2016, a second time on February 10, 2016, and a third time and adopted on February 24, 2016. All readings were done at public board meetings.



Local Capital Accumulated Surplus (June 30, 2015)

The board ended the 2014/15 school year with a Local Capital Surplus of \$4,155,068. This amount was reported in the Financial Statements that were audited and approved by the board in a public board meeting.

The Local Capital Surplus was comprised of:

Restricted Local Capital	\$ 1,455,068
Unrestricted Local Capital	\$ 2,700,000
<u>TOTAL</u>	<u>\$ 4,155,068</u>

Restricted Capital funds require the approval of the Minister to be spent on approved projects.

Unrestricted Capital funds may be allocated and spent at the Board's discretion. The Board has the discretion to decide to transfer any portion of the unrestricted local capital surplus amount to the operating fund.

No decisions have been made with respect to the use of any of these Local Capital Surpluses.

Current Status - 2015/16

The district has been working to ensure budget estimates reflect anticipated costs.

As stated previously, it is recognized that the fiscal resources allocated may be greater or less than the cost of providing the service. All those involved in managing the budget are expected to at all times be governed by prudence, remembering that the object is to meet the District's educational and operational objectives. Any funds remaining after the objectives have been met will become reserved for general budget management purposes. (Policy 2.15)

The district expects to end the year with an operating surplus. It is difficult to predict the level of this surplus.

In addition, the district has not yet received the funding announcement for our February student enrolment count. The district identified and reported additional special education enrolment which will likely result in additional funding for this enrolment growth after September 30, 2015. This additional funding is estimated to be approximately \$600,000 if approved.



Planning for 2016/17

The district is currently proceeding with the approval of the 2016/17 Annual Budget Bylaw. This Budget is developed consistent with the Budget Guiding Principles and Budget Criteria.

The district is currently in the process of developing three significant plans that will likely result in recommendations for the board:

- 1) Long Term Facilities Plan
- 2) Technology Plan
- 3) District Strategic Plan

It is unknown what financial impacts will result from any approved recommendations from these plans.

These plans will likely establish long term directions for the district and therefore resources should be established and maintained to allow for the implementation of decisions made by the Board.

A number of the budget criteria approved directly relate to the issue of surpluses.

- ▶ District contingency reserve is established and maintained
- ▶ Ongoing costs should not be greater than ongoing revenues
- ▶ One-time revenues and surpluses shall only be used to cover one-time costs

Recommendations

- 1) That the district's financial planning and reporting processes continue to be consistent with the Budget Development Guiding Principles and Budget Criteria.
- 2) That the district continues to publicly report details of surpluses and interfund transfers between the operating fund, special purpose funds, and capital funds.
- 3) That surpluses be retained as much as possible until the district has completed the Long Term Facilities, Technology, and District Strategic Planning processes and the Board has made decisions regarding the recommendations and implementation of these Plans.