



# **POLICY**      **Surplus Retention and Deficit Recovery Policy**

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## **1. Statement of Policy**

Funds allocated to Education Bodies are approved in the Main Estimates as part of the overall Department of Education, Culture and Employment (ECE) appropriation and allocated to provide educational services to all residents of the Northwest Territories. Accumulated surplus operations and maintenance (O&M) and capital reserve funds, as defined by the Minister, should be redirected within the education system to address changing needs and pressures in other areas of the system.

## **2. Principles**

ECE will be guided by the following principles when applying this Policy:

- (1) Funding appropriated in the Legislative Assembly for use in the education system should remain within the education system;
- (2) Education authorities should be held accountable for their financial performance and be able to give full and accurate accounts of their financial activities
- (3) Education Bodies should use resources effectively, economically and without waste in achieving their policies and end-user benefits; and
- (4) Funding and the use of that funding should be reported publicly.

## **3. Scope**

This Policy applies to all operations and maintenance and capital funding and expenditures unless otherwise stated for Education Bodies.

## **4. Definitions**

The following definitions apply to this Policy:

Accumulated Surplus/(Deficit): The accumulated surplus or deficit represents the net recognized economic resources (all assets and liabilities) of the Education Body (Body) on June 30 of any given fiscal year. When total assets exceed total liabilities, the Body is in an accumulated surplus position. When total liabilities exceed total assets, the Body is in an accumulated deficit position. It does not include capital reserves.



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Capital Reserves: Refers to funds set aside for purchase of tangible capital assets or investments to extend the life of an asset. For purposes of this policy, capital reserves are not included in the Education Bodies' accumulated surplus/deficit.

Department: Refers to the Department of Education, Culture and Employment.

Minister: Refers to the Minister of for Education, Culture and Employment

Education Bodies: Refers to the 10 Education Bodies established under the Education Act tasked to oversee the financial administration, management and accountability for delivering the education program.

Expenses: Amounts, including losses that are decreases in economic resources, either by way of decreases in assets or increases in liabilities resulting from the operations, transactions and events of the accounting period. For purposes of this policy, amortization of tangible assets used in delivering education programs will not be included in calculating expenses.

Net Debt: Measured as the difference between an Education Bodies' liabilities and financial assets.

Operating Surplus/(Deficit): The difference between the annual revenues and annual expenses.

Revenues: Amounts, including gains that are increases in economic resources, either by way of increases of assets or decreases of liabilities resulting from the operations, transactions and events of the accounting period. (PSAB 1000.46). Revenues do not include borrowings such as proceeds from debt issues or transfers from other governmental units in the government reporting entity or amounts collected on behalf of others. For purposes of this policy, revenues include the Department's contributions, other Government of the Northwest Territories (GNWT) Departments' contributions, third-party contributions, property taxes and other revenues sources such as investment income, donations and rental income. Revenue repayable to the GNWT and third parties are excluded from revenue.

Tangible Capital Assets: Represent non-financial assets having physical substance that are held for use in the production or supply of services; have economic lives extending beyond an accounting period; are to be used on a continuing basis; and are not for sale in the ordinary course of operations.



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## **5. Authority and Accountability**

### (1) General

This Policy is issued under the Authority of the Financial Management Board. The authority to make exceptions and approve revisions to this Policy rests with the Financial Management Board.

Authority and accountability is further defined as follows:

- a) **Minister of Education, Culture and Employment:** The Minister of Education, Culture and Employment (the Minister) is accountable to the Financial Management Board for the implementation of this Policy.
- b) **Deputy Minister:** The Deputy Minister of Education, Culture and Employment (the Deputy Minister) is accountable to the Minister and responsible to the Minister for the administration of this Policy.

### (2) Specific

- a) **Financial Management Board**

The Financial Management Board:

- (i) may approve the Department's requests to reallocate recovered surpluses to fund deficits in the Education system.

- b) **Minister**

The Minister:

- (i) may make recommendations to the Financial Management Board regarding amendments to or the implementation of this Policy;
- (ii) will establish standards and guidelines as necessary for the implementation of this Policy.



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c) Deputy Minister

The Deputy Minister or delegate:

- (i) may recommend to the Minister standards and guidelines necessary to the implementation of this Policy.

## **6. Provisions**

(1) Surplus

- a) If an Education Body has an accumulated surplus, it may retain a surplus equivalent to seven percent of its annual audited revenues or \$250,000, whichever is greater.
- b) If an Education Body has an accumulated surplus of more than seven percent of revenue or \$250,000, whichever is greater, within ninety (90) days following the submission of the Education Body's audited financial statements for that fiscal year, the Education Body must submit to the Minister for approval a surplus retention plan to reduce the surplus to its required level. The plan must be in accordance with the parameters outlined below:
  - (i) Surplus funding can only be used for O&M expenditures;
  - (ii) Surplus funding can only be used for one-time expenditures that do not directly or indirectly create an expectation of, or obligation for, indefinite or ongoing expenditures;
  - (iii) Surplus funding must be fully expended in the fiscal year following the year in which the surplus was incurred; and
  - (iv) Surplus funding must be used on educational programs.
- c) The Minister will review a proposal for approval submitted by an Education Body and will provide a response within 45 days of receipt of the proposal.
- d) If the Education Body does not submit a proposal, or if the proposal is not approved by the Minister, the surplus in excess of seven percent or \$250,000, whichever is greater, will be recovered by the Minister in the Education Body's next fiscal year using the method the Minister determines is most appropriate.



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## (2) Capital Reserves

- a) An Education Body must submit to the Minister an annual capital investment plan to retain its capital reserves.
- b) The investments must be for tangible capital assets as defined in the GNWT Financial Administration Manual, section 510.
- c) If the Education Body does not submit an annual capital investment plan or if the plan is not approved by the Minister, the capital reserve will be recovered by the Minister in the Education Body's next fiscal year using the method the Minister determines is most appropriate.

## (3) Deficit

- a) An Education Body shall not budget for an operating deficit in any fiscal year, unless there is an accumulated surplus sufficient to fully and completely cover the deficit.
- b) If unexpected circumstances produce an accumulated deficit, a three-year recovery plan must be submitted to and approved by the Minister within ninety (90) days of the deficit's existence and quantity becoming reasonably certain and known.
  - (i) An Education Body may, in writing, request an extension of time from the Minister to file the deficit recovery plan. The Minister, at his or her discretion, may grant an extension of time in thirty (30) day increments.
  - (ii) Notwithstanding ss. 6(3)(b)(i), an extension shall not exceed the deadline by which the Education Body must submit its next annual budget to the Minister.
- c) If an Education Body does not submit a deficit recovery plan, or submits a plan that is unacceptable to the Minister, the Minister may:
  - (i) Develop an acceptable deficit recovery plan and direct the Education Body to implement it;
    - a. An Education Body shall implement a deficit recovery plan when directed to do so by the Minister under ss. 6 (3) (c) (i).



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- (ii) Remit the unacceptable plan back to the Education Body for reconsideration and amendment. If the Minister remits the plan, he or she shall provide reasons why the plan is unacceptable so that the Education Body may develop an acceptable plan; or,
  - (iii) Take any other remedial action authorized by legislation or this policy that the Minister deems reasonable to achieve compliance with this Policy.
- d) If an Education Body refuses to develop an acceptable deficit recovery plan or refuses to implement a plan when directed to do so by the Minister, the Minister may commence proceedings under s. 113 of the Education Act, SNWT 1995, c 28.

### **7. Review**

The Department will review the suitability of the standards and guidelines established pursuant to this Policy at least every five years and may make recommendations to the Minister.

### **8. Prerogative of the Financial Management Board**

Nothing in this Policy shall in any way be construed to limit the prerogative of the Financial Management Board to make decisions or take action respecting the establishment or revision of accumulated surplus and deficit policy outside the provisions of this Policy.

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Chair of the  
Financial Management Board