



## Administrative Procedure 524 – Accumulated Operating Surplus Reserves

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### AP 524 – Accumulated Operating Surplus Reserves

#### Purpose

The Board of Education is responsible for ensuring the district is protected financially from extraordinary circumstances which would negatively impact school district operations and the education of students. It is prudent financial management to set aside a minimum level of accumulated operating surplus to help mitigate current and future risks facing the school district, support educational goals, ensure financial health and stability, and to ensure that the district does not go into an accumulated deficit position.

The purpose of this administrative procedure is to ensure the District, in alignment with guidance from the Ministry of Education and Policy 2.16, maintains adequate surplus levels in order to provide a measure of resiliency to address annual fluctuations in funding, one-time costs and unforeseen expenditures.

#### Definitions

- **Accumulated Operating Surplus:** means the accumulated excess of Operating Revenues over Operating Expenses less Inter-Fund Transfers from current and prior years. Accumulated Operating Surplus is a term defined by the Public Sector Accounting Standards (PS1201). While boards of education may use the term Reserves to denote 'Surplus', when it comes to financial statements and budgets the term Surplus should be used.
- **Accumulated Operating Deficit:** means the accumulated excess of Operating Expenses over Operating Revenues less Inter-Fund Transfers from current and prior years.
- **Annual Operating Surplus:** is the amount by which a fiscal year's Operating Revenue exceeds that same fiscal year's Operating Expenses and Interfund Transfers.
- **Annual Operating Deficit:** is the amount by which a fiscal year's Operating Expenses and Interfund Transfers exceed that same fiscal year's Operating Revenues.
- **Inter-Fund Transfers:** means the transfer of funds from one fund to another (e.g., between Operating Fund and Capital Fund).
- **Internally Restricted Operating Surplus:** means a portion of an Accumulated Operating Surplus that has been set aside through a board motion for specified use in future years.
- **Local Capital:** is comprised of previous years' available operating surpluses, which are transferred to Local Capital with board approval; revenues from sale of capital assets; and investment income earned on these funds.
- **Operating Expenses:** are the total of all expenses in the Operating Fund as disclosed on Schedule 2 of the annual financial statements.

## AP 524 – Operating Surplus/Deficit

- **Operating Revenue:** is the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the annual financial statements.
- **Surplus Reserves:** Accumulated Surplus which is set aside and identified under Reserve categories
- **Special Purpose Fund:** consists of targeted funding provided to the school district for a specific purpose. Pursuant to Sections 156(4) and (5) of the School Act, each special purpose fund must be accounted for in accordance with the terms of that special purpose fund. Treasury Board Restricted Contribution Regulation 198/2011, issued in November 2011, defines a restricted contribution as ‘a contribution that is subject to a legislative or contractual stipulation or restriction as to its use’. Special purpose fund expenses are contingent on the amount of revenue received for the purpose of providing a specific service or program.
- **Unrestricted Operating Surplus (Contingency):** means the accumulated Operating Surplus built up in the School District’s Operating Fund that has not been designated for specific uses.

### Procedures

This Administrative Procedure outlines the circumstances in which the Board can restrict operating surplus as well as transfer available operating surplus to Local Capital. It also sets out specific categories of operating surplus, **surplus reserves**, with the goal of having resources necessary to meet both planned and unplanned obligations while spending as much of the district’s resources as possible on current or multi-year programs, services, or initiatives. It is also important to recognize however, that operating surpluses are one-time funds and cannot be used to sustain a district’s ongoing operations. Further, any appropriation (use) of accumulated **surplus reserves** should have a clear and identified link to how it supports the strategic plan and other operational priorities of the school district.

School District **reserves** shall be created out of any district accumulated operating surplus in accordance with the related policy (2.16) and the procedures outlined herein. Reserves are created to protect the district from unforeseen circumstances including a potential deficit or to roll over targeted monies in the Operating Fund to a future year. Unique amongst organizations in the public sector, school districts are permitted to incur (budget for) annual deficits, but only if they have sufficient accumulated operating surplus to cover the annual deficit. An accumulated operating surplus indicates that a school district has net resources that can be used to provide future one-time or multi-year services, which are in addition to ongoing operational costs. **Surplus reserves** are categorized as either internally restricted for particular use, or unrestricted.

### Restricted Surplus

The Board can set aside a certain portion of operating surplus for items that are linked to multi-year strategic objectives and future operational needs. When funds are restricted for use in future years, boards must ensure that the restrictions are made only for defined operational needs with defined timelines, including services or purchases that are directly related to the strategic plan, operational needs, and enhanced educational outcomes for students.

Where an accumulated surplus is available the Board will allocate restricted surplus funds, under the applicable **surplus reserve** categories, in the manner set out below:

- a. Financial Constraints/Targeted Fund Reserve: The Boards receive grants and revenue from other sources for specific or targeted purposes. If these grants and funds are not fully spent the balance is internally restricted to be used for specific purposes in future years. Also, the Board may have commitments to spend certain operating funds in future years on identified activities. These commitments may be legally binding (e.g., professional development funds outlined in collective agreements) or implied but not legally binding (e.g., donated funds not explicitly restricted by the donor). The Board may internally restrict operating surplus to enable the board to meet these obligations.
- b. Anticipated Unusual Expense Reserve: There may be situations where Management or the Board have identified one-time or intermittent projects that are not able to be funded by estimated revenues in that fiscal year. This could include implementation of new initiatives or programing, short-term staffing needs or the impact of ongoing emergent events, such as a global pandemic.
- c. Operations Spanning Multiple School Years Reserve: To support effective operational planning there will be situations where operating surplus funds may need to be carried over to future years. This could include school rollovers, purchase order commitments, operating projects in progress and educational programs spanning multiple years such as the International Student Program.
- d. Future Capital Cost Share Reserve: 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, the Board may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval.

### Unrestricted Surplus (Contingency)

The Board will maintain a reasonable unrestricted operating surplus (contingency) to support effective operational planning, provided there are funds remaining following any restricted allocations. Situations may arise that require emergent or contingent funds for unexpected increases in expenses and/or decreases in anticipated revenues. In such cases, the Board needs to have access to enough funds to continue to provide educational services and maintain regular operations without implementing one-time service cuts.

Unrestricted surplus examples could include, but are not limited to, the following:

- Unanticipated revenue losses
- Unexpected staffing and/or replacement costs
- Student enrollment fluctuations
- The impact of emerging events such as a pandemic or natural disaster

### Local Capital

Local Capital includes the Board's portion of any proceeds from the disposition of capital assets, transfers from operating funds and interest earned on Local Capital funds restricted for the purchase of tangible capital assets.

Transfers from operating funds to Local Capital must be made only for specific initiatives that have a clear linkage to Board's strategic goals, that address capital asset investments, or that meet the specific needs of the school district.

Transfers between the Operating and Local Capital Fund not included in the Annual Budget, Amended Annual Budget, or Financial Statement approval process will be recommended to and approved by the Board.

Any transferred funds that are not linked to strategic goals, or that have not been used within the timelines identified for the relevant initiative, may see the Ministry require that the Board redirect these funds to other capital project priorities.

### Priority Allocation of Operating Surpluses

Allocation of Operating Surplus should align with Board Goals, the districts Strategic or Operational Plans, or address emergent needs. Allocations should include a transfer to Local Capital if long range facilities planning indicates funds are required for future capital projects. Surplus allocations should clearly identify what the funds are in support of as well as indicate a timeline for expense, for both transparency and adherence to Ministry Policy.

### 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 are 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 3 years)
- Indicate the percentage that the accumulated operating deficit is under budgeted expenditures
- Have appropriated, to the current year, all accumulated operating 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.

### Priority Application for Operating Deficits

In the event of an anticipated or actual annual operating deficit, the Secretary Treasurer is authorized to take the following action,

- Reduce budget allocations by first offsetting higher than expected spending in one area through savings or reductions in another.
- Review the status of the various reserves and, in collaboration with Senior Leadership Team, transfer any available funds from appropriate reserves to the operating deficit to take a reserve below the minimum allocations; Board approval must be sought.
- If a deficit still remains, and the amount exceeds the Board's ability to mitigate it through retirement of any available surplus balances, the amount shall be subject to the Accumulated Deficit section of the Administrative Procedure.

### Oversight and Reporting

The Secretary Treasurer will provide the Board of Education with periodic reports regarding any change in the accumulated operating **surplus reserve** position of the district, as well as recommend any necessary increases/decreases in restricted or unrestricted balances, in accordance with this Procedure.

Following a stakeholder discussions and engagement process, including the local community, education partners, our local First Nations and Mid Island Métis Nation, the Secretary Treasurer will provide the Board with a report detailing the recommended distribution of any operating surplus, including transfers to reserves or deficit retirement, by September 30<sup>th</sup> of each year for their approval.

In order to comply with Ministry guidelines and for transparency purposes, restricted surplus reserves must have a supporting financial schedule that indicates the intended purpose, timeline for the expense (1 or more years), and which identifies a direct link to a Board goal, or either the districts Strategic or Operational plan; the districts Financial Statement and Discussion Analysis (FSD&A) will include this information.

**The districts website provides the stakeholder and community engagement process that supports the creation of the Annual Budget, which is identified in the Annual Budget Calendar for the applicable fiscal year.**

### References

- The School Act of BC, Regulations and Ministerial Orders
- Operating Surplus / Deficit Policy

#### Legal References:

**Monitoring Method:** *Superintendent/Secretary-Treasurer*

**Monitoring Frequency:**

**Adopted:** 2018.10.10

**Amended:** 2021.09.01