



Administrative Procedure 524 – Operating Surplus/Deficit

AP 524 – Operating Surplus/Deficit

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Operating Surplus / Deficit Procedure Statement

The Operating Surplus / Deficit Procedure shall be operationalized in adherence to the Board Governance Policy 2.16 Operating Surplus / Deficit.

School District reserves shall be created out of any District accumulated operating surplus in accordance with the related policy and the procedure 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. Reserves are either restricted for use or unrestricted. Annual accumulated surpluses will be applied in a priority order for the allocation of operating surpluses or the application of operating deficits. The reserves established will be:

1. Internally Restricted Reserves
 - a) Planning Reserve (Multiple Years) – Restricted
 - b) Staffing/Unusual Expenses Reserve – Restricted
 - c) Targeted Constraints Reserve – Restricted
 - d) Emergency/Project Reserve – Restricted
 - e) Emergency Capital Asset Replacement Reserve – Restricted
2. Unrestricted Contingency Reserve

Glossary

The following terms used in this Policy are defined as follows:

"Accumulated Operating Surplus" means the accumulated excess of Operating revenues over Operating expenses from prior years.

"Accumulated Operating Deficit" means the accumulated excess of Operating expenses over Operating revenues from prior years.

"Annual Operating Deficit" is the amount by which a fiscal year's Operating expenses exceed that same fiscal year's Operating revenues.

"Operating Expenses" are the total of all expenses in the Operating Fund as disclosed on Schedule 2 of the financial statements.

"Operating Revenues" are the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the financial statements.

"Annual Operating Surplus" is the amount by which a fiscal year's Operating revenue exceeds that same fiscal year's Operating expenses.

"Contingency Reserve(s) or Reserve(s)" are funds taken from an Accumulated Operating Surplus that are established to

- mitigate the district against unexpected increases in expenses and/or decreases in revenues
- restricted due to constraints on how the funds are spent

- support planning

They can be either restricted or unrestricted.

“Unrestricted Operating Surplus” means the accumulated Operating surplus in the School District’s Operating Fund that has not been designated for specific uses.

“Restricted Operating Surplus” means the accumulated Operating surplus in the School District’s Operating Fund that has been designated for specific uses.

Internally Restricted Operating Surplus

Unique amongst organizations in the public sector, school districts are permitted to incur annual deficits as long as 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 services. It is achieved by spending less than the revenue it receives. The Board may approve restrictions on spending of the surplus. Boards of education are required by legislation to prepare balanced annual operating budgets, which may include the use of an appropriation of prior years’ accumulated surplus.

This Administrative Procedure will:

- Ensure that stakeholders are aware of the Operating Surplus/Deficit Policy and Administrative Procedure and understand what it means;
- Provide general guidelines as to how much (i.e. percentage or dollar amount) could be transferred to other funds;
- Provide parameters for how much might be allocated from current year’s resources to be spent in a future fiscal year;
- Outline expected annual planning and reporting of the estimated surplus/deficit for the year and the application of the Accumulated Operating Surplus Policy for that fiscal year.

The following categories of internally restricted operating surplus have been established for the purpose(s) so identified:

Planning Reserve (Multiple Years)

To support effective planning, there will be situations where monies will need to be carried over to future years. These could be for categories such as:

- Future years’ Operations/Budget (not beyond the next two fiscal years)
- Operating projects in progress
- Technology, utilities, equipment and Capital projects (includes amounts to be transferred to Local Capital, but have not yet been identified for specific initiatives)

The amount of Accumulated Operating Surplus restricted for operations spanning future school years at the end of a fiscal year should be a minimum of .5% and a maximum of 1.0% of actual Operating Expenses of that fiscal year.

Staffing/Unusual Expenses Reserve

To support effective planning, there will be situations where senior management has anticipated and identified unusual/non-recurring expenses anticipated to be spent in the upcoming fiscal year that will not be funded by revenues of that year. These could be for categories such as:

- Staffing, labour relations, employee benefits, severance
- Implementation of new curriculum

The amount of Accumulated Operating Surplus restricted for an anticipated unusual expenses identified at the end of a fiscal year should be a minimum of 0.5% and a maximum of 1.0% of actual Operating Expenses of that fiscal year.

Targeted Constraints Reserve

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, not covered under this Policy. These internal restrictions could be for categories such as:

- Contractual obligations (i.e. professional development)
- Aboriginal education
- School Generated Funds (not externally restricted)
- Purchase Order Commitments
- Donator named funds (not restricted by the donor)

The amount of Accumulated Operating Surplus restricted for specific constraints on the funds at the end of a fiscal year cannot be quantified as a range of minimum to maximum.

Emergency Events / Project Contingency Reserve

To support effective planning, there will be situations where contingency funds need to be available for unexpected increases in expenses and/or decreases in revenues. Budgeted annual operating expenses should be reflective of actual estimated costs or, where applicable, contractual expenditure requirements. The contingency reserve mitigates the risk of actual costs being greater than estimated. These could be for categories such as:

- For major emergent operating issues – the School District is exposed to major non-reoccurring costs related to various emergency events or situations, e.g. inclement weather, forest fires, etc. These emergent situations cannot be anticipated and budgeted for and it may not be feasible to absorb the cost of such events in other budget areas in any given year.
- 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 of Education, annual fluctuations in educational service levels may result; therefore, it is not financially prudent to fund these projects from block funding.



The amount of Accumulated Operating Surplus restricted for Emergency Events / Project Contingency Reserves at the end of a fiscal year should be a minimum of 0.1% and a maximum of .25% of actual Operating Expenses of that fiscal year.

Emergency Capital Asset Replacement Reserve

For emergency capital asset replacement; that is capital assets already in existence that are in immediate need of replacement or repair.

The amount of Accumulated Operating Surplus restricted for Emergency Capital Asset Replacement Reserve at the end of a fiscal year should be a minimum of 0.1% and a maximum of .25% of actual Operating Expenses of that fiscal year.

Unrestricted Operating Surplus

The School District needs to maintain Unrestricted Operating Surplus balances for working capital purposes, i.e. to provide for operating expenditures before operating grants from the Ministry of Education are received. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.

The School District may also require emergency funds from time to time, from its Unrestricted Operating Surplus balance, for unforeseen costs. When this occurs the School District needs to rely upon sufficient balances being available.

Included in the Unrestricted Operating Surplus are funds that may be used in budget years beyond the next two fiscal years.

Also, the district may need to offset unrealized revenues – some of the School District’s revenue sources, e.g. off-shore student enrolment, rentals, etc., 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 to declines in base revenues from year to year. One cannot always count on budgetary savings or other revenues to offset these shortfalls.

The amount of Unrestricted Operating Surplus at the end of a fiscal year should be a minimum of 0.5% and a maximum of 2% of actual Operating Expenses of that fiscal year.

Administration

Increases to Restricted Surplus

Annual and/or periodic increases to the restrictions on the Accumulated Operating Surplus shall be specific to each category of restriction, as outlined in the Priority Allocation section of this procedure and as approved by the Board through the School District’s annual financial planning/budgeting process

Minimum and Maximum Surplus Balances

Minimum and maximum surplus balance guidelines have been set for some of the categories in the School District’s Accumulated Operating Surplus as shown in attached Appendix “A”. The purpose of each category of Accumulated Operating Surplus is also shown in this Appendix. The minimum balances ensure that the respective balances are not depleted to the degree that those balances are no longer able to serve their intended purpose(s). The maximum balances ensure that the School District’s guiding principles are achieved and that the respective balances do not grow beyond their intended purpose(s) and thus create

idle assets that could be otherwise utilized for other corporate priorities. A formal comparative review of actual, minimum and maximum fund balances shall be undertaken annually by the Secretary Treasurer and brought forward to the Board.

Responsibilities

The School District's Secretary-Treasurer shall be responsible for:

- Recommending the necessary increases/decreases and transfers, beyond the transfers permitted under the Priority Allocation of Operating Surpluses and Deficits, so that the School District's Restricted Operating Surplus and Unrestricted Operating Surplus are maintained in accordance with this Procedure;
- Conducting an annual review of all restricted and unrestricted Operating Surplus balances, including comparing actual levels with the established minimum and maximum levels within this Procedure and with other school district and jurisdiction benchmarks, and reporting the results of such a review to the Board of Education;
- Recommending changes to the minimum and maximum balance guidelines shown in this Procedure; and
- Recommending any revisions or amendments to this Policy, as may be required from time to time, as a result of changes in applicable Ministry of Education directives, accounting standards, economic conditions, etc.

Restriction Increases/Decreases and Transfer of Funds

Priority Allocation of Operating Surpluses

Certain Reserve categories have been established with the primary source of funding as an allocation from annual operating surpluses. Each of these Reserves have targeted upper limits.

During the Amended Budget process, during the year and/or at the end of the fiscal year, the Secretary Treasurer or designate may, after consultation with the Finance/Staffing Committee, recommend to the Board, transfers to restore reserves or to address a deficit, to ensure financial health as noted below.

1. Transfer 30% of any annual operating surplus to the Planning Reserve, until the upper limit of the fund is reached, as defined in the Operating Surplus / Deficit Administrative Procedure;
2. Transfer 30% of any annual operating surplus to the Staffing/Unusual Expenses Reserve, until the upper limit of the fund is reached, as defined in the Operating Surplus / Deficit Administrative Procedure;
3. Transfer 10% of any annual operating surplus to the Emergency Capital Asset Replacement Reserve, until the upper limit of the fund is reached, as defined in the Operating Surplus / Deficit Administrative Procedure;
4. Transfer 10% of any annual operating surplus to the Emergency Events / Project Contingency Reserve fund, until the upper limit of the fund is reached, as defined in the Operating Surplus / Deficit Administrative Procedure;
5. The remaining 20% of any annual operating surplus shall be allocated to the various reserves or to budget initiatives that have been identified by the Superintendent and Secretary Treasurer and

brought forward to the Board for approval. Where no reserve has been previously established, the Secretary Treasurer may recommend to the Board, adding new reserve categories. Any budget initiatives that are implemented with one-time reserve funding will be reviewed during the next budget cycle for possible continuation;

Priority Application for Operating Surplus once Maximum Levels have been Achieved

6. If surplus funds still remain, the Board will consider allocation of the funding during the subsequent year's budget in accordance with the district's strategic priorities and consistent with the applicable accounting rules and Ministry standards.

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,

1. Reduce budget allocations by first offsetting higher than expected spending in one area through savings or reductions in another.
2. 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;
3. If a deficit still remains, the amount shall be reported to the Board and Ministry with a plan to address the deficit. The deficit shall be covered through the unrestricted accumulated operating surplus, if available and/or staff shall be directed to review their budgets to find savings equal to the unfunded deficit amount.

Transfers between Funds

Any transfer of funds between the Operating Fund and Capital Fund not included in the Annual Budget, Amended Annual Budget or during the Financial Statement preparation, will be considered by the Finance Committee and approved by the Board of Education.

It is expected that the annual operating budget will include transfers to local capital which are sufficient to allow efficient replacement or acquisition of assets consistent with the School District's capital plan.

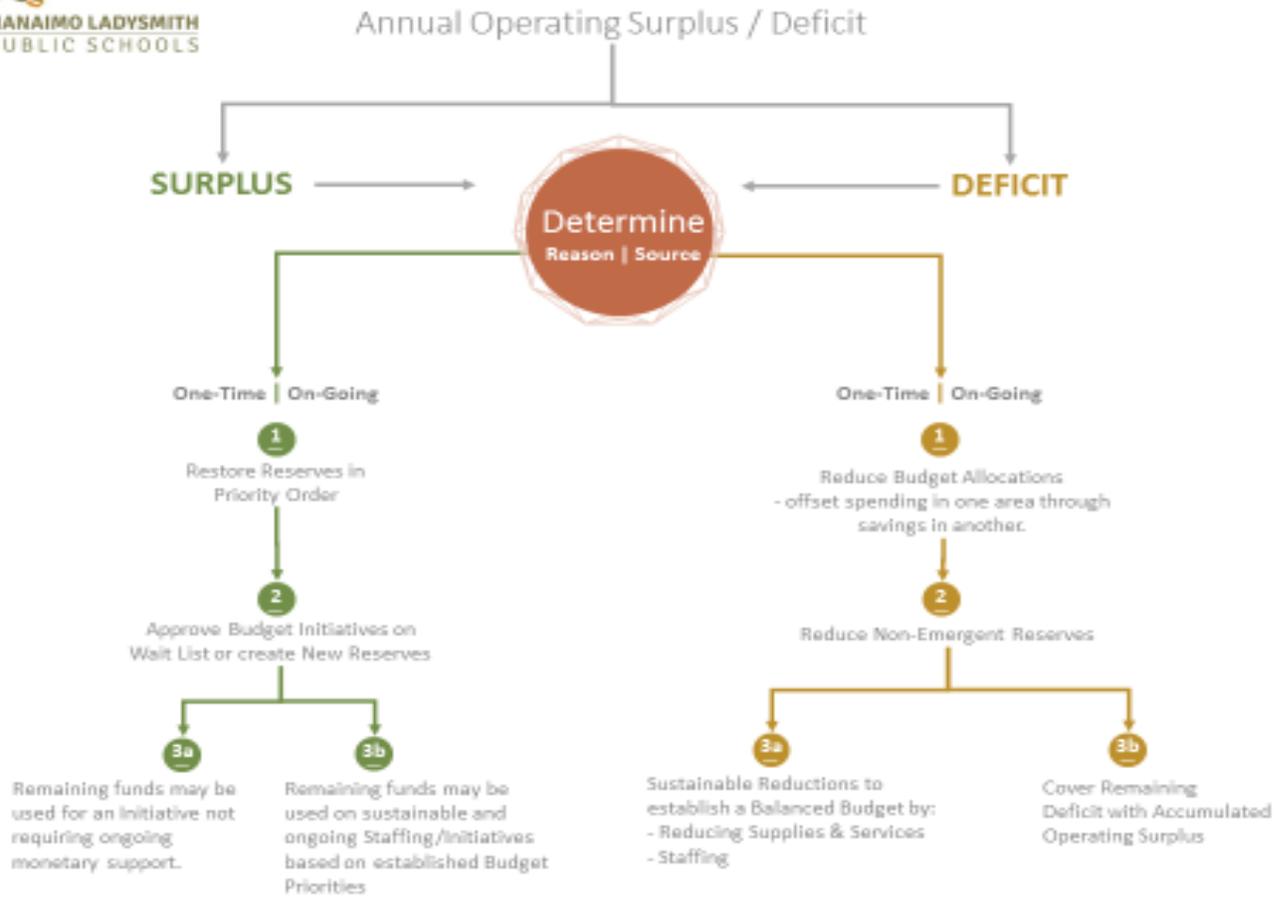
Guide and Transition

The minimum and maximum operating surplus Reserve balance guidelines shown in this Procedure serve as a guide in moving the School District towards the goals or targets it wishes to attain, in terms of individual Reserve balances. It is recognized that the School District's Reserve balances may not be at the minimum or maximum levels at the time of enacting this Policy, however, the School District is transitioning towards its maximum targets.

References

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

Category of Accumulated Operating Surplus	Purpose	Minimum Level	Maximum Level
Restricted Reserves			
Planning Reserve (Multiple Years)	For future years' operations (not beyond 2 years), school/department carry-forwards, projects in progress, etc.	0.5% of actual operating expenses of that fiscal year	1.0% of actual operating expenses of that fiscal year
Staffing/Unusual Expenses Reserve	For unusual/non-recurring expenses anticipated to be spent in upcoming fiscal year that will not be funded by revenues of that year.	0.5% of actual operating expenses of that fiscal year	1.0% of actual operating expenses of that fiscal year
Targeted Constraints Reserve	For monies that have constraints on how they are to be spent. Does not include monies with external restrictions.	n/a	n/a
Emergency/Project Reserve	For unexpected increases in expenses and/or decreases in revenues. Related to major emergent operating issues, one-time and intermittent projects, and to offset unrealized revenues.	0.1% of actual operating expenses of that fiscal year	0.25% of actual operating expenses of that fiscal year
Emergency Capital Asset Replacement Reserve	For emergency capital asset replacement; that is capital assets already in existence that require replacement or repair.	0.1% of actual operating expenses of that fiscal year	0.25% of actual operating expenses of that fiscal year
Unrestricted Reserve			
Unrestricted Operating Surplus	For working capital purposes within the Operating Fund, for unforeseen general operating emergency expenditures, and future school years beyond the next two years.	0.5% of actual operating expenses of that fiscal year	2% of actual operating expenses of that fiscal year



Legal References:

Monitoring Method: *Superintendent/Secretary-Treasurer*

Monitoring Frequency:

Adopted: 2018.10.10