



## SECTION 1 – BOARD GOVERNANCE

## 2.16 Operating Surplus / Deficit Policy

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## Financial Health

This policy sets out minimum and maximum levels of operating surplus, 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 year's programs and services. Funds that are in excess of the maximum surplus levels will be earmarked towards sustainable and ongoing initiatives that are aligned with the district's key budget priorities.

Operating surpluses provide the district with the ability to plan and sustain services over time and to provide one-time services that would not otherwise be affordable within the current budget. It is also important to recognize that operating surpluses are one-time funds and cannot be used to sustain a district's ongoing operations.

Accumulated operating surplus represents the extent to which operating revenues from all previous years exceeds operating expenditures from all previous years. Conversely, when operating expenditures from all previous years exceeds operating revenues from all previous years, an accumulated operating deficit results. When an accumulated deficit occurs, it means future revenues must be used to pay for past expenditures. School Districts in BC are not permitted to budget for or have an accumulated operating deficit.

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 and to ensure that the district does not go into an accumulated deficit position. An accumulated operating surplus promotes overall school district financial health by providing the flexibility to absorb unexpected future expenses and it reduces financial risk by providing fiscal insurance from such things as: unexpected one-time costs, reduced revenue, inflation and/or interest rate changes.

## 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.

### Policy Statement

The Board of Education of School District No.68 (Nanaimo-Ladysmith) is responsible for both ensuring that the district is protected financially from extraordinary circumstances which could negatively impact the education of students and ensuring that the district’s resources are spent as much as possible on current year’s programs and services. In this regard, the Board will establish and adhere to the Operating Surplus / Deficit Policy as outlined in this Policy and the corresponding Administrative Procedure.

### Purpose and Scope

The purposes of this policy are:

- a) To ensure that operating surpluses, beyond reserve maximums, are directed to supporting students in alignment with the Boards Goals; and
- b) To establish a priority framework for the allocation of operating surpluses and elimination of operating deficits.
- c) To improve transparency and reporting of the accumulated surplus (or deficit) so that the spending of school district (public) money can be well understood, which will lead to increased public trust in the district and school board.

This policy applies to all of the Board of Education and Staff and is operationalized through Administrative Procedure #X – Operating Surplus / Deficit.

### Objectives

The School District's objectives in terms of its accumulated operating surplus and operating deficit are set out in this Operating Surplus / Deficit Policy and corresponding Administrative Procedure. By reaching a clear understanding of its operating surplus and deficit monitoring objectives, and by continually measuring progress towards achieving those objectives, the School District can attain greater fiscal stability and better support students.

To discharge this responsibility, the Board endeavors to:

- 1) Maintain and replenish restricted and unrestricted portions of its accumulated operating surplus in the manner set out below. Restricted Surplus amounts will be established as Reserves established by the Board as outlined the corresponding Administrative Procedure.
  - a. Unrestricted Operating Surplus: An unrestricted surplus of .5% to 2% of the total operating budget.
  - b. Restricted Operating Surplus (Earmarked Funding): Restricted operating surplus earmarked funding which may vary from year-to-year based on the carry-over rules (Ministry or internal) from one year to the next (e.g. Aboriginal Education Funding).
  - c. Restricted Operating Surplus: Restricted operating surplus of 1.2% to 2.5% of that year's total operating budget.
- 2) Monitor any potential for an operating deficit and respond by reducing expenses and/or applying Reserves where policy and procedure permit.

### Guiding Principles

The following principles form the basis for this Policy:

- Surplus levels are important in achieving educational goals by maintaining financial health and stability;
- Surplus balances need to be benchmarked with other school districts on an ongoing basis to gauge whether financial health is being maintained;
- Although accumulated surpluses and contingencies can be a source of cash for one-off spending, they cannot sustain on-going or recurring services;
- Surplus goals need to be consistent with and supportive of realistic long-term financial plans;

- Surpluses not required to fund contingency balances, shall be distributed as outlined in the “Priority Application for Operating Surpluses” in the Operating Surplus / Deficit Administrative Procedure.
- Monitoring of budgets for any potential of an annual operating deficit must be regular and result in action to prevent a deficit. A deficit shall be funded as outlined in the "Priority Application for Operating Deficits" in the Operating Surplus / Deficit Administrative Procedure.
- Department staff will respect the nature of and manage a global budget by first offsetting higher than expected spending in one area through savings in another.

### Reporting and Approval Requirements

The Secretary Treasurer will provide the Board of Education with periodic reports with regard to any changes in the accumulated operating surplus/deficit.

The Secretary Treasurer will provide the Board with a report detailing the recommended distribution of the operating surplus, including transfers to reserves, or deficit funding by September 30<sup>th</sup> of each year for their approval.

The Board will approve through formal Board motion interfund transfers.

This policy will be reviewed annually by the Secretary Treasurer after the year end surplus or deficit figures have been verified.

### References

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

**Legal References:**

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

**Monitoring Frequency:**

**Adopted:** 2018.10.10