

### Administrative Procedure 524 – Operating Surplus/Deficit

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#### AP 524 – Operating Surplus/Deficit

##### **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. 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 to support educational goals, ensure financial health and stability and mitigate risk. Pursuant to Policy 2.16, the Board considers that an Accumulated Operating Surplus balance provides a measure of resiliency to address annual fluctuations in funding, one-time costs and unforeseen expenditures.

##### **Procedures**

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. Unique amongst organizations in the public sector, school districts are permitted to incur (budget for) annual deficits 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 services. Reserves are categorized as either internally restricted for particular use, or unrestricted.

##### **Internally Restricted Operating Surplus**

Surplus funds that the Board has determined will be used in future years for a specific purpose, goal or initiative shall be restricted. Restricted funds should not support ongoing operating costs, only costs associated with one-time or multi-year enhancements to regular operations.

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

##### Staffing/Unusual Expenses Contingency Reserve

The Board will establish a contingency reserve fund from available accumulated operating surplus. This fund will be used to mitigate any financial impact from unforeseen risk or circumstances that

could negatively impact the resources allocated for educational programs including a decline in enrollment or other event that creates a deficit or requires additional staffing.

The Board should maintain a contingency reserve of a minimum of 1.2% and a maximum of 2.5% of the actual annual operating expense of that fiscal year.

#### Targeted Constraints Reserve

In recognition of some monies having constraints as to how they can be spent, funds may be externally restricted or need to be internally restricted at the end of the fiscal year. These restrictions could be for categories such as:

- School supply balances
- ISE Program Contingency
- Purchase Order commitments
- Contractual commitments
- Unspent Targeted Indigenous Education funds
- Operating projects in progress
- Benefit Premium balance

Due to the nature of the constraints, there is no minimum or maximum for this category.

#### **Unrestricted Operating Surplus**

The District needs to maintain an Unrestricted Operating Surplus balance, meaning a surplus that has not been designated for specific uses, for emergent and working capital purposes. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations. The Board requires the District hold a contingency reserve of a minimum of 0.5% and a maximum of 2.0% of the annual operating expense.

#### **Priority Allocation of Operating Surpluses**

The Staffing/Unusual Expenses Contingency Reserve and the Unrestricted Operating Surplus have recommended minimum and maximum levels. Should either of those categories exceed the recommended maximum 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.

Part of this consideration should include a transfer to Local Capital if long range facilities planning indicates funds are required for future capital projects. Such transfers, if applicable, should clearly identify what the funds will be in support of, for both transparency and adherence to Ministry Policy.

Should the contingency reserve or unrestricted surplus balance drop below target District staff shall incorporate into its future budget planning process recommended strategies for consideration by the Board to re-establish the contingency reserve.

### **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, 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.

### **Responsibilities**

The Secretary-Treasurer or designate shall be responsible for recommending the necessary increases/decreases in restricted or unrestricted balances so that the Restricted Operating Surplus and Unrestricted Operating Surplus are maintained in accordance with this Procedure. Recommendations shall be brought to the Board during the annual/amended budget presentations, financial statement presentation or at another time as deemed to be necessary.

### **Reporting**

The Secretary-Treasurer shall report to the Board on the status of the District's financial situation on a regular basis. During the presentation of the year-end financial statements the Secretary-Treasurer shall present to the Board the status of any operating surplus balance and provide recommendations for expenditure to maintain the surplus balance in the required range.

### **References**

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

Category of Accumulated Operating Surplus	Purpose	Minimum Level	Maximum Level
<b>Restricted Reserves</b>			
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.	1.2% of actual operating expenses of that fiscal year	2.5% of actual operating expenses of that fiscal year
Targeted Constraints Reserve	For monies that have constraints on how they are to be spent.	n/a	n/a
<b>Unrestricted Reserve</b>			
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