



SCHOOL DISTRICT #49 (CENTRAL COAST)
Policy Manual

POLICY 720: Accumulated Operating Surplus

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SECTION 1 – OBJECTIVES AND GUIDING PRINCIPLES

1.1 OBJECTIVES

The School District’s objectives in terms of its accumulated operating surplus are set out in this Accumulated Operating Surplus Policy (Policy). By reaching a clear understanding of its operating surplus objectives, and by continually measuring progress towards achieving those objectives, the School District can attain greater fiscal stability and better support educational goals.

1.2 GUIDING PRINCIPLES

The following principles form the basis for this Policy:

- Healthy surplus levels are important in achieving educational goals including financial health and stability;
- Actual surplus balances need to be benchmarked with other similar size school districts and with pre-determined targets on an ongoing basis to gauge whether financial health is being achieved;
- Surplus goals need to be consistent with and supportive of realistic longer-term financial plans
- The Ministry of Education recommend use conservative approach to evaluate the allocation of the surplus on recurring expenses, such as increasing staffing level or ongoing programs. It is the school district responsibility to assess long term financial impact of recurring expenses to achieve financial sustainability as well as educational goals.



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SECTION 2 – INTERNALLY RESTRICTED OPERATING SURPLUS

Unique to other 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 use of (appropriation of) prior year accumulated surplus.

This Policy will guide:

- Inter-fund transfers, and ensure that stakeholders are aware of the Policy and understand what it means;
- General guidelines as to how much (i.e. percentage or dollar amount) could be transferred to other funds;
- How much might be allocated from current year's resources to be spent in a future fiscal year;
- Annual planning and reporting of the expected 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:

2.1 Operations spanning future School 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)
- Future years' Operations/Budget(Beyond the next two fiscal years)
- Schools and Department surplus/carry-forwards (not beyond the next two fiscal years)
- Operating projects in progress



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- Technology, utilities, equipment and Capital projects (includes amounts to be transferred to Local Capital, but have not yet been identified for specific initiatives)
- Purchase order commitments

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 1.5% and a maximum of 3.0% of actual Operating Expenses of that fiscal year.

The school district develops surplus allocation schedule based on the program fund requests submitted by the schools during annual budget and amended budget process. The board reviews and approves the schedule together with the policy. There is procedure of review and approval developed based on this policy.

2.2 Anticipated Unusual Expenses Identified

To support effective planning, there will be situations where senior management has 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 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.



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2.3 Nature of Constraints on the Funds

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. These internal restrictions could be for categories such as:

- Contractual obligations (ie. professional development)
- Aboriginal education
- School Generated Funds (not externally restricted)
- Education Plan
- Donator named funds (not restricted by the donor)

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

2.4 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 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 prudent to



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fund these projects from current annual per-pupil based Operating grants from the Ministry of Education.

- **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 always offset these shortfalls.

The amount of Accumulated Operating Surplus restricted for Contingency Reserves 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.



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SECTION 3 – 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.

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

The amount of Unrestricted Operating Surplus at the end of a fiscal year should be a minimum of 0.5% and a maximum of 1.5% of actual Operating Expenses of that fiscal year.



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SECTION 4 – ADMINISTRATION

4.1 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 approved by the Board through the School District's annual financial planning/budgeting process.

4.2 Minimum and Maximum Surplus Balances

Minimum and maximum surplus balance guidelines have been set for some of the categories of restrictions on School District's Accumulated Operating Surplus and Unrestricted Surpluses 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.

4.3 Responsibilities

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

- Recommending the necessary increases/decreases and transfers so that the School District's Restricted Operating Surplus and Unrestricted Operating Surpluses are maintained in accordance with this Policy;
- Conducting an annual review of all restricted Operating Surplus balances, and Unrestricted Operating Surplus balances including comparing actual levels with the established minimum and maximum levels within this Policy and with other similar size school districts benchmarks, and reporting the results of such a review to the Board of Education;



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- Recommending changes to the minimum and maximum balance guidelines shown in this Policy; 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.

4.4 Restriction Increases/Decreases and Transfer of Funds

- 4.4.1 Increases/decreases in Internally Restricted Operating Surplus for any of the categories identified in Section 2 in excess of \$20,000 will be approved by the Board of Education.
- 4.4.2 The cost analysis needs to be prepared for use of surpluses on recurring expenses over \$20,000 to assist the Board to evaluate the long term financial impact.
- 4.4.3 The Superintendent of Schools has the authority to approve increases/decreases in Internally Restricted Operating Surplus up to and including \$20,000. Any such increases/decreases will be reported to the Management and Finance committee.
- 4.4.4 Any transfer of funds between the Operating Fund and Capital Fund not included in the Annual Budget, or Amended Annual Budget, will be considered by the Management and Finance Committee and approved by the Board of Education.
- 4.4.5 It is expected that the annual operating budget will allow transfers to local capital which are sufficient to allow efficient replacement or acquisition of assets consistent with the School District's capital plan. Transfers to local capital should be authorised through the budget bylaw or by separate board motion. They should be supported by a planned use of the local capital balance.



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4.5 Guide and Transition

The minimum and maximum operating surplus balance guidelines shown in this Policy serve as a guide in moving the School District towards the goals or targets it wishes to attain, in terms of individual surplus balances. It is recognized that the School District's surplus 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.



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SECTION 5 – 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 Revenue" 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.

"Unrestricted Operating Surplus" means the accumulated Operating surplus built up in the School District's Operating fund that has not been designated for specific uses.