

ADMINISTRATIVE PROCEDURE 601 ACCUMULATED OPERATING SURPLUS

Purpose

The purpose of this Administrative Procedure is to provide guidance as to how the Board of Education (the “Board”) will manage the Accumulated Operating Surplus. The Procedure is organized to describe the following requirements:

1. Public participation;
2. Eligible restrictions to support strategic priorities and other operational objectives;
3. Target balances; and
4. Approval process and public reporting.

Definitions

- **Balanced annual budget** – the estimated spending in the annual budget must not exceed estimated revenue plus accumulated operating surplus.
- **Accumulated operating surplus** – represents the extent to which revenue exceeds expenditures, minus inter-fund transfers, from current and prior fiscal years.
- **Inter-Fund Transfer** – a transfer between the district’s Operating Fund and Capital Fund.
- **Internally Restricted Operating Surplus** – an appropriation of the Accumulated Operating Surplus that has been approved by 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.

Public Participation

Prior to approval of the Annual Budget, the Board will consult and engage with education partners and local First Nations and Métis Nation BC on proposed uses of the accumulated operating surplus. This engagement will be consistent with the budget consultation processes outlined in Policy and will support the Board requirement of a collaborative process that is transparent, inclusive and timely.

Eligible Restrictions of Accumulated Operating Surplus by Category

The Accumulated Operating Surplus may be subject to internal restrictions for use in future years. Restrictions can be made for items that are identified by the District, have defined timelines and meet defined operational needs, including services or purchases that are directly related to the Board’s strategic plan and priorities, specified operational needs of the school district, and enhanced educational outcomes for students. Internal restrictions will be approved by separate Board motion, and should be classified under the following categories:

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1. restricted due to the nature of constraints on the funds
Such as:
 - Contractual obligations (e.g., professional development)
 - Unspent targeted grant funds; or
 - School generated funds.
2. restricted for anticipated unusual expenses identified by the Board
This includes one-time expenses such as:
 - Specified short-term, variable staffing needs;
 - Equipment loss and breakage of reserves;
 - implementation of specified new initiatives; or
 - impact of specified emerging events (e.g., COVID-19)
3. restricted for operations spanning multiple school years
Such as:
 - Revenues are not received in the same school year in which expenses are incurred;
 - Unspent school block funds;
 - Unspent holdback funding from the Ministry of Education and Child Care;
 - Designated funds to support future obligations, programs, or services.
4. restricted for transfer to Local Capital
To create a reserve fund for:
 - Significant investments in technology, furniture and equipment, and fleet, that align with the Board's strategic plan and priorities;
 - School district contributions to capital construction projects not funded by the Ministry of Education and Child Care;
 - Capital Assets funded by the school district (e.g., Education Services Center, Maintenance etc.)
5. restricted for future capital cost share
 - To support major capital projects that are identified in the Boards' five-year Capital Plan, and approved by the Ministry of Education and Child Care 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;
 - To satisfy Ministry requirements to contribute to major capital projects.

Unrestricted Operating Surplus (Contingency)

The District will maintain an unrestricted operating surplus to support effective planning that includes risk mitigation. From time to time, the district may require emergency funds, or contingency funds for unexpected increases in expenses and/ or decreases in anticipated revenues. In these situations, the district needs to have access to enough funds to continue to provide educational services and maintain regular operations without implementing one-time service cuts.

The target balance for the Unrestricted Accumulated Operating Surplus is established in the range of 2 to 4 percent of annual operating expenses as approved in the Annual Budget.

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Should the Unrestricted Accumulated Operating Surplus decline below the target balance, a replenishment strategy will be developed and approved by the Board. Restoration of the balance may be implemented over a three-year period or an alternate approved timeline.

Special Purpose Funds

Special purpose funds comprise targeted funding provided to the school district for a specific purpose. Pursuant to the School Act, each special purpose fund must be accounted for in accordance with the terms of that special purpose fund. The District may maintain a surplus within a Special Purpose Fund where it is beneficial to do so in achieving the intent of that fund.

Approval and Reporting

Prior to bringing the Annual Budget, the Amended Annual Budget, or the Audited Year End Financial Statement to the Board for approval, the Secretary-Treasurer will present a report to the Budget Committee, for the budget, or the Audit Committee, for the Financial Statements, that includes use of the Accumulated Operating Surplus and Local Capital.

The report will include the opening balance, planned uses, actual uses and closing balances by the categories of use identified above, as well as the expected timelines for use.

The committees will provide a recommendation on the reports prior to consideration by the Board.

Allocations not contained in the budget will require a Board motion in a public meeting, save for motions that are appropriately made in a closed Board meeting such as matters related to land, legal or personnel matters.

The Board will approve recommendations for use of Accumulated Operating Surplus or transfer to Local Capital by way of separate motions. The motions will include the purpose, timeline and amount to be restricted.