

# K-12 Public Education Accumulated Operating Surplus Policy

## COMPANION GUIDE



# Table of Contents

- Purpose of the Companion Guide ..... 3
- Definitions ..... 4
- Managing Accumulated Operating Surplus ..... 5
- Board Budget Process ..... 5
- Internally Restricted Operating Surplus ..... 6**
  - Restricted Due to the Nature of Constraints on the Funds ..... 6**
  - Restricted for Anticipated Unusual Expenses Identified by the Board ..... 6**
  - Restricted for Operations Spanning Multiple School Years..... 6**
- Restricted for Future Capital Cost Sharing..... 7**
- Unrestricted Operating Surplus (Contingency) ..... 7**
- Accumulated Deficits..... 7**
- Ministry Oversight..... 8
- Operating Surplus Reporting and the Financial Statement Discussion & Analysis ..... 8
  
- Appendix A - **Sample Multi-Year Operating Surplus Planning and Reporting Template ..... 9**
- Appendix B - **Sample Multi-Year Local Capital Surplus Planning and Reporting Template ..... 11**



# Purpose of the Companion Guide to the Accumulated Operating Surplus Policy

The BC School Trustees Association (BCSTA), and the Ministry of Education and Child Care (ministry), have committed to working together to develop provincial policies and guidelines for operating surplus that are consistent with the BC **Funding Model Review** and recommendations. The ministry implemented the **K-12 Public Education Accumulated Operating Policy**, on July 2021, to ensure that there is consistency, transparency and accountability for the use of educational operating funding that is not used in the year in which it was provided.

The Policy outlines the process for the reasonable accumulation, spending and reporting of operating surplus funds and boards of education (boards) engagement with their local community and education-partner groups, including local First Nations and Métis Nation BC, on the topic. It requires boards to monitor and report on their management of operating surplus and provides information and guidelines around operating surplus categories.

The Policy explains that it is appropriate for boards to maintain reasonable operating surplus to manage financial risk and maintain services for students for more than one year. The Policy also ensures that when boards restrict surplus funds it is done for specific purposes with identified timelines. It also creates a mechanism for boards to set aside funding for approved capital projects after other priorities have been addressed.

This Companion Guide (CG) to the Policy provides information and resources that will help boards to understand and meet the requirements in the Policy. The CG should be read in conjunction with the Policy—the Policy contains the main requirements that boards must comply with. The ministry will consult with BCSTA, as needed, when making changes to the Policy and this CG.

Appendix A in this CG provides an example of an operating surplus planning and reporting template (multi-year) that boards may use in the development of their own reporting document. Appendix B provides an example of a multi-year Local Capital surplus planning and reporting template that boards may use to develop their own reporting documents.

# Definitions

- ▶ **Accumulated Operating Deficit:** means the accumulated excess of Operating Expenses over Operating Revenues less Inter-Fund Transfers from current and prior years.
- ▶ **Accumulated Operating Surplus:** means the accumulated excess of Operating Revenues over Operating Expenses less Inter-Fund Transfers from current and prior years. Accumulated Operating Surplus is a term defined by the Public Sector Accounting Standards (PS1201). While boards of education may use the term Reserves to denote 'Surplus', when it comes to financial statements and budgets the term Surplus should be used.
- ▶ **Annual Operating Deficit:** is the amount by which a fiscal year's Operating Expenses exceed that same fiscal year's Operating Revenues.
- ▶ **Annual Operating Surplus:** is the amount by which a fiscal year's Operating Revenue exceeds that same fiscal year's Operating Expenses.
- ▶ **Inter-Fund Transfers:** means the transfer of funds from one fund to another (e.g., between Operating Fund and Capital Fund).
- ▶ **Internally Restricted Operating Surplus:** means a portion of an Accumulated Operating Surplus that has been set aside through 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.
- ▶ **Operating Expenses:** are the total of all expenses in the Operating Fund as disclosed on Schedule 2 of the annual financial statements that boards must provide to the ministry.
- ▶ **Operating Revenue:** is the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the annual financial statements that boards must provide to the ministry.
- ▶ **Special Purpose Fund:** consists of targeted funding provided to the school district for a specific purpose. Pursuant to Sections 156(4) and (5) of the School Act, each special purpose fund must be accounted for in accordance with the terms of that special purpose fund. Treasury Board Restricted Contribution Regulation 198/2011, issued in November 2011, defines a restricted contribution as 'a contribution that is subject to a legislative or contractual stipulation or restriction as to its use'. Special purpose fund expenses are contingent on the amount of revenue received for the purpose of providing a specific service or program.
- ▶ **Unrestricted Operating Surplus (Contingency):** means the accumulated Operating Surplus built up in the School District's Operating Fund that has not been designated for specific uses.

# Managing Accumulated Operating Surplus

A board achieves an operating surplus when its annual revenue exceeds annual expenditure. Transfers of operating surplus can then be made for the purpose of acquiring capital assets or supplementing Local Capital. An operating surplus means that a board has financial resources that can be used to fund school district operations for a period longer than one year. The ability to carry forward unspent funds (with certain restrictions) enables boards to effectively plan for future years.

*The School Act* enables the Minister of Education and Child Care (minister) to establish guidelines and rules to help boards maintain an operating surplus while continuing to meet the needs of students in the province.

## The Board Budget Process

Boards are required by the School Act to prepare a balanced budget. Board revenues, plus any operating and local capital surplus, must fully fund the following:

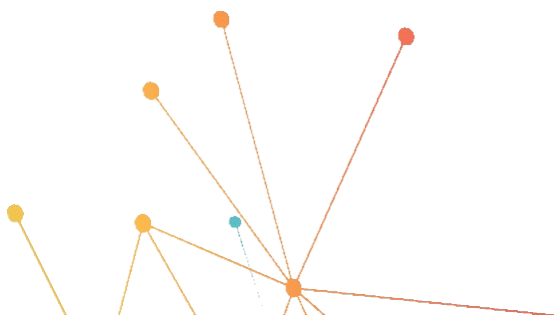
- annual operating expenses;
- tangible capital asset acquisitions (from operating funds, and
- any planned reduction of prior years' deficits.

For a Board to achieve a special purpose fund (SPF) balanced budget, SPF revenues plus any deferred revenues must fully fund annual SPF expenses and tangible capital asset acquisitions from SPF. The Capital Fund is not part of a Board's operating balanced budget and may be in deficit. As such a board may incur an annual deficit for the portion of amortization expense that exceeds amortization of deferred capital contributions.

The Policy requires boards to develop, publish and maintain a local policy that describes how they will engage with their local community, education partners and local First Nations and Métis Nation BC on the management of board operating surplus. As part of the annual budget process, all boards should plan to engage in public discussions with stakeholders and community partners, to discuss why boards have an operating surplus and how the surplus will be used to support the boards' strategic plans, operational needs and enhanced educational outcomes for students.

The current policies of a specific school district may be accessed by going to that district's website.

As part of this public planning process, and to promote transparency, boards should also review historical accumulation and usage of operating surplus to identify patterns that will assist them in more effective long-term financial planning.



## **Internally Restricted Operating Surplus**

An accumulated operating surplus indicates that a school district has net resources that can be used to provide future services or acquire assets. It is achieved by spending less than the revenue from all sources. The board may approve restrictions on spending of surplus. Boards of education are required by legislation to prepare balanced annual operating budgets and this may include appropriation of prior year accumulated surplus.

Boards can set aside a certain portion of operating surplus for items that are linked to multi-year strategic objectives and future operational needs. When funds are restricted for use in future years, boards must ensure that the restrictions are made only for defined operational needs with defined timelines, including services or purchases that are directly related to a boards' strategic plan, operational needs and enhanced educational outcomes for students.

To increase transparency, appropriations require a board motion. It is appropriate for some motions to be made in a closed board meeting (i.e., related to land, legal or personnel) but in most cases it will be at a public meeting. The Policy establishes three categories of Internally Restricted Operating Surplus:

### **1. Restricted Due to the Nature of Constraints on the Funds**

Boards receive grants from the ministry for specific or targeted purposes (section 106.4 and s. 115 of the *School Act*). Boards may also have access to other revenue. If these grants and funds are not spent, the balance is internally restricted to be used for specific use in future years.

The board may have commitments to spend certain operating funds, in future years, on identified activities. These commitments may be legally binding (e.g., professional development funds outlined in collective agreements). They may also be implied (but not legally binding) commitments such as funds donated to a school but not explicitly restricted by the donor. The board may internally restrict operating surplus to enable boards to meet these obligations. These internal restrictions could be for categories such as:

- ▶ contractual obligations (e.g., professional development);
- ▶ funding required to meet the Indigenous education spending target; and
- ▶ school generated funds (not externally restricted).

### **2. Restricted for Anticipated Unusual Expenses Identified by the Board**

To support effective planning, there will be situations where management has identified one-time and intermittent projects that will not be funded by revenues in that year (or where if they are funded from annual Provincial Operating grants this may cause fluctuations or reductions in educational service levels.) These one-time expenses may include:

- ▶ staffing needs that are short term and variables in nature;
- ▶ implementation of new initiatives; and
- ▶ the impact of emerging events (i.e., COVID-19 pandemic, refugee students).
- ▶ self-insurance for minor equipment loss and breakage;

### **3. Restricted for Operations Spanning Multiple School Years**

To support effective operational planning there will be situations where operating surplus funds may need to be carried over to future years. These situations could include:

- ▶ future years' Operations/Budget (not beyond the next two fiscal years);
- ▶ schools and department surplus/carry-forwards (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 that have not yet been identified for specific initiatives);
- ▶ purchase order commitments; and
- ▶ educational programs spanning multiple years (e.g., distributed learning, summer school, International Student Program).

## Restricted For Future Capital Cost Share

To support major capital projects that are identified in the board's 5-year Capital Plans, and approved by the ministry for concept plan or business case development, boards may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval. Capital cost share expectations can be found within the **Capital Planning Instructions**.

## Unrestricted Operating Surplus (Contingency)

Boards should consider maintaining reasonable unrestricted operating surplus to support effective planning that includes risk mitigation. From time to time, boards may require emergency funds, or contingency funds for unexpected increases in expenses and/or decreases in anticipated revenues. In these situations, boards need to have access to enough funds to continue to provide educational services and maintain regular operations without implementing one-time service cuts.

Budgeted annual operating expenses should be reflective of actual estimated costs or, where applicable, contractual expenditure requirements. Unrestricted operating surplus includes funds that may be used for budgets beyond the next two fiscal years.

Examples of the use of unrestricted operating surplus funds include the following situations.

- ▶ **Emergent Operating Issues** – a school district may be faced with major non-recurring costs related to emergency events or situations (e.g., severe inclement weather, forest fires, etc.). These 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.
- ▶ **To Offset Unrealized Revenues** – some of the school district's revenue sources (e.g., international and out-of-province student enrolment, rentals, etc.) are cyclical in nature and subject to downturns in the economy and other factors. While districts try to anticipate economic downturns by budgeting for a base dollar amount of these revenues in its general operations, they can still face unrealized revenues and/or declines in base revenues from year to year. Boards cannot always count on budgetary savings or other revenues to offset these shortfalls. In these types of situations, boards can use unrestricted operating surplus (contingency), to continue to provide educational services and maintain regular operations without implementing one-time service cuts.

## Accumulated Deficits

Under section 156(12) of *the School Act*, a board must not incur a deficit of any kind unless the board has the approval of the minister or meets criteria prescribed by order of the minister. The criteria for incurring a deficit is prescribed in section 3 of the **Accounting Practices Ministerial Order**.

Consistent with this primary and secondary legislation, under ministry policy, a request to incur an accumulated operating deficit will only be approved if it is submitted by the board chair, or on a motion from the board and only if the board can explain why the accumulated deficit has been incurred. The board must not have a history of multi-year accumulated deficits, must have retired any previous accumulated deficits as required by the ministry, and must:

- ▶ indicate the nature of the accumulated deficit;
- ▶ demonstrate how the accumulated deficit will be repaid (generally within one to 3 years);
- ▶ indicate the percentage that the accumulated operating deficit is under budgeted expenditures;
- ▶ have appropriated, to the current year, all accumulated operating surplus from prior years; and
- ▶ submit a deficit retirement plan.

The minister may seek additional information to evaluate a board's request if the board does not meet the above criteria. Approval will be considered on a case-by-case basis. The minister may specify terms or conditions directly related to the retirement of the deficit prior to approving the request (e.g. that a debt be retired at a minimum of 1/3 the total debt over a three-year period). The minister will require audited financial statements to approve the accumulated deficit.

## Ministry Oversight

To ensure accountability, board budget allocation decisions will align the use of operating surplus and Local Capital, with educational and operational objectives contained in the school district's strategic plan. The ministry may request boards to provide written evidence that have been informed about how and why funds were restricted (i.e., approved board motion).

If the ministry has concerns, about board accumulated operating surplus policies and processes, it may take corrective actions.

## Operating Surplus Reporting and the Financial Statement Discussion and Analysis

The **Budget Transparency and Accountability Act** directs boards to follow public sector accounting standards, (excluding the PS4200 series) and the Treasury Board Restricted Contribution Regulation 198/2011 (accessed from the Act above). Boards, as government reporting entities, must prepare audited financial statements and other reporting in compliance with this Act. *The School Act* and the **Notes to the Financial Statements** should be referred to when itemizing the internal restrictions boards have placed on their operating surplus.

However, these financial statements alone do not provide stakeholders with all the information necessary to assess the boards' financial planning and performance and management of operating surplus. To ensure the ministry receives all information relevant to the Policy, boards can provide additional narrative-type of information explaining how the funds were accumulated, and how the operating surplus will be used, through the Financial Statement Discussion and Analysis (FSD&A).

The FSD&A can also be used to explain how operating surplus was used to support board strategic plans, other operational needs of the school districts, and enhanced educational outcomes for students.





# Appendix A and B – Sample Templates for Multi-Year Accumulated Operating Surplus and Local Capital Planning and Reporting

Appendix A and B, on the following pages, are sample templates for multi-year reporting on the Accumulated Operating Surplus and Local Capital. While they are not mandatory, using the templates will result in consistent and efficient multi-year planning and reporting of operating surplus. The templates were co-developed with BCASBO.

The templates for multi-year reporting are not part of the Notes to the Financial Statements; they can be included as appendices to your FSD&A and/or the Multi-Year Financial Plan. The two appendices are to be completed beginning in the 2022/23 fiscal year-end.

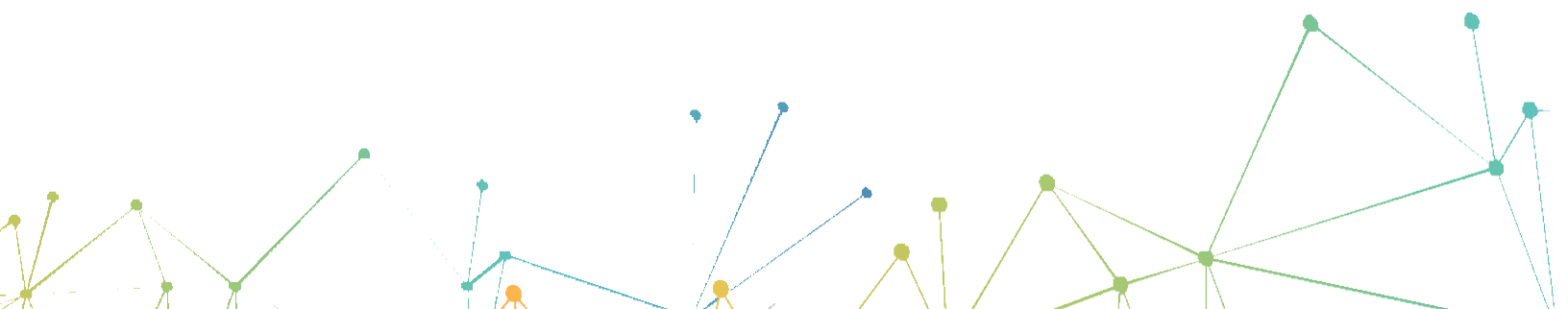
The Ministry will use the appendices and support material to advise government on boards' planning and management of operating surplus and local capital. The appendices can also be used to show that the year-end balance may be the same as the opening balance, but there is activity throughout the year. That is important when discussion arises about good operating surplus financial management practices (e.g., capital cost sharing).

To ensure greater financial accountability, the Ministry Oversight section (above) directs that board budget allocation decisions will align the use of operating surplus and Local Capital with educational and operational objectives contained in the school districts' strategic plans.

When populating the appendices, School Districts should examine the previous year's Financial Statements and ask the following questions:

- ▶ What are the categories and line items in the districts' Internally Restricted Operating Surplus and Local Capital (using current year column)?
- ▶ What are the ins and outs for the year leading to the ending operating surplus and Local Capital balance?
- ▶ Can the school district align Internally Restricted items against plans for Years 1 through 3 and then tie the items etc. into the multi-year plans?

The ministry expects that School Districts can populate the first year (columns 1-6 – operating surplus; columns 1-3 – local capital) while they may still be developing their multi-year Financial Plans. As they are being developed, the multi-year Financial Plans can then be used to populate amounts in the remaining columns.



Surplus Policy Companion Guide, Appendix A

Multi-Year Operating Surplus Planning and Reporting Template

SAMPLE

Schedule of Accumulated Operating Surplus	Opening Balance	Planned Use	Actual Use	Additions	Closing Balance	Planned	Planned	Planned	Expected Balance	Reference Strategic Goal Restricted Surplus Linked to Other Comments
	July 1	Current School Year	Current School Year		June 30	Next Year	Year 2	Year 3		
Internally Restricted Due to the Nature of Constraints on the Funds										
	\$									
Percentage of Operating Budget	%									
Internally Restricted for Anticipated Unusual Expenses Identified by the Board										
	\$									
Percentage of Operating Budget	%									
Internally Restricted for Operations Spanning Multiple School Years Next Year's Operating Budget										
	\$									
Percentage of Operating Budget	%									
Internally Restricted for Future Capital Cost Share										
	\$									
Percentage of Operating Budget	%									
Internally Restricted Operating Fund Surplus	\$									
Unrestricted Operating Surplus (Deficit)	\$									
Percentage of Operating Budget	%									
Total Operating Fund Surplus (Deficit)	\$									
Percentage of Operating Budget	%									

Please [click here](#) for an Excel version of the two reporting templates.

Surplus Policy Companion Guide, Appendix B

SAMPLE

Multi-Year Local Capital Surplus Planning and Reporting Template

Local Capital	Prior Year	Current Year	Planned for Year 1	Planned for Year 2	Planned for Year 3
Opening Balance					
<b>Sources of Local Capital</b>					
Sale of Property-Board's Share					
Detail					
Detail					
Detail					
<b>Total Sale of Property</b>					
Transfer from Operating					
Investment Income					
<b>Uses of Local Capital</b>					
Assets Purchased					
Detail					
Detail					
e.g., High School Track Upgrade					
e.g., ERP System Upgrade					
e.g., Middle School Roof Replacement					
<b>Total Assets Purchased</b>					
<b>Closing Balance</b>					

Please [click here](#) for an Excel version of the two reporting templates.

K-12 Public Education Accumulated  
Operating Surplus Policy  
**COMPANION GUIDE**