

Policy 19

ACCUMULATED OPERATING SURPLUS

The Board of Education is responsible for ensuring the district is protected financially from financial forecasting risk and unforeseen circumstances which could negatively impact school district operations and the education of students. A level of financial reserves, in the form of an accumulated operating surplus, is an indicator of financial health and can contribute to multi-year planning for future educational services and operational needs. To discharge this responsibility and in order to provide increased financial stability, effective planning and support funding predictability, the Board has established an accumulated operating surplus policy. The Board has established this accumulated operating surplus policy from funds sourced from operating revenues from all previous years that are in excess of operating expenditures from all previous years.

When operating expenditures from all previous years exceed operating revenues from all previous years an accumulated operating deficit results. When an accumulated operating deficit occurs, it means future revenues are needed to pay for past expenditures. School districts in BC are not permitted to budget for or incur expenditures that result in an accumulated operating deficit.

The following guiding principles form the basis for this Policy:

- To align the allocation of accumulated operating surpluses with the goals of the District’s Education Plan in support of the achievement of the educational and operational goals of the District.
- To ensure an alignment exists with other relevant programs, policies, administrative procedures, and initiatives including the Framework for Enhancing Student Learning, the Financial Planning and Reporting Administrative Procedure, targeted funding for Indigenous students, etc.
- Actual surplus balances need to be benchmarked with other school districts and jurisdictions and with pre-determined targets on an ongoing basis to gauge whether financial health is being achieved.
- To support resources that are focused on programs for and services to students with a focus on improving student achievement.
- Surplus goals need to be consistent with and supportive of realistic longer-term financial plans.

The following terms used in this Policy are defined as follows:

- **"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.
- **"Annual Operating Deficit"** is the amount by which a fiscal year’s Operating Expenses and Inter-Fund Transfers exceed that same fiscal year’s Operating Revenues.
- **"Annual Operating Surplus"** is the amount by which a fiscal year’s Operating Revenues exceed that same fiscal year’s Operating Expenses and Inter-Fund Transfers.
- **"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 sales 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”** are 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.
- **“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.

1. The Board’s accumulated operating surplus will consist of internally restricted operating funds and unrestricted operating funds.

1.1 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.

Restrictions can be made for items that are identified by the Board, have defined timelines, are directly related to a board goal outlined in their strategic, operational, and financial plans or that meet the specified needs of the School District. Restrictions on spending of the surplus will be for the following purposes:

- For operations spanning multiple school years;
- For anticipated unusual expenses identified; and
- Due to the nature of constraints on the funds.

1.1.1 Operations Spanning Multiple 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).
- 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, but have not yet been identified for specific initiatives)
- Purchase order commitments.
- Educational programs spanning multiple school years (e.g., distributed learning, summer school, International Student Program).

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.

1.1.2 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 and labour relations that are not pre-planned (i.e. changes in employee benefits rates, severance payments).
- Implementation of new curriculum initiatives.
- The impact of emerging events (i.e. COVID-19 pandemic, refugee students).

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.

1.1.3 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 in their entirety at the end of the fiscal year. These internal restrictions could be for categories such as:

- Contractual obligations (i.e. professional development);
- Unspent Indigenous education targeted spending;
- School Generated Funds (not externally restricted).

1.2 Restricted for Future Capital Cost Share

To support major capital projects that are identified in the Board's 5-year Capital Plan 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 Plan Instructions](#).

The amount of Accumulated Operating Surplus restricted for Future Capital Cost Share at the end of a fiscal year should be a minimum of 1.0% of actual Operating Expenses of that fiscal year.

1.3 Unrestricted Operating Surplus (Contingency)

To support effective planning, and risk mitigation, 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:

- **Major Emergent Operating Issues** – the School District is exposed to major non-recurring costs related to various emergency events or situations, e.g., 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** – The School District is exposed to the possibility of unrealized revenues and/or declines in base revenues from year to year due to the cyclical nature of the revenue source being impacted by economic downturns, (e.g., lower off-shore student enrolment).

The amount of Unrestricted Operating Surplus (Contingency) at the end of a fiscal year should be a minimum of 1.0% and a maximum of 2.5% of actual Operating Expenses of that fiscal year.

2. To mitigate financial risk, the following administrative guidelines shall guide this policy:
 - 2.1 Increases/decreases to the Internally Restricted Surplus balances in the Accumulated Operating Surplus shall be specific to each category of restriction, as approved by Board motion through the School District's annual financial planning/budgeting process.
 - 2.2 The Secretary-Treasurer shall be responsible for:
 - 2.2.1 Recommending the necessary increases/decreases and transfers so that the School District's Restricted Operating Surplus balances and Contingency balance are maintained in accordance with this Policy.
 - 2.2.2 Conducting an annual review of all Internally Restricted Operating Surplus balances, and the Contingency balance including comparing actual levels with the established minimum and maximum levels within this Policy and with other school districts and jurisdiction benchmarks and reporting the results of such a review to the Board of Education.
 - 2.2.3 Recommending changes to the minimum and maximum balance guidelines shown in this Policy for the Board's approval.
 - 2.2.4 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.
 - 2.3 Restriction Increases/Decreases and Transfer of Funds

- 2.3.1 Increases/decreases in Internally Restricted Operating Surplus for any of the categories identified in Section 2 will be approved by the Board of Education as part of the annual budget development process.
- 2.3.2 The Board of Education shall approve the use of surplus for specific District initiatives that are linked to multi-year planning decisions as per Administrative Procedure 501 – Financial Planning and Reporting.
- 2.3.3 Any transfer of funds between the Operating Fund and Capital Fund not included in the Annual Budget or Amended Annual Budget, will be approved by the Board of Education.
- 2.3.4 It is expected that the annual operating budget will allow transfers to local capital which are sufficient to allow efficient replacement or acquisition of capital assets consistent with the School District's Capital Plan. Transfers to local capital shall be authorized by Board motion. They should be for specific initiatives linked to the Board's strategic plan, with a timeline for spending the transfers.

2.4 Accountability

The local policy requirements on how the education community will be involved in discussions on how surpluses would be spent is detailed in Administrative Procedure 501 – Financial Planning and Reporting. To ensure the Ministry of Education and the public are aware of how surplus funds have been accumulated and how the operating surplus has or will be spent, the Secretary-Treasurer will ensure a narrative is included in the annual District's Financial Statement Discussion and Analysis report. That narrative, in conjunction with reporting on the District's multi-year plans and by using the suggested reporting format in Appendix A and Appendix B of the Ministry of Education Accumulated Operating Surplus, [Companion Guide](#), will explain how operating surpluses balances were used to support Board strategic plans, operational needs and enhanced educational outcomes for students.

Legal Reference:

Adopted:	March 4, 2019
Amended:	December 13, 2021