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## ACCUMULATED OPERATING SURPLUS AND INTERNALLY RESTRICTED FUNDS

### - POLICY -

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. A key strategy in the Board's fiduciary duty is maintaining an accumulated operating surplus which shall be used to mitigate any negative impact on students. The appropriate management of operating surplus provides the school district with the ability to effectively plan and sustain services to students for a period longer than a single budget year resulting in an improvement of the overall financial health of the district.

An accumulated operating surplus is achieved by spending less than the revenue the school districts receives in a given year, surpluses can accumulate year over year. The Board of Education is required by legislation to approve a balanced Annual and Amended Annual Budget, which may include the use of accumulated surplus funds from previous years. Estimated spending in the budgeting process must not exceed estimated revenue plus accumulated operating surplus.

Appropriation of internal restrictions on surplus funds and any inter-fund transfers each year in which they occur will require a motion by the Board of Education. Capital assets purchased for departmental operating plans from approved budget expenditures do not require subsequent board approval.

During the Annual and Amended Budget Process, the Board will consider the availability of accumulated operating surplus funds and the allocation of those funds between internally restricted surplus and unrestricted surplus (including contingency funds).

During the budget process, the Board will post information on its website about how, where and when the local community and education partner groups, including local First Nations and Metis Nation BC, will be engaged on the accumulation, spending and reporting of operating surplus funds. The Board will clearly explain the purpose of the operating surplus and how it is being used to support the Board's strategic objectives.

- REGULATION -

1. Accumulated Operating Surplus

A. Internally Restricted Operating Surplus:

The Board may designate internally restricted surplus funds under three categories:

1. Funds that are restricted due to the nature of constraints on the funds

- Unspent Indigenous Education Targeted funds;
- Contractual obligations (e.g., professional development);
- School generated funds (not externally restricted).

2. Funds for anticipated unusual expenses

- Staffing needs that are short term and variable in nature;
- Self- insurance for minor equipment loss and breakage;
- Implementation of new initiatives; and the impact of emerging events (i.e. Ministry projects; Emergent Events; Legislative Changes).

3. Funds for items requiring more than one year

- Future years' Operations/Budget (not beyond the next two fiscal years);
- Schools and department surplus/carryforwards (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;
- Educational programs spanning multiple years (e.g., distributed learning, summer school).

B. Unrestricted Operating Surplus (Contingency Reserve)

1. In conjunction with the Board of Education's review and approval of the annual financial statements, the Board of Education will restrict a portion of accumulated operating surplus for the purpose of forming a Contingency Reserve.

2. The Contingency Reserve will be sufficient to reduce, to an appropriate level, financial risk that results from emergent operating issues and/or to offset unrealized revenues.
3. Prior to the adoption of each Annual Budget and Amended Annual Budget, the Secretary Treasurer will present for the Board of Education's review and approval, allocation of budget for the purpose of Contingency Reserve and when applicable; strategies for replenishing the Contingency Reserve. The Ministry's surplus policy states that the "amount of unrestricted surplus at the end of a fiscal year should be laid out in the Board's Operating Surplus Policy, in accordance with ministry instructions " (for example, the Ministry Financial Statement Instructions).
4. The amount of Unrestricted Operating Surplus at the end of a fiscal year should be a minimum of 2% and maximum of 4 % of actual Operating Expenses in the fiscal year.
5. Contingency Reserves are used to address major emergent and non-reoccurring costs related to various emergency events or situations, e.g., inclement weather, pandemic, or 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. Contingency Reserves are used to offset 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 international student enrolment).

## 2. Local Capital

There are three sources of Local Capital:

1. The board's portion of any proceeds from the disposition of capital assets;
2. Transfers from operating funds; and
3. Interest earned on local capital funds restricted for the purchase of tangible capital assets.

Transfers from operating funds to Local Capital will be for specific initiatives related to the Board's strategic plan or other operational needs of the district. Examples include vehicle replacement, computer system upgrades, and renovation or replacement of administrative and operational buildings. If these transferred funds are not linked to strategic goals or they have not been used within the timeline identified for the relevant initiative, the Ministry may require boards to use these Local Capital funds for other capital projects.

## 3. Restricted for Future Capital Cost Sharing

The Treasury Board requires the Ministry of Education to review district surplus funds and determine funds that are available to contribute towards major capital projects in the Board's 5-year Capital plan. When a project has been approved for concept plan or business

case development, the Board may restrict operating surplus funds to meet the cost sharing expectations for that project.

#### 4. Inter-Fund Transfers

In some cases, funds need to be transferred between the operating fund, special purpose funds and the capital fund. These transfers are authorized through a board motion. In some cases, this approval will be achieved through the approval of the budget or annual financial statements. Approval of inter-fund transfers related to confidential matters (such as land, legal or personnel matters) will be considered in an in-camera board meeting.

#### 5. Reporting

Boards are required to provide the Ministry with an annual report on their budget allocation decisions (including operating surplus and Local Capital) demonstrating that approved allocations support the Board's strategic objectives. The Board's annual Financial Statement and Discussion Analysis (FSD&A) was developed based on the Ministries Companion Guide. The Ministry may take actions to monitor and evaluate operating surplus as outlined in the Companion Guide to the Ministry's Accumulated Operating Surplus Policy.

#### 6. 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 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 Revenue exceeds 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 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.
- Operating Revenue is the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the annual financial statements.
- 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.
- Special Purpose Funds 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.