



## Section 1 – Board Governance

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### 2.16 – Accumulated Operating Surplus Reserves Policy

#### Purpose

The School Act requires the Board of Education to prepare a balanced annual budget. Estimated spending in the annual budget must not exceed estimated revenue plus any planned use of accumulated operating surplus. Accumulated operating surplus represents the extent to which operating revenues from all previous years exceeds operating expenditures from all previous years. Conversely, when operating expenditures from all previous years exceeds operating revenues from all previous years, an accumulated operating deficit results. When an accumulated deficit occurs, it means future revenues must be used to pay for past expenditures. School Districts in BC are not permitted to incur an operating deficit unless the board has the approval of the Minister or meets criteria prescribed by order of the Minister (see section on Accumulated Deficits in AP524).

The purpose of the policy is to explain that it is appropriate for the Board to maintain reasonable operating surplus, with consistent rules and guidelines in place, to manage financial risk and maintain services for students for one or more years. The Policy also ensures that when the Board restricts surplus funds it is done for specific purposes with identified timelines. It also creates a mechanism for the board to set aside funding for approved capital projects after other priorities have been addressed. In addition, the policy sets out specific categories of operating surplus, **surplus reserves**, with the goal of having resources necessary to meet both planned and unplanned obligations while spending as much of the district's resources as possible on current or multi-year programs, services, or initiatives. It is also important to recognize however, that operating surpluses are one-time funds and cannot be used to sustain a district's ongoing operations.

#### Policy/Procedure

School District **surplus reserves** shall be created out of any accumulated operating surplus in accordance with the related Administrative Procedure (AP524). **Surplus reserves** are created to protect the district from unforeseen circumstances including a potential deficit, to roll over targeted monies in the Operating Fund to a future year, to fund one-time initiatives that would otherwise not be supportable, to respond to emergent circumstances or needs, and to mitigate financial risk. An accumulated operating surplus indicates that a school district has net resources that can be used to provide future one-time or multi-year services, which are in addition to ongoing operational costs.

District **surplus reserves** are categorized as either internally restricted for particular use, or unrestricted. Under the restricted category there are four unique surplus reserves which are identified as follows:

1. Financial Constraints/Targeted Fund Reserve: Grants, revenues, or financial commitments that extend beyond the current fiscal year are restricted for future use.
2. Anticipated Unusual Expense Reserve: Identified one-time or intermittent projects not able to be funded by current year revenues.

## 2.16 - Operating Surplus and Deficit

3. Operations Spanning Multiple School Years Reserve: Situations where operating surplus funds may need to be carried over to future years.
4. Future Capital Cost Share Reserve: Ministry of Education may require the district to cost share upcoming capital projects as identified in the 5-year Capital Plan.

Unrestricted Surplus (Contingency) allows the district to respond to emergent or unexpected increases in expenses and/or decreases in anticipated revenues. In such cases, the Board needs to have access to enough funds to continue to provide educational services and maintain regular operations without implementing one-time service cuts.

In order to comply with Ministry guidelines and for transparency purposes, restricted **surplus reserves** must have a supporting financial schedule that indicates the intended purpose, timeline for the expense (1 or more years), and which identifies a direct link to a Board goal, or either the districts Strategic or Operational Plan.

Accumulated **surplus reserves** may also be used to support the district Local Capital balance, where any transfers must be made only for specific initiatives that have a clear linkage to Board's strategic goals, that address capital asset investments, or that meet the specific needs of the school district.

### Oversight and Reporting

The Secretary Treasurer will provide the Board of Education with periodic reports regarding any change in the accumulated **operating surplus reserve** position of the district, as well as recommend any necessary increases/decreases in restricted or unrestricted balances, in accordance with the Policy and Administrative Procedure.

Following a stakeholder discussions and engagement process, including the local community, education partners, our local First Nations and Mid Island Métis Nation, the Secretary Treasurer will provide the Board with a report detailing the recommended distribution of any operating surplus, including transfers to reserves or deficit retirement, by September 30<sup>th</sup> of each year for their approval.

**The districts website provides the stakeholder and community engagement process that supports the creation of the Annual Budget, which is identified in the Annual Budget Calendar for the applicable fiscal year.**

The districts Financial Statement and Discussion Analysis (FSD&A) will include the accumulated surplus reserve schedule with the accompanying detail related to the purpose, timeline, and reason for the reserve.

#### Legal References:

**Monitoring Method:** *Superintendent/Secretary-Treasurer*

**Monitoring Frequency:**

**Adopted:** 2018.10.10