



## 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 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 accumulated operating surplus will be managed in accordance with the related Administrative Procedure (AP524). A reasonable operating surplus can 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 is categorized as either internally restricted for particular use, or unrestricted. Under restricted surplus there are three unique categories which are identified as follows:

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

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3. Operations Spanning Multiple School Years: Situations where operating surplus funds may need to be carried over to future years.

In addition, Boards may restrict surplus for any future Capital cost share expectations relating to 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 at the time the project is brought forward for funding approval. Capital cost share expectations can be found within the **Capital Planning Instructions**.

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 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 may also be used to support the districts Local Capital balance, where any transfers must be made only for specific initiatives that have a clear linkage to the Board's strategic goals, that address capital asset investments, that improves student educational outcomes, or that meets other 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 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 category transfers or deficit retirement, by September 30<sup>th</sup> of each year for their approval. The Annual Budget Calendar, which is available on the School Districts website, provides the stakeholder and community engagement opportunities that supports the creation of the Annual Budget.

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

**Legal References:**

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

**Monitoring Frequency:**

**Adopted:** 2018.10.10