
POLICY 4.1.1 ACCUMULATED OPERATING SURPLUS

The Board of Education is required by legislation to prepare a balanced annual budget. As stipulated within the *School Act*, boards of education are not permitted to incur a deficit of any kind and therefore must plan appropriately. Estimated spending in the annual budget must not exceed estimated revenue plus any allocation of accumulated operating surplus.

The Board is responsible for ensuring the district is protected financially from extraordinary circumstances which could negatively impact district operations and education of students.

The purpose of the Policy is to provide guidance with respect to how the Board of Education will manage the Accumulated Operating Surplus. The policy outlines:

- Public participation;
- Eligible restrictions of Accumulated Operating Surplus by Category;
- Target balances;
- Local capital; and
- Approval process and public reporting

1. Definitions

- 1.1. Accumulated Operating Surplus means the accumulated excess of operating revenues over operating expenses less inter-fund transfers from current and prior years.
- 1.2. Inter-Fund Transfer means a transfer between the district's operating fund and capital fund.
- 1.3. 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.
- 1.4. 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.
- 1.5. Unrestricted Operating Surplus (contingency): means the accumulated operating surplus built up in the district's operating fund that has not been designated for specific uses.

2. Public Participation

- 2.1. Prior to approval of the Preliminary Annual Budget, the Board will engage with the local community, education partners and local First Nations and Métis Nation BC on the accumulation, and all proposed uses of Accumulated Operating Surplus.
- 2.2. Engagement with education partners can be addressed through the budget development consultation process and will be posted on the district's website with information on when, where and how the local community, local First Nations and Métis Nation BC can provide feedback on and be involved in the budget/surplus process including through the District's Haida Education Council.

3. Eligible Restrictions of Accumulated Operating Surplus By Category

- 3.1. The Accumulated Operating Surplus may be subject to internal restrictions for use in future years. Restrictions can be made for items that are identified by the Board of Education, have defined timelines, and must be directly related to the Board of Education strategic plan and priorities, or meet the specified needs of the district. Internal restriction will be approved by separate Board motion, and should be classified under the following categories:
 - 3.1.1.Restrict due to the nature of constraints on the funds; such as
 - 3.1.2.Contractual obligations (e.g., professional development)
 - 3.1.3.Unspent Targeted Grant funds; or
 - 3.1.4.School Generated funds
- 3.2. Restricted for anticipated unusual expenses identified by the Board of Education. This includes one-time expenses such as:
 - 3.2.1.Specified short-term, variable staffing needs;
 - 3.2.2.Equipment loss and breakage reserves;
 - 3.2.3.Implementation of specified new initiatives; or
 - 3.2.4.Impact of specified emerging events (e.g., COVID-19)
- 3.3. Restrictions for operations that span multiple school years, such as;
 - 3.3.1. Revenue are not received in the same school year in which expenses are incurred;
 - 3.3.2. Unspent school block funds;
 - 3.3.3. Unspent Holdback funding from Ministry of Education; or
 - 3.3.4. Designated funds to support future obligations, programs or services.



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- 3.4. Restricted for transfer to Local Capital through a Board motion to create a reserve fund for:
 - 3.4.1. Significant investments in technology, furniture and equipment, and fleet, that align with the Board of Education strategic plan and priorities;
 - 3.4.2. District contributions to capital construction projects not funded by the Ministry of Education and Child Care; or
 - 3.4.3. Capital Assets funded by the district.
 - 3.5. Restricted for future capital projects:
 - 3.5.1. To satisfy Ministry requirements to contribute to major capital projects
 4. Unrestricted Operating Surplus (Contingency)
 - 4.1. Boards should consider maintaining reasonable unrestricted operating surplus to support effective planning that includes risk mitigation. From time to time, the Boards may require emergency funds, or contingency funds for unexpected increases in expenses and/or decreases in anticipated revenues. In these situations, 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. 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.
 - 4.2. The target balance for the Unrestricted Accumulated Operating Surplus is established in the range of 2-4 percent of operating expenses as approved in the Preliminary Annual Budget.
 - 4.3. Examples of the use of unrestricted operating surplus funds include the following situations.
 - 4.3.1. Major Emergent Operating Issues – a 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.
 - 4.3.2. For One-Time and Intermittent Projects – a district may be required to undertake one-time and/or intermittent projects that are large (in terms of cost). If these projects are funded from annual per-pupil based Provincial Operating grants this may cause fluctuations or reductions in educational service levels; therefore, it is not prudent to fund these projects from current annual per-pupil based Operating grants from the ministry.

5. Local Capital

5.1. Local Capital includes the board's portion of any proceeds from the disposition of capital assets, transfers from operating funds and interest earned on Local Capital funds restricted for the purchase of tangible capital assets. Transfers from operating funds to Local Capital must be made only for specific initiatives that have a clear linkage to boards' strategic goals, or that address capital assets investment, or that meet the specified needs of the district.

5.2. If these transferred funds are not linked to strategic goals, or they have not been used within the timelines identified for the relevant initiative, the Ministry may require boards to use these Local Capital funds for other capital project priorities.

6. Approval Process and Public Reporting

6.1. Prior to bringing forward the Preliminary Annual Budget, the Amended Annual Budget, or the Audited Year End Financial Statements for approval by the Board of Education, the Secretary-Treasurer will present a report to the Finance and Audit Committee that includes utilization of the Accumulated Operating Surplus and Local Capital.

6.2. The Board of Education will approve recommendations for utilization of Accumulated Operating Surplus or transfers to Local Capital by way of a motion. The motion will include the purpose, timeline, and amount to be restricted.

6.3. The district's Financial Statement Discussion and Analysis (FSD&A) will include the accumulated surplus schedule with the details related to the purpose, timeline, and reason for the surplus allocation.