

To nurture curiosity, resilience and joy in all

POLICY 511 ACCUMULATED OPERATING SURPLUS

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

An accumulated operating surplus represents the extent to which operating revenue from all previous years exceeds operating expenditures from all previous years after any inter-fund transfers. The use of an operating surplus enables the Board to engage in long-term planning, mitigate financial risk and support consistent programs and services to all students. Surplus balances provide flexibility to absorb future year one-time costs, unforeseen expenditures or reduced revenue due to declining enrolment. To support long-term financial planning, the Board can restrict operating surplus for use in future years with consistent rules and guidelines in place.

This policy ensures accountable and transparent financial planning; established procedures to guide the accumulation, spending and reporting of operating surplus funds; and outlines how the Board will engage with local community and education partner groups, including local First Nations and Métis Nation BC. This policy aligns and ensures compliance with the Ministry's Accumulated Operating Surplus Policy and Financial Planning and Reporting Policy.

To increase transparency, all surplus appropriations require a Board resolution in a public meeting. Approval of appropriations related to confidential matters or land, legal or personnel matters shall be considered in a Closed Board meeting.

The reporting of surpluses and inter-fund transfers are publicly provided through both the financial statement and budget reporting processes. The District budget reporting process will outline the initial plan for surpluses and transfers. The financial statements will report on actual surpluses and transfers in any given budget year.

Inter-Fund Transfers are funds transferred from one fund to another (e.g. between Operating Fund and Capital Fund/Local Capital). Inter-fund transfers must be made through Board resolution.

Consultation and Engagement



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Prior to approval of the Annual Budget, the Board will consult and engage with education partners and local First Nations and Métis Nation BC on proposed uses of the accumulated operating surplus. Consultation and engagement will include:

- Where, when and how there will be opportunities to provide input, feedback and ask questions regarding the Board's annual budget and Board's operating surplus accumulation, reporting and planned use;
- How the feedback will be used; and
- Any specific opportunities to provide feedback

This engagement will be consistent with the consultation processes outlined in the Board's Financial Planning and Reporting policy. Information regarding these processes will be provided on the District website (www.sd51.bc.ca).

Categories of Operating Surplus

The Board uses the following categories to manage operating surplus.

Internally Restricted Operating Surplus

The Board may approve restrictions to set aside a portion of the operating surplus for items that are linked to multi-year strategic objectives and future operational needs. Such restrictions must be made only for defined operational needs within defined timelines, including services or purchases that are directly related to the Boards' Strategic Plan, operational needs or enhanced educational outcomes for students.

Three categories of Internally Restricted Operating Surplus include:

1. Restricted Due to the Nature of Constraints on the Funds:
 - 1.1. The Board may receive grants or other revenue for specific or targeted purposes. If these grants/funds are not spent, the balance is internally restricted to be used for the specified use in future years. Examples include:
 - 1.1.1. Contractual obligations (i.e. professional development);
 - 1.1.2. Indigenous Education targeted funding; or
 - 1.1.3. School generated funds (not externally restricted).
2. Restricted for Anticipated Unusual Expenses Identified by the Board



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- 2.1. To support effective planning, there will be situations where management has identified one-time and intermittent projects that will not be funded by revenues in that year or where, if they are funded from annual Provincial Operating grants, this may cause fluctuations or reductions in educational service levels. Examples include:
 - 2.1.1. Staffing needs that are short-term and variable in nature;
 - 2.1.2. Self-insurance for minor equipment loss and breakage;
 - 2.1.3. Implementation of new initiatives; or
 - 2.1.4. Impact of emerging events (i.e. COVID-19 pandemic).

3. Restricted for Operations Spanning Multiple School Years

- 3.1. To support effective operational planning there will be situations where operating surplus funds may need to be carried over to future years, such as:
 - 3.1.1. Future years' Operations/Budget;
 - 3.1.2. Schools and department surplus/carryforwards;
 - 3.1.3. Operating projects in progress;
 - 3.1.4. Technology, utilities, equipment and Capital projects, including amounts to be transferred to Local Capital;
 - 3.1.5. Purchase order commitments;
 - 3.1.6. Educational programs spanning multiple years.

Unrestricted Operating Surplus (Contingency Reserve)

The Board is responsible for ensuring the District is protected financially from forecasted financial risk or unforeseen circumstances which would negatively impact operations and the education of students. In these circumstances, 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. To discharge this responsibility, the Board will establish a contingency reserve from available operating surplus which would be used to mitigate any negative impact such circumstances might cause.

The Board shall maintain a contingency reserve of at least 2% of operating expenditures and not exceeding 5% of operating expenditures.

The Board may approve the use of contingency reserve under the following circumstances:

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1. *Emergent Operating Issues:* Major non-recurring costs related to emergency events or situations which cannot be anticipated and budgeted for and when it may not be feasible to absorb the cost of such events in other budget areas. Examples include:
 - 1.1. . Extraordinary costs associated with severe inclement weather, forest fires etc.
 - 1.2. Payment of severances (wages and benefits) upon termination of employment;
 - 1.3. Settlement of any legal action not covered by insurance;
 - 1.4. Coverage for disaster recovery expenditures;
 - 1.5. Replacement of equipment essential to the continuation of safe operations of District facilities;
 - 1.6. Coverage for unexpected additional capital project costs not funded by the Ministry of Education; or
 - 1.7. Extraordinary or unknown cost pressures not known at time of budget development.
2. *Offset Unrealized Revenues:* Some revenue sources are cyclical in nature and subject to downturns in the economy and other factors. The Board cannot always anticipate such fluctuations or rely on budgetary savings or other revenues to offset these shortfalls. In these cases, the Board can use contingency funds to continue to provide educational services and maintain operations without implementing one-time service cuts.

In recognizing that the use of the contingency reserve represents a one-time source of funding, the Board will incorporate, into its future budget planning processes, strategies to re-establish the contingency reserve. Such strategies may be implemented over a period of multiple years.

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 Minister of Education for concept plan or business case development, the Board may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval.

Local Capital

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. Local Capital purchases are typically not funded through the Ministry's capital programs (i.e. maintenance vehicles and technology equipment).



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Transfers from operating funds to Local Capital must be made only for specific initiatives that have a clear linkage to the Board's strategic goals or that address capital asset investments or that meet the specified needs of the District.

Special Purpose Funds

The Board will maintain a surplus within a special purpose fund where it is beneficial to do so in achieving the intent of that fund.

Reporting Requirements

The Board will provide the Ministry with an annual report on its budget allocation decisions (including operating surplus and Local Capital), demonstrating that approved allocations support the Board's strategic objectives.