



# Policy No. 402

## **ACCUMULATED OPERATING SURPLUS**

### **POLICY STATEMENT**

The School Act requires boards of education to prepare a balanced annual budget. Estimated spending in the annual budget must not exceed estimated revenue plus accumulated operating surplus. Operating surplus, with consistent rules and guidelines in place, enables the board to engage in long-term planning, mitigate financial risk and support consistent service to all students.

The purpose the Accumulated Operating Surplus Policy is to ensure a clear and transparent understanding of the reasonable accumulation and planned use of the district's operating surplus, contingency reserve, and local capital surplus. The Board will also notify how the local community and education partners, including local First Nations and Metis Nation BC can be engaged on this subject.

Healthy surplus levels are important in achieving the strategic objectives identified in the district's Strategic Plan and to ensure the district's long-term financial health and stability. Surplus fund balances and changes shall be reported in the Annual Financial Statements.

The Board authorizes the Secretary Treasurer to develop and implement all procedures required for the management of the Board's accumulated operating surplus policy.

### **GUIDING LEGISLATION/REGULATIONS**

- *School Act*, Section 156

### **REGULATIONS**

#### **1. Operating Surplus**

- a. A board achieves an operating surplus when its annual revenue exceeds annual expenses. An operating surplus means that the board has financial resources that can be used to operate schools for a period longer than one year.

#### **2. Internally Restricted Operating Surplus**

- a. Boards may restrict operating surplus for use in future years within ministry-specified guidelines. The ability to internally restrict operating surplus funds allows the board to support multi-year strategic objectives to ensure enhanced educational outcomes for students.

- b.* Internal restrictions of Operating Surpluses are made for only defined operational needs, with defined timelines, and to increase transparency, every appropriation requires a Board motion.

### **3. Contingency Reserve (Unrestricted Operating Surplus or Local Capital Surplus)**

- a.* The Board is responsible for ensuring the district is protected financially from extraordinary circumstances which would negatively impact school district operations and the education of students. To discharge this responsibility, the Board shall establish a contingency reserve from available operating surplus which would be used to mitigate any negative impact such circumstances might cause.
- b.* The Board shall maintain a contingency reserve of at least 5% of operating expenditures to mitigate short term volatility and provide financial security for unexpected costs in current or subsequent years.
- c.* To support major capital projects that are identified in Boards' 5-year Capital Plan and approved by the Ministry 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. Capital cost share expectations can be found within the Ministry's Capital Planning Instructions.

### **4. Local Capital**

- a.* 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 are made only for specific initiatives that have a clear linkage to the Board's strategic goals, or that address capital assets investment, or that meet the specified needs of the school district.
- b.* 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.
- c.* Boards are also 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 Boards' strategic objectives.

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