

Policy 20 – Accumulated Operating Surplus

The Board of Education is responsible for ensuring that the district is financially protected from extraordinary circumstances which would negatively impact school district operations and the education of students. Further, a level of financial reserves is an indicator of financial health and can contribute resources to provide for multi-year planning for future educational services, and protection from future financial risk.

An operating surplus represents the extent to which operating revenues in a fiscal year exceed operating expenditures in that year. Conversely, an operating deficit occurs when operating expenditures in a fiscal year exceed operating revenues in the same year. The School Act prohibits school districts from carrying an accumulated operating deficit, so if a deficit occurs in a fiscal year accumulated surplus funds must be used to balance it. If there are insufficient surplus funds to do so, the Board must allocate future revenues to address the shortfall.

Purpose:

1. The Board has established this Accumulated Operating Surplus Policy in order to address their commitment to business practices that promote a sustainable organization. The purpose of this policy is to provide:
 - guidance and consistency in financial planning
 - mitigation of short-term volatility
 - protection against future financial risk
 - support of thoughtful and effective resource allocation
 - a contingency for unexpected costs

Definitions:

2. In this Board Policy, the relevant financial terms are defined as follows:
 - **“Accumulated Operating Surplus”** means the accumulated excess of operating revenues from all prior years over operating expenses from all prior years.
 - **“Accumulated Operating Deficit”** means the accumulated excess of operating expenses from all prior years over operating revenues from all prior years.
 - **“Annual Operating Surplus”** is the amount by which a fiscal year’s operating revenues exceed that same fiscal year’s operating expenses.

- **“Annual Operating Deficit”** is the amount by which a fiscal year’s operating expenses exceed that same fiscal year’s operating revenues.
- **“Operating Revenue”** is the total of all revenue in the operating fund as disclosed on Schedule 2 of the financial statements.
- **“Operating Expense”** is the total of all expenses in the operating fund as disclosed on Schedule 2 of the financial statements.
- **“Unrestricted Operating Surplus”** means that portion of the Accumulated Operating Surplus that has not been allocated by the Board for specific uses.
- **“Internally Restricted Operating Surplus”** means that portion of the Accumulated Operating Surplus that the Board has designated, via Board motion, for specific uses in future years.
- **“Surplus Restricted for Future Capital Cost Sharing”** means that portion of operating surplus that the Board may restrict to satisfy capital project cost share expectations at the time a capital project is brought forward to the Ministry of Education and Childcare.
- **“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 the Board’s Strategic Plan, or that address capital assets investment, or that meet the specified needs of the school district.

Guiding Principles:

3. The following guiding principles form the basis for this Policy, and shall serve to guide surplus/reserve allocation decisions:
 - Maintaining an unrestricted accumulated operating surplus balance that is in line with financial best practices and Ministry of Education and Childcare and/or Auditor General recommendations is important to maintain financial health and stability.
 - Unrestricted accumulated operating surplus should not be used for on-going operating expenses, except as directed by Board motion.
 - Restriction of accumulated operating surplus should support resources that are focused to the greatest extent possible on programs and services that improve student achievement, and are aligned with the district’s Framework for Enhancing Student Learning goals.

Procedures:

4. The Board may approve restrictions on the spending of accumulated operating surplus. Boards of Education are required by the School Act to prepare balanced annual operating budgets, which may require the appropriation of accumulated operating surplus.

5. Restrictions on the spending of accumulated operating surplus will be for the following purposes:
 - Operations spanning future school years;
 - Unusual or unexpected expenses in a given fiscal year;
 - Support for unfunded capital expenditures, primarily associated with technology, educational initiatives and deferred maintenance of facilities;
 - Contingency reserve
6. The Board will endeavor to maintain an unrestricted accumulated operating surplus balance that aligns with financial best practice and provides a contingency for unforeseen events.
7. Restrictions on accumulated operating surplus will be made by Board motion at the time the Board reviews and approves the Annual Operating Budget, Amended Annual Operating Budget, and Financial Statements.
8. The Board will use the existing Ministry Financial reporting framework to provide the Ministry of Education and Childcare with reports on their annual budget allocation decisions (including Operating Surplus and Local Capital), demonstrating that the approved allocations support their Strategic Plan objectives.