

POLICY

3170: Operating Surplus (No Markup)

Adopted: November 27, 2017

Revised: January __, 2022

Frequency of Review: Annual

1.0 RATIONALE

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 accumulated operating surplus (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 in the District.

- 1.2 The Operating Surplus policy ensures a clear, transparent understanding of the reasonable accumulation and planned use of operating surplus and also allows the Board to restrict portions of its operating surplus for future use to address board priorities.

2.0 DEFINITIONS

- 2.1 Accumulated Operating Deficit: means the accumulated excess of Operating Expenses over Operating Revenues less Inter-Fund Transfers from current and prior years.
- 2.2 Accumulated Operating Surplus: means the accumulated excess of Operating Revenues over Operating Expenses less Inter-Fund Transfers from current and prior years. While boards of education may use the term Reserves to denote 'Surplus', when it comes to financial statements and budgets the term Surplus will be used.
- 2.3 Annual Operating Deficit: is the amount by which a fiscal year's Operating Expenses and Inter-fund Transfers exceed that same fiscal year's Operating Revenues.
- 2.4 Annual Operating Surplus: is the amount by which a fiscal year's Operating Revenue exceeds that same fiscal year's Operating Expenses and Inter-fund Transfers.
- 2.5 Inter-Fund Transfers: means the transfer of funds from one fund to another (e.g., between Operating Fund and Capital Fund).

- 2.6 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.
- 2.7 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.
- 2.8 Operating Expenses: are the total of all expenses in the Operating Fund as disclosed on Schedule 2 of the annual financial statements.
- 2.9 Operating Revenue: is the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the annual financial statements.
- 2.10 Unrestricted Operating Surplus (Contingency): means the accumulated Operating Surplus built up in the School District's Operating Fund that has not been designated for specific uses.

3.0 POLICY

- 3.1 As part of the annual budget process, the Board will engage in public discussions with Rights Holders, stakeholders and community partners, to discuss why boards have an operating surplus and how the surplus will be used to support the boards' strategic plans, operational needs and enhanced educational outcomes for students. The engagement will include a review of historical accumulation and usage of operating surplus to identify patterns that will assist the Board in more effective long-term financial planning.
- 3.2 The Board may set aside a certain portion of operating surplus for items that are linked to multi-year strategic objectives and future operational needs. When funds are restricted for use in future years, the Board will ensure that the restrictions are made only for defined operational needs with a timeline of two years or less, including services or purchases that are directly related to, in priority order, a boards' strategic plan, enhanced educational outcomes for students (framework for enhancing student learning), and operational needs.
- 3.3 Operating Surplus appropriations or restrictions will be made by board motion.
- 3.4 Operating Surplus may be internally restricted by the Board for the following purposes:
 - i. Restricted Due to the Nature of Constraints on the Funds: unspent grants provided for a specific purpose, unspent commitments that are legally binding and some donations.

- Examples: contractual obligations (e.g., professional development language in a collective agreement or employment contract), funding required to meet the Indigenous education spending target; and school allocations from district (not externally restricted).
- ii. Restricted for Anticipated Unusual Expenses Identified by the Board: identified one-time and intermittent projects that will not be funded by revenues in the fiscal year or where if they are funded from annual Provincial Operating grants, may cause fluctuations or reductions in educational service levels.
Examples: staffing needs that are short term and variable in nature, self-insurance for minor equipment loss and breakage, implementation of new initiatives; and the impact of emerging events (i.e., COVID-19 pandemic, refugee students).
 - iii. Restricted for Operations Spanning Multiple School Years: To support effective operational planning there will be situations where operating surplus funds may need to be carried over to future years.
Examples: future 2 fiscal years' Operations/Budget, future 2 fiscal years' schools and department surplus/carry-forwards; operating projects in progress; technology, utilities, equipment, and Capital projects, purchase order commitments; and educational programs spanning multiple years (e.g., distributed learning, summer school, International Student Program).
- 3.5 Where Operating Surplus is restricted for the purchase of tangible capital assets such as technology, equipment and capital projects, transfers may be made to the Local Capital Fund for future use. Operating Surplus transfers to Local Capital, will be made by Board motion and the purpose and use of the funds will be communicated through the Annual Budget process and the year-end financial reporting process. Operating Surplus transfers to Local Capital will only be made for specific initiatives that have a clear linkage to the Board's strategic goals, address capital assets investment or meet specific District need.
- 3.6 The Board may restrict Operating Surplus 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 ministry for concept plan or business case development where no local or restricted capital reserves are available.

- 3.7 In order to limit the impact fluctuations expenses or revenues have on service delivery over time that may result in cuts to service, the Board will not restrict Operating Surplus for on-going expenses that span 3 or more years.
- 3.8 The Board will maintain a reasonable unrestricted operating surplus to support effective planning that includes risk mitigation for emergencies or unexpected increases in expenses and/or decreases in anticipated revenues to continue to provide educational services and maintain regular operations without implementing one-time service cuts. The unrestricted operating surplus will be maintained at between 2% and 4% of the previous year's operating revenue.

4 RESPONSIBILITIES

- 4.1 The responsibility for the overall compliance with this policy rests with the Board through its Annual Budget process and its financial year end reporting process.
- 4.2 The responsibility for the day to day administration of this Policy rests with the Secretary Treasurer.

5 REFERENCES

School Act, s.81, s.156, s. 157, s 157.1

Accounting Practices Order, Ministerial Order 033/09 (033/ 09), Amended by M177/10, Amended by M135/12, Amended by M413/14

Ministry of Education Policy: Accumulated Operating Surplus, May 28, 2021