

## POLICY 621: Accumulated Operating Surplus

This policy ensures accountable and transparent financial planning and ensures compliance with the Ministry of Education and Child Care's Accumulated Operating Surplus Policy by:

- guiding the accumulation, spending, and reporting of operating surplus;
- outlining how inter-fund transfers will be managed; and
- guiding how the Board will engage with local community and education partner groups, and rights holders as defined by Declaration on the Rights of Indigenous Peoples Act (DRIPPA).

The Board of Education for School District No. 8 (Kootenay Lake) (the "Board") has the responsibility under the School Act to prepare balanced budgets. Revenues plus appropriated surpluses must fully fund the annual operating, special purpose and capital fund expenses, and tangible capital asset acquisitions.

### Definitions

- A. **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 ability to approve inter-fund transfers and use previous year's operating surplus in future years enables the Board to mitigate financial risk, support consistent programs and services to all students, and engage in long-term planning.
- B. **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.
- C. **Unrestricted Operating Surplus:** means the accumulated Operating Surplus built up in the School District's Operating Fund that has not been designated for specific uses.

### 1. Restricted Operating Surplus

Categories of internally restricted operating surplus include:

#### 1.1 Restricted Due to the Nature of Constraints on the Funds

- 1.1.1 The Board may receive grants or other revenue for specific or targeted purposes. 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 and permitted by the grantor. If these grants/funds are not spent, the balance is internally restricted

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Related Contract Article: Nil

Adopted: October 9, 2018

Revised: November 10, 2020; January 10, 2022; January 9, 2024

to be used for the specified use in future years. Examples include:

1.1.1.1 Contractual obligations (i.e. professional development);

1.1.1.2 Indigenous Education targeted funding; or

1.1.1.3 School generated funds (not externally restricted).

## 1.2 Restricted for Anticipated Unusual Expenses Identified by the Board

1.2.1 To support effective planning, there will be situations where the District 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:

1.2.1.1 Self-insurance for minor equipment loss and breakage;

1.2.1.2 Implementation of new initiatives; or

1.2.1.3 Impact of emerging events (i.e. global pandemic).

## 1.3 Restricted for Operations Spanning Multiple School Years

1.3.1 To support effective operational planning, there will be situations where operating surplus funds may need to be carried over to future years, such as:

1.3.1.1 Future years' operations/budget;

1.3.1.2 Schools and department surplus/carryforwards;

1.3.1.3 Operating projects in progress;

1.3.1.4 Technology, utilities, equipment and capital projects, including amounts to be transferred to local capital;

1.3.1.5 Purchase order commitments; or

1.3.1.6 Educational programs spanning multiple years.

## 1.4 Restricted for Future Capital Cost Share

1.4.1 To support major capital projects as identified in the Board's 5-year Capital Plan and approved by the Ministry of Education and Child Care for concept plan or business case development, the Board may restrict operating surplus at the time the project is brought forward for funding approval.

## 2. Unrestricted Operating Surplus (Contingency Reserve)

The Board is responsible for ensuring the district is protected financially from extraordinary circumstances which would negatively impact operations and the education of students. To discharge this responsibility, the Board will strive to maintain a contingency reserve of

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at least 3% of operating expenditures and not exceeding 5% of operating expenditures. The Board may approve the use of contingency reserve under the following circumstances:

## 2.1 Emergent Operating Issues

Major non-recurring costs related to emergency events or situations which cannot be anticipated and budgeted for or when it may not be feasible to absorb the cost of such events in other budget areas. Examples include:

- 2.1.1 Extraordinary costs associated with severe inclement weather, forest fires etc.;
- 2.1.2 Coverage for disaster recovery expenditures;
- 2.1.3 Replacement of equipment essential to the continuation of safe operations of District facilities;
- 2.1.4 Coverage for unexpected additional capital project costs not funded by the Ministry of Education and Child Care; or
- 2.1.5 Extraordinary or unknown cost pressures not known at time of budget development.

## 2.2 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 strategies to re-establish the contingency reserve into its annual budget planning processes. Such strategies may be implemented over a period of three years.

## 3. Inter-Fund Transfers

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. Approval of Inter-fund Transfers related to confidential matters or land, legal or personnel matters shall be considered in a closed board meeting.

## 4. Consultation and Engagement

Prior to approval of the annual budget, the Board will consult and engage with local community and education partner groups, and rights holders as defined by the Declaration on the Rights of Indigenous Peoples Act (DRIPPA) on proposed uses of the accumulated operating surplus. Consultation will include opportunities to provide input, feedback and

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ask questions regarding the Board's annual budget and operating surplus accumulation, reporting and planned use.

## 5. Reporting Requirements

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 outlines the initial plan for surpluses and transfers. The financial statements report on actual surpluses and transfers in any given budget year.

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