

ACCUMULATED OPERATING SURPLUS

The Board of Education (“Board”) is responsible for ensuring fiscal stability, continuous measurement of the district’s financial health, and protecting against unforeseen circumstances which could negatively impact the education of students.

This policy establishes the Board’s objectives in terms of its accumulated operating surpluses. Accumulated operating surpluses are the result of spending less than the revenue that the district earned. The Ministry *Accumulated Operating Surplus Policy* (AOS) clarifies that a “reasonable” operating surplus should be the objective so that a public reader understand that surplus (funds meant for services to students) does not take away from student programs and services. Accumulated operating surpluses are an indicator of financial health in that they represent the net resources that can be used to provide future services, support educational goals, and mitigate short-term volatility.

[The Framework for Enhancing Student Learning](#) (Framework) directs the Board to develop and implement a multi-year strategic plan that is aimed at improving educational outcomes for students. The [Financial Planning and Reporting Policy](#) directs the Board to develop multi-year financial plans that identify how resources and operational funding will support their strategic plans.

The Ministry AOS Policy should be read in conjunction with the AOS Policy Companion Guide that provides guidelines and resources to help boards to operationalize their local AOS Policies to meet Ministry policy directives.

The financial plans and budgets, including the use of operating surplus, should clearly identify how they support strategic plans and other operational priorities of the school district including enhancing student outcomes. The Board must follow the guidelines and rules prescribed in the [Accounting Practices Order](#) and the [School Act](#) that describe the conditions under which surplus can be accumulated, restricted, used and transferred.

The District’s objectives in terms of its accumulated operating surplus is set out in this Accumulated Operating Surplus Policy (Policy). By reaching a clear understanding of its operating surplus objectives, and by continually measuring progress towards achieving those objectives, the District can attain greater fiscal stability and better support educational goals.

Specifically

1. The following principles form the basis for this Policy:
 - 1.1. Healthy surplus levels are important in achieving educational goals including financial health and stability.

- 1.2. Actual surplus balances need to be considered in regard to other school districts, especially those with similar rural and remote context, on an ongoing basis to gauge whether financial health is being achieved.
- 1.3. Surplus goals need to be consistent with, and aligned to, realistic longer-term financial plans (5 Year Capital Plans and the Long-Term Facility Plan), and the goals of the District Strategic Plan in context of the supporting strategic objectives.
- 1.4. Provide a contingency for financial risk, unexpected costs, and unforeseen circumstances.

2. Internally Restricted Operating Surplus

Unique to other organizations in the public sector, school districts are permitted to incur annual deficits as long as they have sufficient accumulated operating surplus to cover the annual deficit. An accumulated operating surplus indicates that a school district has net resources that can be used to provide future services. It is achieved by spending less than the revenue it receives. The Secretary Treasurer will recommend amounts that are internally restricted at year-end. Boards of education are required by legislation to prepare balanced annual operating budgets, which may include use of (appropriation of) prior year accumulated surplus.

2.1. This Policy will guide:

- 2.1.1. Inter-fund transfers, and ensure that stakeholders are aware of the Policy and understand what it means;
- 2.1.2. General guidelines as to how much (i.e. percentage or dollar amount) could be transferred to other funds;
- 2.1.3. How much might be allocated from current year's resources to be spent in a future fiscal year;
- 2.1.4. Annual planning and reporting of the expected surplus/deficit for the year and the application of the Accumulated Operating Surplus Policy for that fiscal year.
- 2.1.5. The following categories of internally restricted operating surplus have been established for the purpose(s) so identified:

2.2. Internally Restricted Due to Operations Spanning Multiple School Years

To support effective planning, there will be situations where monies will need to be carried over multiple school years. These could be for categories such as:

- 2.2.1. Future years' Operations/Budget (not beyond the next two fiscal years)
- 2.2.2. Schools and Department surplus/carry-forwards (not beyond the next two fiscal years)
- 2.2.3. Operating projects in progress
- 2.2.4. Technology, financial software transition, utilities, equipment and capital projects (includes amounts to be transferred to Local Capital, but have not yet been identified for specific initiatives)
- 2.2.5. Distributed Learning, International Programs
- 2.2.6. Strategic planning in context to the long-term facilities plan.

The amount of Accumulated Operating Surplus restricted for Operations Spanning future School Years at the end of a fiscal year should be a minimum of 1.5% and a maximum of 3.0% of actual Operating Expenses of that fiscal year.

2.3. Internally Restricted Due to Anticipated Unusual Expenses Identified

To support effective planning, there may be situations where district management has identified unusual/non-recurring expenses anticipated to be spent in the upcoming fiscal year that will not be funded by revenues of that year. These could be for categories (one-time expenses) such as:

- 2.3.1. Exempt staff compensation;
- 2.3.2. Staffing and labour relations;
- 2.3.3. Employee benefits;
- 2.3.4. Anticipated severance; and
- 2.3.5. Implementation of new curriculum

The amount of Accumulated Operating Surplus restricted for Anticipated Unusual Expenses Identified at the end of a fiscal year should be a minimum of 0.5% and a maximum of 1.0% of actual Operating Expenses of that fiscal year.

2.4. Internally Restricted Due to Nature of Constraints on the Funds

In recognition of some monies having constraints as to how they can be spent funds may need to be internally restricted at the end of the fiscal year. Funds with external restrictions are to be included in Special Purpose Funds. These internal restrictions could be for categories such as:

- 2.4.1. Contractual obligations (i.e. professional development)
- 2.4.2. Indigenous Education Spending Targets
- 2.4.3. School Generated Funds (not externally restricted)
- 2.4.4. Education Plan
- 2.4.5. Donator named funds (not restricted by the donor)

The amount of Accumulated Operating Surplus restricted for Nature of Constraints on the Funds at the end of a fiscal year cannot be quantified as a range of minimum to maximum.

3. Unrestricted Operating Surplus

- 3.1. The District needs to maintain Unrestricted Operating Surplus balances for working capital purposes, i.e. to provide for operating expenditures before operating grants from the Ministry of Education are received. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.
- 3.2. The District may also require emergency funds from time to time, from its Unrestricted Operating Surplus balance, for unforeseen costs. When this occurs, the School District needs to rely upon sufficient balances being available.
- 3.3. Also included in the Unrestricted Operating Surplus are funds that may be used in

budget years beyond the next two fiscal years.

3.4. The amount of Unrestricted Operating Surplus at the end of a fiscal year should be a minimum of 0.5% and a maximum of 3.0% of actual Operating Expenses of that fiscal year.

3.5. Contingency Reserve

3.5.1. To support effective planning, there will be situations where contingency funds need to be available to mitigate any negative impact that short-term volatility or emergency needs might cause. Budgeted annual operating expenses should be reflective of actual estimated costs or, where applicable, contractual expenditure requirements. The contingency reserve mitigates the risk of actual costs being greater than estimated. Upon review of the annual financial statements, the Board will restrict a portion of accumulated operating surplus for the purpose of forming a contingency reserve. The contingency reserve will be sufficient to reduce, to an appropriate level, financial forecast risk and/or unforeseen circumstances such as the following categories:

3.5.1.1. For Major Emergent Operating Situations – the District is exposed to major non- reoccurring costs related to various emergency events or situations (e.g. inclement weather, forest fires, etc.) These emergent situations cannot be anticipated and budgeted for and may not be feasible to absorb the cost of such events in other budget areas in any given year.

3.5.1.2. For One-Time and Intermittent Projects – the District undertakes certain one- time and/or intermittent projects that are larger in terms of costs. If these projects were funded from annual per-pupil based operating grants from the Ministry of Education, annual fluctuations in educational service levels may result; therefore, it is not prudent to fund these projects from current annual per-pupil based Operating grants from the Ministry of Education.

3.5.1.3. To Offset Unrealized Revenues – some of the District's revenue sources, (e.g. off- shore student enrolment, rentals, etc.) are cyclical in nature and thus are subject to downturns in the economy. The District tries to anticipate economic downturns by budgeting for a base dollar amount of these revenues in its general operations. Despite its best efforts, the District is exposed to the possibility of unrealized revenues and/or to declines in base revenues from year to year. One cannot always count on budgetary savings or other revenues to always offset these shortfalls.

3.5.2. If accumulated operating surplus available and restricted for the purpose of the contingency reserve is not sufficient, the Board will allocate additional funds from the annual budget of the subsequent fiscal year to increase the contingency reserve.

3.5.3. The contingency reserve is to be used only to fund additional cost pressures that result from circumstances beyond the school district's control, or, with the Board's approval, in response to unforeseen circumstances.

3.5.4. When use of the contingency reserve reduces the balance below what is determined to be sufficient, the Board will adopt strategies for replenishing the contingency reserve within an appropriate timeframe.

3.5.5. The amount of Accumulated Operating Surplus restricted for Contingency Reserves at the end of a fiscal year should be a minimum of 0.5% and a maximum of 1.0% of actual Operating Expenses of that fiscal year.

4. Restricted for Future Capital Cost Share

4.1. 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, boards may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval.

5. Accumulated Deficits

5.1. Under section 156(12) of the School Act, a board must not incur a deficit of any kind unless the board has the approval of the minister or meets criteria prescribed by order of the minister. The criteria for incurring a deficit is prescribed in Section 3 of the Accounting Practices Ministerial Order.

5.2. Consistent with this primary and secondary legislation, under ministry policy, a request to incur an accumulated operating deficit will only be approved if it is submitted by the board chair, or on a motion from the board and only if the board can explain why the accumulated deficit has been incurred. The board must not have a history of multi-year accumulated deficits, must have retired any previous accumulated deficits as required by the ministry, and must:

5.2.1. Indicate the nature of the accumulated deficit;

5.2.2. Demonstrate how the accumulated deficit will be repaid (generally within one to three years);

5.2.3. Indicate the percentage that the accumulated operating deficit is under budgeted expenditures;

5.2.4. Have appropriated, to the current year, all accumulated surplus from prior years; and

5.2.5. Submit a deficit retirement plan.

5.3. The minister may seek additional information to evaluate a board's request if the board does not meet the above criteria. Approval will be considered on a case-by-case basis. The minister may specify terms or conditions directly related to the retirement of the deficit prior to approving the request (e.g., that a debt be retired at a minimum of 1/3 the total debt over a three-year period). The minister will require audited financial statements to approve the accumulated deficit.

6. Administration

6.1. Increases to Restricted Surplus

6.1.1. Annual and/or periodic increases to the restrictions on the Accumulated Operating Surplus shall be specific to each category of restriction, as approved by the Board through the School District's annual financial planning/budgeting process.

6.2. Minimum and Maximum Surplus Balances

6.2.1. Minimum and maximum surplus balance guidelines have been set for some

of the categories of restrictions on the District's Accumulated Operating Surplus and Unrestricted Surpluses as shown in attached Appendix "A". The purpose of each category of Accumulated Operating Surplus is also shown in this Appendix. The minimum balances ensure that the respective balances are not depleted to the degree that those balances are no longer able to serve their intended purpose(s). The maximum balances ensure that the School District's guiding principles are achieved and that the respective balances do not grow beyond their intended purpose(s) and thus create idle assets that could be otherwise utilized for other corporate priorities. A formal comparative review of actual, minimum and maximum fund balances shall be undertaken annually.

6.3. Responsibilities

6.3.1. The District's Secretary Treasurer shall be responsible for:

- 6.3.1.1. Recommending the necessary increases/decreases and transfers so that the District's Restricted Operating Surplus and Unrestricted Operating Surpluses are maintained in accordance with this Policy for approval by the Board;
- 6.3.1.2. Conducting an annual review of all restricted Operating Surplus balances, and Unrestricted Operating Surplus balances including comparing actual levels with the established minimum and maximum levels within this Policy and with other school district and jurisdiction benchmarks, and reporting the results of such a review to the Board of Education for approval through the district's annual budgeting process;
- 6.3.1.3. Present in the annual budgeting process transfers to local capital which are sufficient to allow efficient replacement or acquisition of assets consistent with the school district's capital plan. Transfers to local capital should be authorized through the budget bylaw or by separate board motion. They should be supported by a planned use of the local capital balance.
- 6.3.1.4. Recommending changes to the minimum and maximum balance guidelines shown in this Policy; and
- 6.3.1.5. Recommending any revisions or amendments to this Policy, as may be required from time to time, as a result of changes in applicable Ministry of Education directives, accounting standards, economic conditions, etc.
- 6.3.1.6. Reporting to the public and Board.

6.4. Restriction Increases/Decreases and Transfer of Funds

- 6.4.1. Increases/decreases in Internally Restricted Operating Surplus for any of the categories identified in Section 2 in excess of \$20,000 will be considered by the appropriate Standing Committee and approved by the Board of Education.
- 6.4.2. The Secretary Treasurer has the authority to approve increases/decreases in Internally Restricted Operating Surplus up to and including \$20,000. Any such increases/decreases will be reported to the Finance/Operations Committee.

- 6.4.3. Any transfer of funds between the Operating Fund and Capital Fund not included in the Annual Budget, or Amended Annual Budget, will be considered by the Finance/Operations Committee and approved by the Board of Education.
- 6.4.4. It is expected that the annual operating budget will allow transfers to local capital, which are sufficient to allow efficient replacement or acquisition of assets consistent with the District's capital plan. Transfers to local capital should be authorized through the budget bylaw or by separate board motion. They should be supported by a planned use of the local capital balance.

6.5. Guide and Transition

- 6.5.1. The minimum and maximum operating surplus balance guidelines shown in the appendix serve as a guide in moving the District towards the goals or targets it wishes to attain, in terms of individual surplus balances. It is recognized that the District's surplus balances may not be at the minimum or maximum levels at the time of enacting this Policy, however, the District is transitioning towards its maximum targets.

7. Planning, Reporting and Communication to Public

- 7.1. The Board will provide opportunities for local First Nations, Métis Community, partner groups and the public to provide input through the three-year financial plan and budget development process to allow consultation on the accumulated operating surplus. The engagement process and the accumulated operating surplus documents will be provide on the school district's website.
- 7.2. Accumulated Operating Surplus balances and changes will be reported in the Annual Financial Statements.
- 7.3. The District must provide the Ministry with an annual report on the budget allocation decisions (including operating surplus and local capital) demonstrating that approved allocations support boards' strategic objectives. Appendix A will be used to report on operating surplus and Appendix B to report on Capital surplus.
- 7.4. To ensure the Ministry receives all information relevant to operating surplus the Secretary Treasurer will provide additional information explaining how the funds were accumulated and how the operating surplus will be used through the Financial Statement Discussion and Analysis (FSD&A). The FSD&A will explain how operating surplus was used to support Board strategic plans.

8. Glossary

The following terms used in this Policy are defined as follows:

Accumulated Operating Deficit: means the accumulated excess of Operating Expenses over Operating Revenues less Inter-Fund Transfers from current and prior years.

Accumulated Operating Surplus: means the accumulated excess of Operating Revenues over Operating Expenses less Inter-Fund Transfers from current and prior years. Accumulated Operating Surplus is a term defined by the Public Sector

Accounting Standards (PS1201). While boards of education may use the term Reserves to denote 'Surplus,' when it comes to financial statements and budgets the term Surplus should be used.

Annual Operating Deficit: is the amount by which a fiscal year's Operating Expenses exceed that same fiscal year's Operating Revenues.

Annual Operating Surplus: is the amount by which a fiscal year's Operating Revenue exceeds that same fiscal year's Operating Expenses.

Inter-Fund Transfers: means the transfer of funds from one fund to another (e.g., between Operating Fund and Capital Fund).

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.

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.

Operating Expenses: are the total of all expenses in the Operating Fund as disclosed on Schedule 2 of the annual financial statements that boards must provide to the ministry.

Operating Revenue: is the total of all revenue in the Operating Fund as disclosed on Schedule 2 of the annual financial statements that boards must provide to the ministry.

Special Purpose Fund: consists of targeted funding provided to the school district for a specific purpose. Pursuant to Sections 156(4) and (5) of the School Act, each special purpose fund must be accounted for in accordance with the terms of that special purpose fund. Treasury Board Restricted Contribution Regulation 198/2011, issued in November 2011, defines a restricted contribution as 'a contribution that is subject to a legislative or contractual stipulation or restriction as to its use'. Special purpose fund expenses are contingent on the amount of revenue received for the purpose of providing a specific service or program.

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.

Legal Reference: Section 85, [School Act](#)

Date: August 15, 2021
Revised: June 14, 2022

APPENDIX B: SAMPLE MULTI-YEAR LOCAL CAPITAL SURPLUS PLANNING AND REPORTING TEMPLATE (in 000's)

Local Capital	Prior Year	Current Year	Planned for Year 1	Planned for Year 2	Planned for Year 3	Reference Strategic Goal Restricted Surplus Linked to/Comments
Opening Balance						
Sources of Local Capital						
Sale of Property-Board's Share						
Detail						
Detail						
Detail						
Total Sale of Property	\$ -	\$ -	\$ -	\$ -	\$ -	
Transfer from Operating						
Investment Income						
Uses of Local Capital						
Assets Purchased						
Detail						
Detail						
Detail						
High School Track						
ERP System						
Middle School Roof						
Total Assets Purchased	\$ -	\$ -	\$ -	\$ -	\$ -	
Closing Balance	\$ -	\$ -	\$ -	\$ -	\$ -	