
ACCUMULATED OPERATING SURPLUS AND INTERNALLY RESTRICTED FUNDS

Accumulated operating surplus represents the extent to which operating revenues from all previous years exceeds operating expenditures from all previous years. Conversely, when operating expenditures from all previous years exceed operating revenues from all previous years an accumulated operating deficit result. When an accumulated deficit occurs, it means future revenues are needed to pay for past expenditures. School Districts in BC are not permitted to budget for or incur expenditures that result in an accumulated operating deficit.

Accumulated operating surplus allows a School District to budget for expenditures in excess of revenues in a given year, and also serves to reduce financial risk that can result from financial forecasting uncertainty and unforeseen circumstances.

Internally Restricted Operating Surplus

Surplus funds may be restricted to be used for a specific purpose or may be designated as unrestricted. Examples of restricted fund designations are:

- Future years' Operations/Budget.
- Schools and Department surplus/carry-forwards.
- Operating projects in progress.
- Technology, utilities, equipment, and capital projects (including amounts to be transferred to Local Capital but have not yet been identified for specific initiatives).
- Purchase Order commitments.

The amount of Accumulated Operating Surplus restricted for Operations Spanning Future School Years at the end of a fiscal year is normally to be between 1.0 % and 3.0 % of actual Operating Expenses of that fiscal year.

Contingency Reserve

The Board of Education 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 will establish a contingency reserve from available operating surplus which would be used to mitigate any negative impact such circumstances might cause.

The Board shall maintain a contingency reserve of at least 1.0 % of operating expenditures.

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The Board may approve the use of the contingency reserve under the following circumstances:

- The elimination of any deficit arising at the end of a fiscal year of operations.
- The funding of new cost pressures in a fiscal year that were not known at the time of budget development.
- The payment of severances (wages and benefits) upon termination of employment.
- The settlement of any legal action that is not covered by insurance.
- Initial one-time cost outlays for new education programs.
- Coverage for disaster recovery expenditures.
- Extraordinary unknown utilities cost pressures.
- Replacement of equipment essential to the continuation of educational programming in Schools or District facilities.
- To assist in balancing future years' budgets.

In recognizing that the use of the contingency reserve represents a one-time source of funding, the Board shall incorporate into its future budget planning processes, strategies to re-establish the contingency reserve.

Unrestricted Operating Surplus

The School District needs to maintain Unrestricted Operating Surplus balances for working capital purposes. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.

The School 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.

Also included in the Unrestricted Operating Surplus are funds that may be used in budget years beyond the next two fiscal years.

The amount of Unrestricted Operating Surplus at the end of a fiscal year is to be at least 1.0 % of actual Operating Expenses of that fiscal year.

Legal Reference: BC Ministry of Education Accumulated Operating Surplus Policy

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