

The Board of Education believes that adequate surplus levels are important in supporting educational goals, ensuring financial health, stability, and mitigating risk. Accumulated Operating Surplus is the cumulative excess of operating revenues over operating expenses. The Board considers an Accumulated Operating Surplus balance to provide a measure of resiliency to address annual fluctuations in funding and address one-time costs or unforeseen expenditures.

The Board's accumulated operating surplus will serve as:

1. A contingency reserve for the risks associated with unexpected increases in expenses and/or decreases in revenues;
2. One-time costs not included in the annual operating budget; and
3. Intermittent projects and initiatives.

### Regulations

Accumulated Operating Surplus may be subject to internal restrictions as directed by the Board. The target Accumulated Operating Surplus balance, net of internal restrictions, is established in the range of 2-4% of operating expenses.

### Internally Restricted Surplus

Surpluses may be restricted for varying reasons based on constraints; there are generally three types:

1. Internally restricted due to the nature of constraints on the funding. Examples include but are not limited to:
  - a. Contractual Obligations
  - b. Aboriginal Education
  - c. All Special Purpose Funds
  - d. Ministry Funds for Capital projects
2. Internally restricted due to anticipated unusual or one time identified expenses. Examples include but are not limited to:
  - a. Unfunded compensation
  - b. Labour Relations based on the collective agreement cycle(s)
  - c. Anticipated severances
  - d. Implementation of new curriculum or programs
  - e. Contingency Reserve (see below)

3. Internally restricted due to practice and use spanning more than the current school year. Examples include but are not limited to:
  - a. School and department surpluses or carry-forwards
  - b. Technology or departmental transitions or implementations
  - c. Operating projects in progress
  - d. Strategic and/or Long-Range planning

### **Contingency Reserve Fund**

The Board will establish a contingency reserve fund from available operating surplus. This fund will be used to mitigate any financial impact from unforeseen risk or circumstances that could negatively impact the resources allocated for educational programs. The Board should maintain a contingency reserve of a minimum of 1.5% and a maximum of 2.5% of annual operating expenditures. The Board may approve the use of the contingency reserve under the following circumstances:

1. The elimination of any deficit arising at the end of a fiscal year of operations;
2. Initial one-time cost outlays for new education programs;
3. The replacement of equipment or facilities essential to educational programming;
4. The financing of one-time capital projects;
5. The funding of unexpected new cost pressures;

The Board recognizes that the contingency reserve fund should be used as a one-time source of funding. Should the contingency reserve drop below target the Board will incorporate into its future budget planning processes, strategies to re-establish the contingency reserve. Such strategies may be implemented over a period of two years.

### **Unrestricted Operating Surplus**

The Board needs to maintain Unrestricted Operating Surplus, meaning surpluses that have not been designated for specific uses, for working capital purposes:

1. To maintain operating expenditures before operating grants from the Ministry of Education and Child Care are received.
2. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations.
3. Provide emergency funds from time to time, from its Unrestricted Operating Surplus balance, for unforeseen costs.

When this occurs, the Board needs to rely upon sufficient balances being available. The amount of Unrestricted Operating Surplus at the end of a fiscal year should be a minimum of 0.5% and a maximum of 1.5% of actual Operating Expenses of that fiscal year.

### **Reporting and Communication**

Proposed uses of Accumulated Operating Surplus should be clearly displayed and referred to the Board for approval during the Annual Budget process.

Detailed information regarding the change in Accumulated Operating Surplus balance will be included in a management report to the Board each year as part of the year-end Audited Financial Statement presentation.

Should the Accumulated Operating Surplus balance decline below target, a replenishment strategy will be developed and approved by the Board to be implemented over a three-year period, or an alternate approved timeline