

Royal Roads University Policy

Policy Number:

D1085

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December 14, 2018

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October 10, 2019

Approved By:

Board of Governors

Office of Oversight:

VP & CFO

Board Policy Statement

This document sets forth the accumulated surplus policy (Policy) to guide Royal Roads University (RRU) in the deployment of available accumulated surplus funds in accordance with responsible fiscal management for the allocation and utilization of resources to meet the university's priorities.

Key Terms/Definitions

Key Terms

Accumulated Surplus

Available Accumulated Surplus

Extraordinary Operating Results

Definition

The accumulation of annual net operating income.

Available accumulated surpluses are the result of the accumulation of annual net operating income (accumulated surpluses), less additions to capital and major projects, plus deferred capital contributions. Available accumulated surpluses are also net of endowments when presented on a consolidated basis

Unforeseen revenue shortfalls or unexpected expenditures not contemplated in annual operating plans that cannot be mitigated through cost containment measures and result in a net loss for the year.

Policy Terms

1. All planned uses of the available accumulated surplus and operating surpluses must be reviewed by the Finance and Audit Committee and approved by the RRU Board of Governors.



2. Use of the available accumulated surplus, within the current Board guidelines, legislative and government policy requirements, include:

- Capital infrastructure and technology upgrades and additions
- Extraordinary operating results (unforeseen revenue shortfalls or unexpected expenditures not contemplated in annual operating plans that cannot be mitigated through cost containment measures and result in a net loss for the year)
- Other non-recurring expenditures

3. Use of available accumulated surplus to fund major capital projects and initiatives should be prioritized for projects that maximize funding capacity and achieve capital plan objectives. Such uses will be identified in the form of a business case for approval by the Board. Amended accumulated surplus balances will be updated and presented in conjunction with business case approvals so the overall impact to the organization and existing approved projects and surplus balances can be considered.

4. Smaller projects including small asset replacement and routine capital maintenance projects will be identified in the annual operating plan and approved by the Board.

5. Rolling five-year business plans will identify five-year capital frameworks that maximize funding capacity and meeting long term objectives. This will include prioritization and level of use of available accumulated surplus to fund capital initiatives.

6. Use of operating surpluses shall be identified through rolling five-year business plans and annual operating plans.

- The rate of growth of surplus over time should consider the balancing of long-term and short-term needs including the priority of identified capital requirements, the priority of identified strategic operational investments and the ability of the university to generate additional surplus from operations.
- Annual operating plans should continue to target operating costs that do not exceed 95.0 per cent of revenues. Use of available accumulated surplus should be identified separately from the 95.0 per cent guideline and included in annual operating plans for approval by the Board, followed by quarterly financial reporting for monitoring purposes.
- The Board may at any time adjust, amend, defer or restrict previous approvals for the use of operating surpluses based on financial projections or as deemed necessary to ensure the university's strategic financial objectives are met.

7. A reserve for operating deficit purposes will be maintained in the available accumulated surplus to allow for future and unforeseen operating deficits and capital.

8. Audited financial statements should contain a note of disclosure that identifies the intended use of available accumulated surplus through identification of board-approved internal restrictions.

Restrictions

In addition to financial management guidelines identified by RRU Board of Governors (Board), *Budget Transparency and Accountability Act* (BTAA) and other legislation impose restrictions and constraints on the university that impact the use of accumulated surpluses as described below:

University Act - As per the *University Act*, RRU is not permitted to post an operating deficit without the approval of the Minister of Finance. As such, accumulated surplus cannot be drawn down to fund operating activities except in extreme or unusual circumstances.

Borrowing Restrictions for Post-secondary Institutions - Due to government policy, conventional borrowing options are limited for post-secondary institutions. As such, financing of capital expenditures must generally be accomplished through a combination of third party contributions or from RRU cash flow.

Board Guideline - 5.0 per cent excess of revenue above cost - The Board has adopted a guideline whereby annual operating costs are targeted not to exceed 95.0 per cent of revenues with the intent that the increase in accumulated surplus would help to fund tangible capital asset additions. Use of operating investments from the 5.0 per cent excess of revenue above cost will be identified for approval by the Board in annual operating plans.

Authoritative Sources

This policy will be administered in compliance with the following legal, regulatory and policy requirements:

Source

Budget Transparency and Accountability Act (BTAA) from the Ministry of Finance for the provincial government of BC

Source URL (modified on 2019-11-01 09:52): <https://policies.royalroads.ca/policies/accumulated-surplus-policy>