

# POLICY 28 - FINANCIAL RESERVES

## Background

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The board is responsible for managing the financial risk of extraordinary events occurring which would negatively impact school division operations. The board is also responsible to ensure that the school division conducts long term planning and has the financial resources to enact that plan. Financial reserves are necessary to fulfill these responsibilities.

## Categories of financial reserves

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### **Unrestricted surplus or deficit**

An operating surplus occurs when operating revenues exceed operating expenditures in a fiscal year. An operating deficit occurs when operating expenditures exceed operating revenues in a fiscal year. Operating surpluses and deficits are accumulated at the end of each fiscal year in an account. If the accumulated balance of that account is positive it is an unrestricted surplus, but if it is negative, it is a deficit. The board is responsible for maintaining a positive unrestricted surplus as a hedge against the risk of future unanticipated expenditures that exceed revenues. All transfers from the unrestricted surplus must be approved by the board.

### **Designated assets**

The board is also responsible for setting aside designated assets for future one-time or non-recurring spending needs of the school division. The use of these designated assets can either be restricted by external organizations or internally restricted by the board. Examples of internally restricted financial reserves include expenditures for replacement of technology and facility projects that are not funded through other arrangements. All additions and withdrawals from designated assets must be approved by the board.

## Policy

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The board will maintain the following ranges for financial reserve balances:

- An unrestricted surplus between 0.5% and 2% of annual operating revenues.

- Internally restricted financial reserves totaling between 1% and 10% of annual operating revenues excluding financial reserves designated for capital projects and school generated funds.

If financial reserve levels exceed these ranges, a plan would be approved by the board to spend those additional dollars in the future.

There will be no range on externally restricted financial reserve balances as their use is stipulated by an agreement between the board and an external organization.

## References

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SASBO Accumulated Surplus Reporting Manual

Legal Reference:

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