



# ASBOA

ASSOCIATION OF SCHOOL  
BUSINESS OFFICIALS OF ALBERTA



# Understanding School Board Reserves

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# Understanding School Board Reserves

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## 1. What is a reserve?

- How are reserves accumulated?
- What types of reserves are there?

## 2. What is the history of accumulating and spending reserves by school boards?

## 3. Are there limits on accumulating reserves (provincial guidelines)?

## 4. How/When can reserves be spent by school boards?

## 5. What can reserves be spent on?



# What is a Reserve?

- A school board reserve is an excess of revenues over expenses at the end of a year that has been set aside by a school board for spending at a later date.
- This excess is put into a separate account controlled by the school board.
- If the excess or surplus, as it is frequently called, continues for more than one year, the balance in the reserve accounts increases.



# What is a Reserve continued?

- Reserves balances are identified on school board financial statements as either:
  1. Unrestricted surplus
  2. Operating reserves
  3. Capital reserves
- Reserve balances reported by Alberta Education DO NOT include funds raised by parents for their specific schools (excludes school generated funds)



# Types of Reserves

## Unrestricted Surplus



## 1. Unrestricted Surplus

- An excess of revenues over expenses **in a budget year**, also known as an operating surplus.
- An operating surplus can remain in this account indefinitely or be transferred to Operating reserves or Capital reserves.

# Types of Reserves

## Operating Reserves

### 2. Operating reserves

- An accumulation of revenues over expenses over time with the school board identifying a purpose for the future spending of these funds.
- An operating surplus can remain as identified to be spent by the school board, or the purpose can be changed by trustees at any time.
- These funds can be transferred to Capital reserves.



# Types of Reserves

## Capital Reserves



### 3. Capital reserves

- A reserve balance accumulated from the sale of capital assets (e.g. a school building, school bus, administration building).
- These reserves are restricted in how they can be spent. They must be spent on capital asset purchases or projects.
- Funds transferred to Capital reserves cannot be transferred back to Operating reserves or Unrestricted surplus without permission of the Minister of Education.

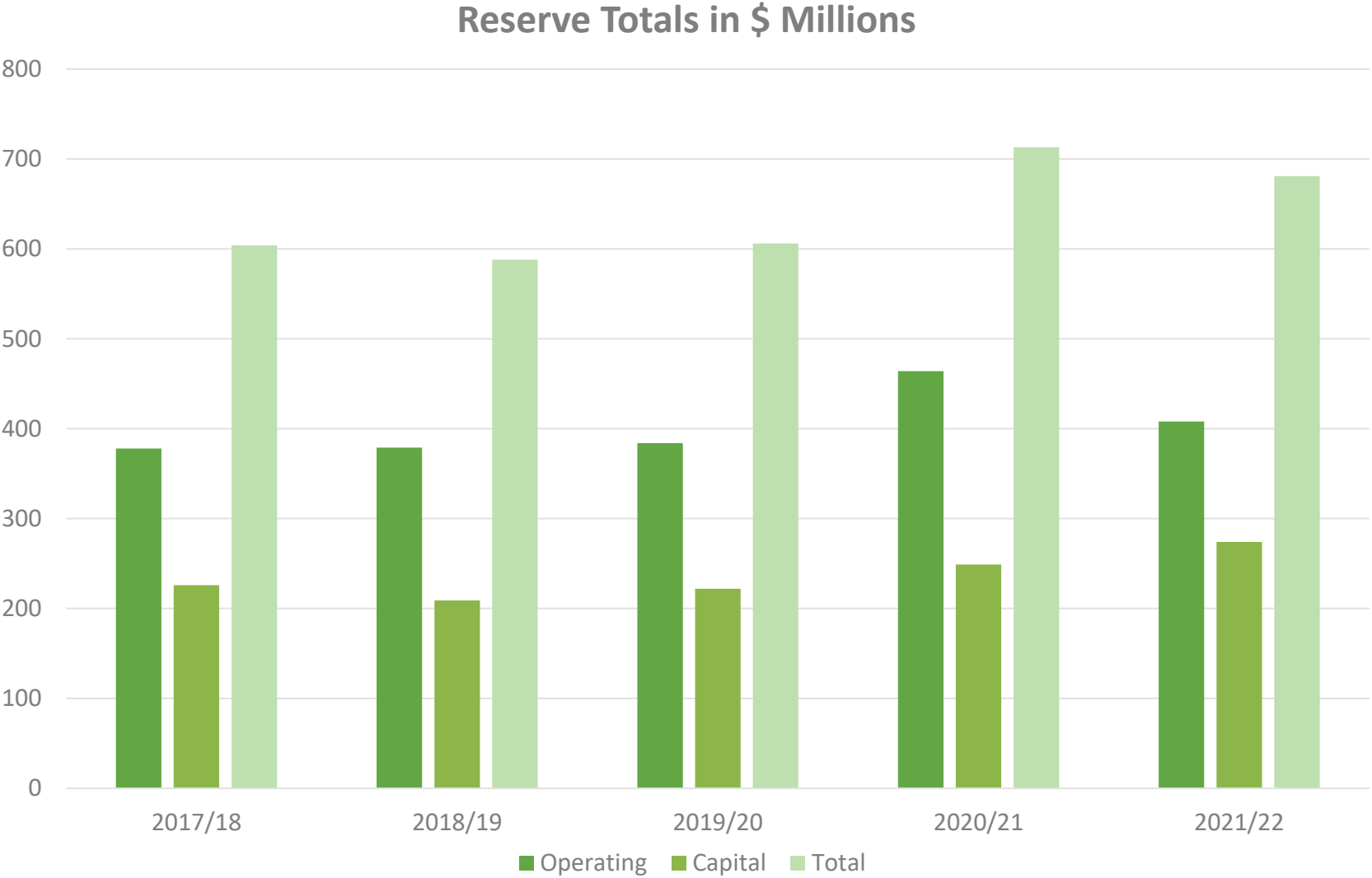




# History of accumulating and spending reserves



# History of accumulating and spending reserves



# History of accumulating & spending reserves - continued



- The previous chart shows the increase in reserves over the past five years. A 13% increase. Over ten years that increase is almost double that amount, 24%.
- There is over half a billion dollars in reserve funds sitting in school board accounts.
- As a result, Alberta Education worked with the Auditor General to set targets for school boards to reduce their Operating reserve balances to 5% of total operating expenses.
- School boards were allowed to spend the reserve funds as they saw fit as long as the trend was for reserve totals to decline towards the 5% target each year.
- This process was slow and steady but Treasury Boards still felt there was a lot money (\$millions) sitting in the system that was not being used for education purposes.

# History of accumulating & spending reserves - continued



- Reserve caps were being considered.
- In 2019 the provincial government enacted legislation to manage the spending of school board reserves and set a targeted maximum reserve limit as of August 2023.
- School boards were required to ask for permission from the Minister of Education to spend any reserve funds.
- School boards were required to provide an explanation as to the purpose of the spend and an explanation if the funds were not spent in the year requested.
- The objective was to manage the spending of reserves by boards that had reserve balances greater than the proposed reserve limits that were to be implemented in 2023.

# History of accumulating & spending reserves - continued

- Reserve balances that reached \$721 million in 2015/16 dropped by over \$133 million to \$588 million in 2018/19.
- In 2020, the COVID-19 pandemic reached the province.
- School boards were still required to request permission to spend reserves and did request permission to spend on COVID related costs.
- What boards did not expect was the large infusion of Covid expense funds from the Federal and Provincial governments.
- This influx of funding, drove up some school board reserve balances that were expected to be spent on Covid related expenditures reserve balances.



# Limits on accumulating reserves

# Limits on accumulating reserves



- Maximum reserve balance limits were implemented for August 2023.
- The maximum operating reserve percentage for each school jurisdiction is equivalent to the jurisdiction's System Administration percentage (range between 3.15 per cent to 4.95 per cent)
- This percentage increases slightly in 2023/24 to 3.20 per cent to 5.00 per cent. The larger the school board the lower the percentage. Any school board over 6,000 students is at 3.20 percent.
- School jurisdictions will be required to maintain a minimum 1 per cent operating reserve balance.

# Limits on accumulating reserves - continued



- The maximum operating reserve balance for the school year will be determined by multiplying the maximum operating reserve percentage by the Total Expenses as per latest Audited Financial Statement (AFS).
- No maximum operating reserve limit balance will be below \$100,000.
- Any operating reserve balance in excess of the operating reserve maximum will be recovered by Alberta Education.



# Limits on accumulating reserves - continued



- School jurisdictions are required to obtain Ministerial approval prior to utilizing operating reserves or transferring to capital reserves.
- The Minister may authorize an exemption to the maximum, based on one or more of the following criteria:
  - Clear demonstration of a short-term requirement to utilize the reserves.
  - One-time project that requires an accumulation of reserves e.g. new technology system, supplement to a capital project, purchase of fleet vehicles including school buses.
  - Project is required for the safety of students
  - Project has been preapproved by the Minister including the accumulation of reserve funding
  - Written request from the Board of Trustees identifying the applicable criteria to support the request.



## How & When Reserves can be Spent

# How/When can reserves be spent



- Usually reserve spending is determined during the budget process.
- This requires Board of Trustee approval and reserve spending is usually brought forward to the Board by senior administration.
- After approval by the Board to spend reserves, the Administration is required to submit to Alberta Education a detailed request to spend reserves.
- This includes
  - Amount of reserves to be spent and timing when the funds will be required.
  - A detailed description of what the funds are going to be spent on.

## How/When can reserves be spent - continued



- Alberta Education submits the Board's reserve spending request to the Minister of Education for approval. No reserve spending can occur without Ministerial approval.
- This includes the Board wanting to transfer Operating reserves to Capital reserves.
- If a school board wants to utilize reserves during a school year, they will have to ask Ministerial permission during the year.



**What can reserves be spent on?**

# What can reserves be spent on?

## Reserves can be spent as follows:

- Operating reserves and Unrestricted surplus can be spent on any operating expense or any capital asset/project.
- Capital reserves can only be spent on capital asset purchases or projects unless special permission is granted by the Minister of Education.

## Operating expenses - some examples include:

- Transportation cost overruns
- Facility maintenance projects including building repairs
- Any instruction type costs, including books, computers, special learning projects in literacy, numeracy
- Any day-to-day functions
- **Can be used for staffing costs but caution is advised when using reserves for staffing or any other recurring costs like utilities.**

# What can reserves be spent on - continued?

- Examples of Capital expenses/projects using reserves could include:
  - Major building repairs such as remodeling a bathroom, new flooring, new or replacing a school roof.
  - The purchase of new buses, new fleet of vehicles for facilities.
  - A new computer lab.
  - No additional space for a school unless special permission is given by the Minister to add space.
  - No project over \$1 million.





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## Questions?

### CONTACT

Brian Smith

[bjssms@telusplanet.net](mailto:bjssms@telusplanet.net)

(780) 540-9206 (ASBOA)