

CATEGORY	Finance	DEPARTMENT CODE	07
DOCUMENT #	FIN-07-PL-Financial Reserves and Surplus Allocation-002	DOCUMENT TYPE	Policy
DESCRIPTION	Financial Reserves and Surplus Allocation		
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1.0 POLICY STATEMENT

School Boards' Co-operative Inc. (SBCI) reserve management philosophy aims to balance financial prudence with the active reinvestment of surplus funds into member services and strategic initiatives. Maintaining an appropriate level of operating and strategic reserves is critical to:

- Supporting long-term financial sustainability
- Ensuring the organization's resilience to unforeseen events
- Avoiding unnecessary accumulation of surplus beyond prudent levels
- Advancing SBCI's mission and strategic goals

2.0 DEFINITION

For the purposes of this policy, the following terms are defined as:

- 2.1 **Surplus:** The excess of revenues over expenditures in a given fiscal year, prior to allocations or distributions.
- 2.2 **Reserves:** Segregated portions of net assets set aside for specific purposes, either by the Board or management.
- 2.3 **Drawdown:** The authorized use of reserve funds for purposes consistent with their designation.

3.0 PURPOSE

This policy outlines SBCI's approach to managing accumulated surplus and reserves. It is designed to ensure financial stability, support strategic investment, and promote accountability in the stewardship of SBCI's net assets.

This policy applies to all unrestricted and board-designated reserves managed by the co-operative, including:

- 3.1 **Operating reserves** - To ensure liquidity and continuity in the event of revenue disruption, emergencies, or unplanned expenses
- 3.2 **Project-specific reserves** (e.g. technology)- Allocation to support a strategic initiative such as technology upgrades, research projects or new service development
- 3.3 **Capital reserves** - Established for future capital investments, infrastructure, or other board-approved initiatives

4.0 RESERVE CATEGORIES AND FRAMEWORK

4.1 Operating Reserve Framework

- **Purpose:** To provide financial stability and liquidity in the event of revenue disruption, unexpected expenses, or economic downturns.
- **Framework:**
 - Rather than establishing rigid thresholds, the organization may consider best practice guidelines for reserve levels as benchmarks. A commonly accepted benchmark is maintaining reserves equivalent to 3–6 months of operating expenses. However, actual reserve targets may vary based on the organization's evolving needs, risk profile, and strategic priorities.
 - Targets will be reviewed annually and adjusted as necessary.

4.2 Strategic Project Reserve

- **Purpose:** To allocate surplus for strategic initiatives such as technology upgrades, research projects, or new service development.
- **Framework:**
 - Requires a clearly defined project plan with cost estimates and timelines.
 - Allocations must be approved annually by the Board, based on project needs and organizational priorities.

4.3 Capital Reserve

- **Purpose:** To allocate surplus for long-term capital investments such as infrastructure, equipment, or other board-approved capital projects.
- **Framework:**
 - Requires a clearly defined project plan with cost estimates and timelines.
 - Allocations must be approved annually by the Board, based on project needs and organizational priorities.

5.0 SURPLUS MANAGEMENT PRINCIPLES

Maintain balances sufficient to manage operational disruptions or unforeseen events, while avoiding the unnecessary accumulation of surplus beyond what is required for sound financial management.

Principles:

- 5.1 **Allocation of Surplus:** Annual surplus, if any, should be evaluated for allocation to reserves before any member distributions.
- 5.2 **Reserve Target Monitoring:** Reserve targets and allocations will be reviewed during the annual budget cycle, with a formal review by the Finance Committee or Board at least annually.
- 5.3 **Reporting:** Reserve balances and changes will be disclosed as part of the annual budget cycle and included in financial reporting to the Board.
- 5.4 **Drawdown:** Any planned use of reserve funds must be approved by the Board.

6.0 GOVERNANCE AND ROLES

- The Director of Finance and Treasurer is responsible for implementing this policy and preparing annual reserve reports.
- The Finance and Audit Committee will review reserve targets and monitor compliance.
- The Board is responsible for approving allocations, drawdowns, and overall reserve strategy.

7.0 REFERENCE DOCUMENTS

- **Section 54** of Ontario's *Co-operative Corporations Act*: A co-operative may, by by-law, allocate a portion of surplus to a reserve fund prior to any distribution to members.
- **SBCI's Bylaws**, Section 56: Annual surplus, if any, may be allocated ("set aside") to reserves prior to any member distributions or patronage returns, at the discretion of the Board.

8.0 POLICY REVIEW

This policy will be reviewed by the Finance Committee at least once every five years or more frequently if warranted by significant changes in financial conditions, strategic direction, or regulatory requirements.