



RESERVE and RESERVE FUND POLICY

WHEREAS Council has an obligation to maintain reserves at an appropriate level to ensure future liabilities can be met, capital assets and infrastructure are properly maintained or replaced, and to provide sufficient financial flexibility to respond to economic cycles or unanticipated financial requirements;

AND WHEREAS the sustainability of the Municipality's programs and the future replacement of assets and infrastructure requires planned contributions to reserves in the annual budget to achieve appropriate levels of reserves;

AND WHEREAS Section 417 of the Municipal Act, 2001, S.O. 2001, c.25 and amendments thereto, allows a municipality to provide for the establishment of reserve funds for any purpose for which it has authority to spend money;

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AND WHEREAS the municipality aims to establish consistent principles, standards and guidelines for the maintenance, management and accounting of reserves and reserve funds;

NOW THEREFORE Council hereby approves the following policy with respect to reserves:

Objectives:

The primary objectives for reserves and reserve funds shall be:

- Compliance with statutory requirements
- Financial stability and flexibility
- Provision for major capital projects
- Smoothing of expenditures and fluctuations in the operating budget
- Accountability and transparency

Definitions:

1. Deferred Revenue

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Revenue that is considered a liability on the Municipality's financial statements until such time as it is used for current operations. Deferred revenue is an obligatory reserve fund for a specific purpose.

2. Discretionary Reserve Fund

A reserve fund approved by by-law and created at the discretion of Council to earmark revenues intended to finance future expenditures for a designated purpose.

3. Obligatory Reserve Fund

A reserve fund required by legislation or agreement to be segregated from general revenues for a specific purpose or for works undertaken on behalf of the contributors. Development Charges and Cash-in-Lieu of Parkland are examples of obligatory reserve funds.

4. Reserve

An allocation from net revenue, as identified by Council, as part of a funding strategy related to programs or projects set out in the municipality's annual budget. Reserves are not segregated from regular operating funds and earnings derived from their investment are reported as operating revenue.

5. Reserve Fund

A fund with assets that are segregated and restricted to meet the purpose of the reserve fund, based on statutory requirement or defined liability payable in the future. Earnings derived from their investment are maintained with the reserve fund.

Types of Reserves and Reserve Funds

<u>Reserves</u>			<u>Reserve Funds</u>		
<u>Discretionary</u>			<u>Obligatory</u>		<u>Discretionary</u>
<u>Stabilization Reserves</u>	<u>Program Specific Reserves</u>	<u>Capital Reserves</u>	<u>Development Charges</u>	<u>Cash-in-Lieu of Parkland</u>	<u>Specific Purpose</u>

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Reserves

	Stabilization Reserves	Program Specific Reserves	Capital Reserves	Formatted Table
DefinitionPurpose	Established to prevent significant fluctuations in the general tax levy and to help the Municipality manage its cash flows by providing a source of funding to offset extraordinary and unforeseen expenditure requirements, one time expenditures, revenue shortfalls and to provide for various contingent and potential future liabilities.	Established in response to a need for funding of specific programs.	Established to assist in financing the capital program. As new capital assets are acquired the reserve should increase to assist in planning for future replacement in order to reduce reliance on long term financing.	Formatted: Indent: Left: 0" Formatted: Indent: Left: 0" Formatted: Indent: Left: 0"
Record Keeping	<u>This reserve is maintained in a single account in the general ledger.</u>	<u>While discretionary, program specific reserves are generally maintained in separate accounts in the general ledger for each program.</u>	<u>A general capital reserve is maintained in a single account in the general ledger.</u>	Formatted: Body Text Indent Formatted: Indent: Left: 0"
Funding Sources	Shall be funded from annual operating surpluses. Year end operating deficits shall be funded from the stabilization reserve.	Shall be funded from operations provided there is a financial plan supporting the need for the reserve. A review shall be conducted annually to ensure adequate funding exists to sustain the program to which the reserve relates. At the conclusion of the program or if the program is not	Shall be funded through: <u>a-1.</u> Calculated annual contributions from the operating budget based on capital replacement, rehabilitation costs and lifecycle costs. As a minimum this amount should be equal to the annual depreciation amount calculated on the	Formatted: Indent: Left: 0" Formatted: Indent: Left: 0" Formatted: Indent: Left: 0" Formatted

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		proceeding, the reserve shall be closed and any balance shall be transferred to the stabilization reserves.	Municipality's assets. b.2. Net proceeds from the sale of assets and c.3. Unspent capital in any given year provided the Municipality is in a surplus position.
Target Levels	Target level is 15% of tax revenues. Once the stabilization reserve level is met, the operating surplus shall be transferred to capital reserves.	Not applicable Based on annual and long term financial planning; specific to each program.	The target level for the capital reserves shall be calculated based on the replacement value of the inventory of the Municipality's capital assets taking into consideration the condition of the assets, their useful life and their anticipated disposal value.
Uses	Shall only be used for extraordinary type expenditures including previous years' operating deficits and one time expenditures as approved by Council.	Shall only be used for the program the reserve was set aside for.	Shall only be used to fund the replacement and rehabilitation of the Municipality's assets.
<u>Roles & Responsibilities - Council</u>	In accordance with the Municipal Act 2001, Section 224 ensure that administrative policies, practices and procedures are in place and maintain the financial integrity of the Municipality. Approve transactions to and from reserves through the budget process.		
<u>Roles & Responsibilities – Staff</u>	CAO and Clerk: support the Treasurer in ensuring the principles and mandatory requirements in this policy are applied consistently across all departments. Treasurer: Develop and propose updates and changes to this policy to Council as necessary; establish and maintain reserves in accordance with this policy; ensure compliance with this policy; ensure transfers to and from reserves as authorized by Council; report reserve balances and forecasts as part of the annual budget process; propose strategies		

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and measures to ensure adequate and appropriate reserves and spending are considered at least annually.

Reserve Funds

	Obligatory	Discretionary	Formatted: Font: Bold
Purpose	To comply with regulatory requirements related to legislated reserve funds such as (but not limited to) Development Charges and Cash in Lieu of Parkland.	To systematically set aside funds to finance future expenditures for a designated purpose.	Formatted Table Formatted: Font: Bold Formatted: Centered Formatted: Font: Bold Formatted: Font: Bold
Record Keeping	Each obligatory reserve fund is maintained in a separate deferred revenue account in the general ledger.	Each discretionary reserve fund is maintained in a separate account in the general ledger.	Formatted: Font: Bold
Bank Accounts and Interest	Each obligatory reserve fund is maintained in a separate, interest bearing bank account. Interest earned remains with the reserve fund. At the conclusion of the annual audit, an amount equal to the prior year's activity is transferred to or from the obligatory reserve fund to balance it to the deferred revenue account.	Discretionary reserve funds do not have their own bank accounts, and interest earned is collected as general operating revenue, not specific to the reserve fund.	Formatted: Font: Bold
Funding Sources	Funds specific to the each reserve fund are collected in accordance with the relevant by-laws and legislation.	Discretionary reserve funds are funded through the operating budget and funding should be specified by by-law and approved in the annual budgeting process.	Formatted: Font: Bold
Target Levels	Development Charges are collected and spent in accordance with the Development Charges Background Study, and associated by-laws, as updated in compliance with the Development Charges Act. Cash in Lieu of Parkland is collected in accordance with the current Fees and Charges by-law. Annual budget approvals shall include allocation of at least	As specified in the by-law.	Formatted: Font: Bold

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	<u>60% of the reserve fund at the start of the year.</u>	
<u>Uses</u>	<u>As specified in the relevant legislation and by-laws.</u>	<u>As specified in the by-law.</u>
<u>Closure</u>	<u>n/a</u>	<u>As specified in the by-law.</u>
<u>Roles & Responsibilities - Council</u>	<u>In accordance with the Municipal Act 2001, Section 224 ensure that administrative policies, practices and procedures are in place and maintain the financial integrity of the Municipality. Approve appropriate by-laws for the creation, sources, target level, use, and closure of discretionary reserve funds. Approve transactions to and from reserve funds through the budget process.</u>	
<u>Roles & Responsibilities – Staff</u>	<u>CAO and Clerk: support the Treasurer in ensuring the principles and mandatory requirements in this policy and related legislation and regulations are applied consistently across all departments.</u> <u>Treasurer: Develop and propose updates and changes to this policy to Council as necessary; establish and maintain reserve funds in accordance with legislation, regulation, and policy as applicable; ensure compliance with same; ensure transfers to and from reserves as authorized by Council; report reserve fund balances and forecasts as part of the annual budget process; propose strategies and measures to ensure adequate and appropriate reserve funds and spending are considered at least annually.</u>	

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Procedure

Establishment of Reserves and Reserve Funds

Reserves will be maintained in the following categories:

1. Stabilization Reserves (Working Funds)
2. Program Specific Reserves (Operating)
3. Capital

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Reserves can be established through the following processes:

1. Inclusion in the annual budget which is approved by Council; or
2. Through resolution of Council.

The budget document or resolution will clearly identify the name of the reserve being created and the purpose for the reserve. A reserve may be amended through resolution.

Reserve Funds will be maintained in the following categories:

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1. Discretionary: for a specific capital project, operating purpose, or other project or program as specified by Council
2. Obligatory:
 - a) Statutory
 - b) Trusts

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c) Contractual

Council may establish reserve funds if at least one of the following applies:

A mandatory obligation exists, either pursuant to legislation or contract;

The funds are intended for purchasing or maintaining capital assets;

The funds are donated for a specific purpose; and/ or

The funds are intended to fund a future liability.

Establishment of a reserve fund must include the following:

a) Statement of purpose;

b) Rationale for the appropriate level to be maintained or targeted in the reserve;

c) Initial and subsequent contributions;

d) Uses;

e) Closure

REVIEW

This policy shall be reviewed every ~~five-three~~ (53) years or as Council deems appropriate.

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