



<b>Title:</b>	<b>Reserves and Reserve Funds</b>	
<b>Policy Group:</b> <b>Your Government and People</b>	<b>Policy Administrator:</b> <b>Finance</b>	
<b>Resolution No.</b> <b>CW-118-2022</b>	<b>Policy Number:</b> <b>FIN-10</b>	
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## 1. Policy Statement

- a) This policy is to establish consistent principles, standards, and guidelines for the maintenance, management and accounting of reserves and reserve funds.

## 2. Purpose

This policy establishes the objectives for reserves and reserve funds, standard of care as well as it delineates the responsibilities for their management and administration.

Under section 417 (1) of the Municipal Act, municipalities have the authority to provide for the reserve funds in annual budgets for any purpose for which it has the authority to spend money.

- a) The primary objectives for reserve and reserve funds shall be:
  - i. Adherence to statutory requirements.
  - ii. Providing guidance to staff and Council to assist in decision making.
  - iii. Promotion of financial sustainability and flexibility
  - iv. Provision for major capital expenditures
  - v. Smoothing extraordinary fiscal pressures over two or more years to eliminate volatility in tax rates while ensuring consistency in tax rates and service levels for the County
  - vi. To take advantage of financial opportunities that may arise.

## 3. Scope

- a) This policy applies to members of the County including members of Council, staff (full-time, part-time and contract), and Boards.

#### 4. Legislative Authority

- a) Municipal Act, 2001, Subsections 290 (3), 293, and 417

#### 5. Definitions

- a) **Deferred Revenue** means revenue that is considered a liability on the Municipality's financial statements until, over time, it becomes relevant to current operations, such as prepayment received for something that has not yet been provided. deferred revenue is set aside in an obligatory reserve fund for specific purpose by legislation, regulation, or agreement. Development Charges and the Canada Community Building Fund are examples of deferred revenue.
- b) **Discretionary Reserves** means reserves created at the discretion of Council whenever revenues are earmarked to finance future expenditures of a purpose designated by Council. Revenues set aside for acquisition of fixed assets is an example of discretionary reserve.
- c) **Discretionary Reserve Funds** means a separate dedicated bank account established at the discretion of Council whenever revenues are earmarked to finance future expenditures of a purpose designated by Council. Revenues set aside from major fund-raising initiatives such the Splash Pad is an example of a discretionary reserve fund.
- d) **Obligatory Reserve Fund** refers to funds set aside for specific purpose as required by provincial or federal legislation, a municipal by-law, or agreement. These are normally setup as a separate dedicated bank account established as a result of legislation or agreement to be segregated from the Municipality's general revenues for a special purpose or for works to be undertaken on behalf of the contributors. These funds are classified in the financial statements as "Deferred Revenue". Development Charges, Ontario Community Infrastructure Funding (OCIF), Canada Community Building Fund are examples of Obligatory Reserve Funds.
- e) **Reserve** - refers to funds set aside following approval from Council that are not restricted by legislation. Reserves do not receive an annual interest allocation.

#### 6. General

- a) Approval of funding to and from the reserves and reserve funds will in accordance with the Municipality's budgets and reports to Council.
- b) Investment of reserves and reserve funds
  - i. Reserve and reserve funds may be invested for a term that will not exceed its expected date of need. The related investment income will

be credited monthly to the specific reserve or reserve fund according to its proportionate share of the investment portfolio and based on the weighted average return for income during the month. Investments shall be further governed by the County's Investment Policy.

c) Contributions to/withdrawals from reserves and reserve funds

- i. All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution with the following exceptions:
  1. Direct contribution to reserve and reserve fund such as development charge contributions, settlement of account of prior year events; and Canada Community Building Fund.
- ii. All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system and accounted for by either an entry or to or from an operating cost center or capital project.
- iii. Funding strategies developed for reserve and reserve funds will consider fairness to current and future tax/rate payers.

d) Timing of Contributions to and from transfers from reserve and reserve funds

- i. Contributions to reserves and reserve funds as approved in budget will be transferred to the reserves on an annual basis in September.
- ii. Transfers to Capital projects as approved in budgets will be done in December and during the year-end process to ensure that actual reserve allocation equals actual expenses incurred. Transfers from a reserve fund will not occur if the transfer will put the reserve in a negative balance. Final reserve and reserve fund transfers will be based on actual expenditure costs rather than budgeted amounts.
- iii. Transfers to operating as approved in the budgets will be done during the year-end process to ensure actual reserve allocation equals expenses incurred.

e) Closing reserves and reserve funds

- i. If the purpose for which the reserve or reserve fund was created have been accomplished and the reserve or reserve fund is determined to no longer be necessary, the Treasurer, in consultation with the Department Head, and Chief Administrative Officer, shall report to Council with the recommendation on:
  1. The closure of the reserve or reserve funds

2. The disposition of any remaining funds
  3. The necessary amendment o the Reserve by-law
- ii. A resolution of Council to close a reserve
  - iii. The By-law establishing the reserve fund will be required to be repealed in order to close the fund.
- f) Allocation of Operating Surplus/Deficit
- i. The Treasurer shall transfer year-end operating surpluses to the Tax Rate Stabilization Reserve, unless a recommendation is made to Council for an alterative reserve or reserve fund.
  - ii. The Treasurer shall recommend to Council an appropriate reserve allocation of any year-end operating deficit.
  - iii. Year-end water and wastewater department budget surplus will be allocated to the either the Water Capital Reserve Fund or the Wastewater Capital Reserve Fund as per the Rates Study. Deficits will be funded from either the Water Capital Reserve Fund or the Wastewater Capital Reserve Fund.
- g) Interest Allocation
- i. Reserve funds will be invested in accordance with the Municipality's approved investment policy. Earnings shall be credited to each separate reserve bank account that invested the funds.
  - ii. Reserves shall not be invested and are not allocated interest.
- h) Target
- i. Methodologies for calculating targets are specific to each reserve or reserve fund, however consideration will be given to the following:
    1. Purpose of fund (i.e. operating or capital)
    2. Certainty of end needs (i.e., for contingent liability or long-term asset replacement)
    3. Economic factors (inflation, interest rates, cyclical pressures)
    4. Industry/Government/Accounting Standards
    5. Multi-year forecast of contribution and projected usage
  - ii. The Treasurer will review the targets annually and propose changes to the target level as required.
- i) Temporary Borrowing

- i. Temporary borrowing from reserves and reserve funds is permitted to cover a reserve short-term deficit, to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external borrowing cost provided that the following conditions must be met:
  1. Borrowing must not adversely affect the intended purpose of the reserve
  2. A plan to repay the reserve within a reasonable timeframe is required.
  3. Interest, equivalent to the Municipality's interest of reserve fund bank accounts, will be applied to outstanding amounts borrowed.
  4. Where applicable, legislative requirement may apply. For example, the Development Charges Act permits inter-fund borrowing only between development charge reserve funds and prescribes a minimum interest rate (i.e., Bank of Canada prime rate).

j) Annual Reporting

- i. An annual continuity schedule will be included in the budget package created and provided to Council each year.
- ii. As required under Development Charges legislation, the Treasurer will provide Council with a financial statement related to the Development Charge By-law and include information regarding development charge reserve funds. This statement will then be forwarded to the Minister of Municipal Affairs and Housing within 609 days after the Council report.
- iii. Year-end audit and financial statements - balances of reserves, both capital and discretionary reserves and reserve funds will be presented with note disclosure and comparative figures as required to meet Public Sector Accounting Board reporting standards
- iv. When required, reporting to Council or other agencies may exist for reserved residual balances related to grants or other contributed funds e.g. Federal and Provincial Grants.

## **7. Responsibility and Implementation**

a) Municipal Council

- i. In accordance with the Municipal Act, 2001, Section 224 develop and evaluate policies, ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place and maintain the financial integrity of the municipality.

- ii. Approve transactions to and from reserves and reserve funds through the budget process or by specific resolution and/or by-laws.

b) Chief Administrative Officer

- i. Support the Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Municipal departments.

c) Treasurer

- i. Develop and update this policy as necessary and present changes to Council.
- ii. The Treasurer will retain the overall authority for establishing and managing reserves and reserve funds and may delegate this authority in writing where applicable.
- iii. Ensure that the principals and requirements contained in this policy are applied consistently across all departments.
- iv. Perform the transfers to and from reserves and reserve funds as authorized by Council.
- v. Recommend strategies for the adequacy of reserve levels.
- vi. Report to Council the reserve balances and forecast as part of the annual budget approval process.
- vii. Develop long range fiscal planning strategy to effectively meet the Corporation's capital financing and capital asset replacement requirements.
- viii. Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and this Policy.
- ix. Determines need for reserves and reserve funds for operating and capital.
- x. Ensures a review and report to Council of the adequacy and continuing need for reserve and reserve funds is undertaken when deemed necessary.
- xi. Adherence to Development Charges Act, Canada Community Building Fund Agreement, Ontario Infrastructure Fund Agreement, and any other legislative agreements or Acts.

- xii. Arranges for the preparation and presentations of required reports and/or by-laws for the creation or termination of any new or obsolete reserve and reserve funds.
- xiii. Develops appropriate strategies, procedures and processes for the investment of reserves and reserve funds.

d) Directors

- i. Provide the Treasurer with the most current capital asset information to be used in the assessment of the adequacy of capital lifecycle reserves
- ii. Inform the Treasurer when reserve or reserve funds are required
- iii. Consult with the Treasurer when reserve funds are required for unbudgeted transactions.

**8. Documentation and Forms**

Not Applicable