



THE CORPORATION OF THE TOWNSHIP OF O'CONNOR

MUNICIPAL RESERVES AND RESERVE FUNDS POLICY

1. **POLICY STATEMENT:** To establish a policy for governing the management and administration of reserves and reserve funds as delegated under the authority of the Municipal Act, 2001, Section 290, as amended.
2. **PURPOSE:** The purpose of this policy is to address long-term funding strategies for the Township ensuring good financial and cash management for the overall financial stability of the Township. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens its long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure and financial opportunities that may arise.

3. **DEFINITIONS:**

“ANNUAL SURPLUS” - the accumulated excess of revenues over expenditures for the current year.

“INVESTMENT POLICY” – refers to the Township of O'Connor's Investment Policy.

“RESERVE FUNDS” – funds with assets which are segregated and restricted to meet a specific purpose of the reserve fund. They represent monies set aside either by a by-law of the municipality or by the requirement of provincial legislation. Interest earned on reserve funds must be allocated to the specific reserve fund that earned it. There are two types of Reserve Funds: Discretionary Reserve Funds or Obligatory Reserve Funds.

“Discretionary Reserve Fund” - a reserve fund created under the Municipal Act, based on Council's discretion, to finance future expenditures for which the municipality has the authority to spend money, and to set aside a certain portion of any year's revenues so that the funds are available as required. Discretionary Reserve Funds are established to assist in funding long term programs such as the acquisition of Capital Assets. Discretionary reserve funds can be restricted or unrestricted.

“Obligatory Reserve Fund” - a reserve fund created when a provincial statute requires that revenue received for special purposes be segregated from the general revenues of the municipality. Obligatory reserve funds can only be used for their prescribed purpose.



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“RESERVES” – an allocation of accumulated net revenue or approved budget contribution with no reference to any specific asset. They are set by Council approval and not restricted by legislation. A reserve is generally used to mitigate the impact of fluctuations in operating costs and revenue, prescribed and managed by Council’s approval. Reserves do not earn interest.

4. GUIDING PRINCIPLES

- 4.1 All Reserve and Reserve Funds transactions, resignations or new reserve requests must be approved by Council. These approvals will be comprehensively reviewed by the external auditor at the end of each fiscal year.
- 4.2 All Reserves and Reserve Funds must be fully described and must include a purpose, application, and approval. Unless otherwise stated, all Reserve Funds are considered committed for the specific purpose as outlined by the Reserve Funds.
- 4.3 All Reserves and Reserve Funds accounts must be presented in the Township’s financial statements annually.
- 4.4 The annual budget shall set out the estimated portion of the revenues considered necessary to be paid into the Reserve and Reserve Funds.
- 4.5 All Reserves and Reserve Funds must be reviewed annually by the Clerk-Treasurer and Council during the annual budget process to determine if the accounts are still required. When the original intent of a reserve has been met or changed, any remaining amounts in that reserve shall, through an appropriate review by the Clerk-Treasurer and Council be re-designated or returned to surplus. Reserves that are deemed to be re-designated or returned to surplus shall be approved by Council.
- 4.6 Reserve and Reserve Funds can be funded through internal sources such as approved budget contributions and carryover of current year’s budget funds which were approved for a specific purpose but were not expensed during the year. Reserves can also be funded through external sources such as government grants and donations.



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- 4.7 Interest will be paid to Reserve Funds where the funding has come from external sources that require unspent funding be held in an interest-bearing account in-line with the Township's Investment Policy.
- 4.8 All expenditures from Reserves and Reserve Funds must have prior approval. Approval is obtained by:
- 4.8.1 existing Township Policies,
 - 4.8.2 the annual operating or capital budget,
 - 4.8.3 an approved carryover project,
 - 4.8.4 Council resolution.
- 4.9 Expenditures from Reserves and Reserve Funds must not exceed the reserve balance unless it can be demonstrated to Council through financial cash flow projects that future sources of revenues will provide adequate funding to return the reserve to a positive balance.
- 4.10 Temporary inter-fund borrowing is permitted and encouraged to avoid external debt charges. However, borrowing from a reserve may occur only when an analysis of the reserve has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve. Any inter-fund borrowing would require Council approval.
- 4.11 All Reserves shall be administered by the Clerk-Treasurer and in accordance with current Township policies and the Generally Accepted Accounting Principles.
- 4.12 Reserve and Reserve Funds balances, projected contributions, and planned expenditure withdrawals shall be presented with the annual budget. Reserve and Reserve Fund transfers are established with the approval of the annual budget or must be approved by resolution or by-law.



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5. DESCRIPTIONS

RESERVE ACCOUNTS

The use of reserves is one way of maintaining a sound financial position. However, cash flow changes, risk management, or other considerations may affect reserve requirements. Reserves must be supported by financial evidence indicating the extent of the reserves required. Reserves are funded by surplus monies and/or contributions from the operating budget. Investments are subject to the Municipal Act and the Investment Policy adopted by Council. Currently, the Township has established the following Reserve accounts:

1. OPERATING RESERVES

This reserve will be maintained to fund operating items that were not anticipated and/or budgeted. It will also be used to take advantage of capital purchase opportunities that arise quickly. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

2. WORKING RESERVES

This reserve is maintained to provide cashflow for operations to eliminate the requirement to borrow funds to meet immediate obligations. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

3. LEVY STABILIZATION RESERVE

This reserve would be used to minimize tax rate increases that are caused by extraordinary or unforeseen events, one-time expenditures, and revenue shortfalls. The reserve would minimize the impact on the general tax levy and help manage cash flow. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

4. MUNICIPAL BUILDINGS RESERVE

This reserve was established to provide a source of funds to refurbish, replace, and maintain the Township's buildings. Target funding level should be **20%** of the previous year's replacement cost for tangible capital assets. This reserve should be funded through the annual operating budget.



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5. OFFICE EQUIPMENT RESERVE

This reserve is to fund the replacement and purchase of office equipment. Target level for funding this reserve will be the current replacement value of a new photocopier and two new computer systems. This reserve should be funded through the annual operating budget.

6. ROADS EQUIPMENT RESERVE

This reserve is to fund the replacement and purchase of roads department vehicles and equipment. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

7. FIRE DEPARTMENT EQUIPMENT RESERVE

This reserve was established to fund the replacement and purchase of fire services vehicles and equipment. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

8. TURNOUT GEAR RESERVE

This reserve is for the purpose of purchasing turnout gear for the Fire Department to mitigate fluctuations in the operating budget. Target level for funding this reserve should be the current replacement value of ten turnout gears. The amount budgeted for turnout gear, but not purchased at yearend, should be transferred to this reserve.

9. DISPOSAL SITE RESERVE

This reserve is for the purpose of providing a source of funding to offset future Disposal Site costs, closure of the current Disposal Site and opening of a new Disposal Site. Target funding level for this reserve should reflect the estimated cost of closing the existing disposal site, post closure expenses and the opening of a new Disposal Site. This reserve should be funded through the annual operating budget.

10. INSURANCE RESERVE

This reserve is to fund costs incurred for fluctuation in insurance coverage and payment of claims (deductibles). Target level for funding this reserve will be twice the current insurance deductible as detailed in the insurance policy. This reserve should be funded through the annual operating budget.



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11. ELECTION RESERVE

This reserve is to fund election expenditures which occur every four years for the municipal election. Target level for funding this reserve will be the estimated cost of running an election. This reserve should be funded through the annual operating budget.

12. INFRASTRUCTURE PROJECTS RESERVE

This reserve is to fund the municipal portion of provincial and federal funding opportunities for roads, bridges and culverts, as well as the capital/assets needed to make them operational. The reserve should be funded through the annual operating budget with a target funding level equivalent to **20%** of the previous year's levy.

RESERVE FUNDS ACCOUNTS

Reserve Funds are funds set aside for a specific purpose as required by provincial legislation, a municipal by-law, or agreement. Reserve Funds receive an annual interest allocation based on the average annual balance. The Township currently has no established Reserve Funds.

6. ROLES AND RESPONSIBILITIES

6.1 Council

- In accordance with the Municipal Act 2001, Section 224, Council shall 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;
- Set targets for Reserves and Reserve Funds inline with directives contained in this policy and other pertinent policies; and
- Approve transactions to and from Reserves and Reserve Funds through the budget process or by specific resolution for Reserves and By-law for Reserve Funds.

6.2 Clerk-Treasurer or Designate

- Develop and update this policy as necessary and present changes to Council;



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- Ensure that the principles and requirements contained in this policy are applied consistently and across all departments;
- Determine the need for or termination of Reserves and Reserve Funds and report to Council during budget or when required;
- Perform the transfers to and from Reserves and Reserve Funds as authorized by Council;
- As part of the reporting to Council, review and report on the adequacy and continuing need for Reserve and Reserve Funds managed by the Township of O'Connor;
- Preparation and presentation of reports and/or By-laws associated with the establishment, monitoring, or termination of Reserves and Reserve Funds;
- Advise Council on the latest operating and capital expenses;
- Recommend strategies for the adequacy of reserve targets;
- Develop appropriate practices, procedures and processes for the investment of Reserves and Reserve Funds inline with legislative requirements, the Township of O'Connor's Investment Policy and other pertinent policies;
- Maintain the Township's Strategic Asset Management Plan with consideration of appropriate Reserves and Reserve Funds to effectively meet the Township's operating and capital budget financing needs;
- Ensure Reserves and Reserve Funds are inline with Provincial and Federal government statutes and agreements and other pertinent policies; and
- Report to Council the reserve balances and forecast as part of the annual budget approval process.

7. REPORTING

The Clerk-Treasurer or designate, shall prepare the following reports regarding Reserves and Reserve Funds managed by the Township of O'Connor.

7.1 Annual Audited Financial Statements

The Annual Audited Financial Statements shall include statements of financial position, financial activities, and changes in fund balances for Reserves and Reserve Funds.



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7.2 Annual Budget

Contributions to and budget appropriations from Reserve and Reserve Funds will normally be approved by Council as part of the annual Budget or specifically by resolution.

7.3 Other Reports

Other reports in line with this Policy shall be brought forward to Council as required.

8. REVIEW

This Policy shall be presented to Council for review annually during the budget deliberations, and updated every four years, in the third year of each elected Council, or as deemed necessary by Council or the Clerk-Treasurer.

EFFECTIVE DATE: This policy is in effect as of September 27, 2021