

	Policy:	Reserves and Reserve Funds
	No.:	FIN-13
	Effective Date:	28 October 2025
	By-Law No.:	2025-1995
	Review Date:	(4 years from effective date)

1.0 POLICY STATEMENT

The purpose of this policy is to establish consistent principles, procedures and guidelines for the accounting, maintenance and management of reserves and reserve funds.

2.0 PURPOSE

The Municipal Act, 2001, requires that a municipality’s budget shall set out amounts to be paid into and pulled out of reserves. Section 417 of the Municipal Act states that a municipality may establish reserves and reserve funds for any purpose for which it has the authority to spend money. This policy identifies and rationalizes the various reserves and reserve funds held by the Township of Lanark Highlands.

Reserves and Reserve Funds shall be established to:

- Adhere to statutory requirements or accounting standards.
- Provide a source of internal financing.
- Facilitate and support long-term planning and strategic objectives.
- Plan for the impact and financing of major capital projects, asset replacement and major maintenance over time thereby reducing the need for tax and user fee funded long-term financing.
- Stabilize user fees and tax rates in the face of uncontrollable factors (growth, interest rates, changes in subsidies/grants, extreme weather, cyclical shifts in operations) and, to stabilize service levels.
- Absorb the cost of one-time, emergency or unanticipated expenditures not included in the annual operating or capital budgets.
- Maintain certain levels of liquidity and cash availability.
- Fund future known obligations such as, but not limited to, employment or creditor related liabilities.
- Fund special programs or initiatives that involve major expenses

3.0 DEFINITIONS

In this policy:

Act shall mean the *Municipal Act, 2001*, S.O. 2001, c. 25, as amended.

Capital Reserve shall mean a reserve established to support future infrastructure or asset replacement and renewal to minimize risk, support future initiatives, and provide funds for

unknown capital contingencies.

CAO shall mean the Chief Administrative Officer of the Township.

Council shall mean the duly elected Council members of the Township.

Deferred Revenue shall mean revenue that is considered a liability on the Township's financial statements until it becomes relevant to current operations, such as pre-payments received for goods or services that have not yet been provided. Some deferred revenue is set aside as obligatory reserves for a specific purpose as required by legislation, regulation, accounting standard or agreement such as, but not limited to, development charges, cash in lieu of parkland and grant funding.

Discretionary Reserve Fund shall mean a reserve established by Council by-law for a specific purpose. The funds shall be spent for the purposes specified in the by-law.

Equipment Reserve shall mean a reserve established to support on-going life cycle replacement of equipment.

General Reserve shall mean an apportionment of net revenues set aside at the discretion of Council to assist with the maintenance of its financial position and may be established for any municipal purpose.

Internal Borrowing shall mean temporary borrowing from reserves and reserve funds, subject to legislative restrictions. Council shall establish a repayment plan not to exceed a reasonable term or the life of the need. Interest shall be applied at a rate equivalent to the Township's interest earnings on surplus funds held in bank accounts or investments or as defined by legislation.

Obligatory Reserve Fund shall mean a reserve that the Township is required to set up to meet the requirements of a Provincial statute or agreement with other entities such as the Federal or Provincial governments. To set an obligatory reserve fund, the Township shall collect and segregate specified revenues. The Township shall use the available funds solely for the purpose prescribed by statute or agreement.

Operating and Program Specific Reserve shall mean reserves established to fund normal operating requirements, specific programs, or cash flow deficiencies that do not require Council approval provided they conform with the intent of the original policy, resolution or by-law.

PSAB shall mean the Public Sector Accounting Board, an independent Board with the authority to set accounting standards for the public sector.

Reserve Funds shall mean funds set aside for a specific purpose as required by legislation, regulation, accounting standard, agreement or by-law and consist of obligatory (externally restricted) or discretionary (internally restricted) reserve funds.

Stabilization Reserve shall mean a reserve established to manage cash flows, off-set in year

revenue shortfalls or in-year expenditure overages due to extraordinary or unforeseen situations including emergencies. These reserves are restricted to extraordinary or unexpected events and shall not be used to balance operating budgets.

Township shall mean The Corporation of the Township of Lanark Highlands.

Treasurer shall mean the Treasurer of the Township.

4.0 ROLES AND RESPONSIBILITIES

- 4.1 The Treasurer shall make recommendations to Council to establish a discretionary reserve or reserve fund in addition to any required amendments to this policy.
- 4.2 The Treasurer shall perform the transfers to and withdrawals from reserve and reserve funds as approved by Council.
- 4.3 The Treasurer shall recommend strategies for the adequacy of reserve levels.
- 4.4 Obligatory reserve funds shall be established and maintained by the Treasurer pursuant to legislation, agreement or contract.
- 4.5 The Treasurer shall report to external agencies or governments as required.
- 4.6 The Treasurer shall continuously review, and report at least annually to Council as to the balances held in each reserve and reserve fund to confirm use, relevancy, appropriateness and target balances.
- 4.7 Council shall approve the allocations to and from reserves and reserve funds by resolution or by-law.

5.0 SPECIFIC DIRECTIVES

- 5.1 The target for each reserve is found in Schedule A of this policy. The targets shall be reviewed annually by Staff to ensure their adequacy and reasonableness. Methodologies for establishing targets are specific to each reserve or reserve fund and shall consider the following:
 - Purpose of fund (operating or capital)
 - Certainty of end needs (contingency or long-term replacement/obligation)
 - Economic factors (inflation, interest, cyclical pressures, growth)
 - External factors (agreements, legislation, PSAB)
 - Multi-year forecast of contribution and projected usages.
- 5.2 Reserves and reserve funds may be invested for a term that will not exceed their expected

date of need. The related investment income shall be credited monthly to the specific reserve fund and be governed by the investment policy.

- 5.3 All contributions to or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval or specifically by resolution with the following exceptions:
- Contributions that are considered obligatory
 - Transfer for funds between reserves and reserve funds based on fund adequacy or other related information, at the Treasurer's discretion.
 - Contribution and use of operating reserves for the purposes approved by Council.
- 5.4 Temporary borrowing to cover reserve and reserve fund short-term deficit, interim servicing requirements or internal financing shall be permitted when justified, adequately supported and authorized by Council. Borrowing shall not adversely affect the intended purpose of the fund. A documented plan to repay the fund within a reasonable time frame shall be required. Interest equivalent to the Township's interest on reserve fund bank accounts shall be applied to the outstanding amount borrowed.
- 5.5 Where a reserve or reserve fund is no longer required, the Treasurer, in consultation with the applicable Department shall report to Council with a recommendation on the closure of the fund, the disposition of the remaining funds and any necessary amendments to this policy or applicable by-law. New reserves or reserve funds shall be established by amending this policy.

6.0 ATTACHMENTS

Reserves and Reserve Funds Policy Schedule A

7.0 REFERENCE DOCUMENTS

[Municipal Act, 2001, S.O. 2001, c. 25](#)

Planning Act

Building Code Act

Federal/Provincial Agreements

Schedule "A"

Township of Lanark Highlands Obligatory Reserve Funds:

Reserve Fund	Authorized Use of Funds	Sources of Funds	Township Reserve	Account Number	Target
Building Code Administration	<p>Cover the operating costs of administration and enforcement of the Building Code when fee revenues are not sufficient</p> <p>Purchase capital items required for the building department such as vehicles and equipment</p>	Year-end surplus of the Building Department of the Township in accordance with subsection 7 (2) of the <i>Building Code Act</i>	CBO Vehicle Replacement	2300-000000-177	Varies- depends on future replacements
Canada Community Building Fund (former Federal Gas Tax)	Finance local infrastructure priorities	Grants from the Federal Government awarded in accordance with the program objectives and the agreement signed by the Township with the Government of Ontario and the Association of Municipalities of Ontario	Gas Tax Infrastructure Projects	2300-000000-188	N/A
Ontario Community Infrastructure Fund	Finance local infrastructure priorities	Grants from the Provincial Government awarded in accordance with the program objectives and the agreement signed by the Township with the Government of Ontario	OCIF Projects	2300-000000-202	N/A

Parkland (Recreational Land)	Fund the purchase and development of parkland in developing or redeveloping areas as well as the upgrading of existing parks and facilities needed as a result of the intensification of an area	Payments made by developers in lieu of conveying parkland as a condition of the development in accordance with the <i>Planning Act</i> including amendments to the Act under the <i>More Homes, More Choice Act, 2019</i>	Reserve Fund- Separate bank account	0900-000000-191	N/A
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Township of Lanark Highlands Discretionary Reserves and Reserve Funds

Working Fund Reserves	Authorized Use of Funds	Sources of Funds	Township Reserve	Account Number	Target
Surplus/Operating Reserves (Stabilization)	Cover payments and expenses required for day-to-day operations when cash balances are low prior to the receipt of tax collections and other revenues Reduce the reliance on short-term borrowings to meet obligations	They can be general in nature or defined to assist specific municipal functions Year-end surplus, if any	Surplus/Deficit Operating Funds	2300-000000-170 2300-000000-171	Overall-15% of annual tax revenues

Operating Reserves and Discretionary Fund Reserves	Authorized Use of Funds	Sources of Funds	Township Reserve	Account Number	Target
Municipal Elections	Fund the expected expenses related to the organization of elections and avoid an excessive burden on the tax levy in an election year	Annual budget allocation	Election Expense	2300-000000-181	Annual budget should be 25% of the estimated future election costs
Insurance	Provide contingency funds for losses, damage, costs and expenses as incurred through insurance claims Provide funds to offset unforeseen variation in insurance premiums	These reserves are established either through a budget allocation or from annual savings between budget and actual expense each year	Insurance	2300-000000-169	N/A
Program Reserves	Provide funds to maintain existing programs Provide funds to support new programs and initiatives	These reserves are established either through a budget allocation or from annual savings between budget and actual expense each year	Frosty Fling Policing Legal Costs-Tax Sales Re-Use it Centre	0800-000000-147 2300-000000-194 2300-000000-197 2300-000000-200	N/A

Capital Reserves and Discretionary Fund Reserves	Authorized Use of Funds	Sources of Funds	Township Reserve	Account Number	Target
Capital/Equipment Reserves	<p>Fund major rehabilitation or replacement of existing assets and ensure municipally owned assets do not deteriorate over time</p> <p>Support the asset management plan by providing predictable financing of the capital assets lifecycle expense requirements</p> <p>Reduce or eliminate the reliance on long-term debt to finance capital</p>	These reserves are established as part of the annual budget process or by an allocation of any year end surplus as determined by Council	<p>Lanark Highlands Arena</p> <p>Capital Expenditures</p> <p>Roads Equipment Replacement</p> <p>Recreation</p> <p>Microphones</p> <p>Master Fire Plan</p> <p>Recreation Equipment</p> <p>Vincent Hall Park</p> <p>Emergency Generator</p> <p>Administration Building</p> <p>Lanark Village Museum</p>	<p>0880-000000-172</p> <p>2300-000000-172</p> <p>2300-000000-173</p> <p>2300-000000-174</p> <p>2300-000000-175</p> <p>2300-000000-176</p> <p>2300-000000-178</p> <p>2300-000000-183</p> <p>2300-000000-186</p> <p>2300-000000-190</p> <p>2300-000000-192</p>	Annual budget depends on the requirements of Asset Management and other long-term planning documents.

			Computer Upgrades	2300-000000-195	
			Water & Sewer	2300-000000-196	
			Cemeteries	2300-000000-201	
			Lanark Highlands Fire Department	2331-126000-186	
			PPE Equipment	2331-126000-187	
			Fire Hose Replacement	2331-126000-188	
			SCBA	2331-126000-189	
			Planning-OPA	2381-000000-170	
			Planning-Zoning	2381-000000-172	