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|-----------------|------------------------------------|----------------------------|--|
| <b>TITLE:</b>   | <b>RESERVES AND SURPLUS POLICY</b> |                            |  |
| <b>SECTION:</b> | <b>CORPORATE SERVICES</b>          | <b>POLICY No. III-1720</b> |  |
| <b>Adopted:</b> |                                    | <b>Resolution:</b>         |  |
| <b>Amended:</b> |                                    | <b>Resolution:</b>         |  |

**1. PURPOSE**

This Reserve and Surplus Policy has been developed to provide direction for the establishment and maintenance of Reserves, Unappropriated Surplus and their use in meeting the short-term and long-term financial goals of the District.

The aim of the framework is to maintain a level of financial resources sufficient enough to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

**2. PRINCIPLES**

Healthy reserves and surplus levels are important in achieving community goals including financial health and stability. The District will strive to be proactive in terms of financial health and stability by ensuring that;

- Actual reserves and surplus balances will be benchmarked with other jurisdictions and with pre-determined targets on an ongoing basis to gauge whether financial health is being achieved;
- Reserves and surplus goals will be consistent with The District’s longer-term financial plan and Asset Management Plan;
- The District will avoid the appropriation of fund balances for recurring operating expenditures. If at any time the use of a reserve fund balance to pay for operating expenditures is necessary to maintain the quality or level of current services, an explanation of the circumstances of the use of the fund balance and the strategy to eliminate the future use of the fund balance will be disclosed during the annual financial planning process.

**3. TERMS**

This policy refers to the Community Charter, the Local Government Act, Community Works Gas Tax Agreement, Generally Accepted Accounting Principles (GAAP) and Public Sector Accounting Board (PSAB). The following terms are used within this policy and are defined as follows:

**Accumulated Surplus** means the accumulated excess of revenues over expenditures from prior years which has not been set aside for specific purposes.

**Annual Surplus** means the accumulated excess of revenues over expenditures for the current year.

**Reserve Funds** means funds that are set aside for a specified purpose by Council pursuant to subsection 188 (1) of the *Community Charter*. These reserves are established via District bylaws and are discretionary on the part of Council.

**Reserves** means all of the District's Reserve Funds and Statutory Reserve Funds.

**Statutory Reserve Funds** means funds set aside for specified purposes as required by and pursuant to specific legislation. These Reserves are established via District bylaws and are non-discretionary on the part of Council.

**Unappropriated Surplus** means the accumulated surplus built up in the District's various operating funds that has not been designated for specific uses.

#### 4. OPERATING (WORKING) CAPITAL

The District will maintain an Unappropriated Surplus balance in its General Operating Fund for working capital purposes, i.e. to provide for operating expenditures before property taxes and/or user fees are collected. Maintaining minimum working capital levels eliminates or reduces the need to borrow externally and/or internally for operations. Given the relative stability of revenues and moderate financial risk this has been set at a level equal to six months revenues.

#### 5. RESERVES - OPERATING AND CAPITAL RESERVE FUNDS

Pursuant to subsection 188 (1) of the *Community Charter*, Council may, by bylaw, establish a reserve fund for a specified purpose and direct that money be placed to the credit of the reserve fund. Operating Reserves will be replenished usually within one to three years.

The following reserve funds have been established for the following purposes and do not require an establishing bylaw:

##### 5.1. Financial Stabilization Reserve Fund

The Financial Stabilization Reserve has been established for the following purposes:

***For Major Emergent Operating Issues*** - the District is exposed to major non-reoccurring costs related to various emergency events or situations, e.g. inclement weather, environmental hazards, etc. These emergent situations cannot be anticipated and budgeted for and it is not feasible to absorb the cost of such events in other budget areas in any given year.

***For One-Time and Intermittent Projects*** - the District undertakes certain one-time and/or intermittent projects that are larger in terms of costs. If these projects were funded from property taxation, annual spikes and subsequent declines in taxation would result; therefore, it is not prudent to fund these projects from on-going property taxation revenue.

##### 5.2. Snow Contingency Reserve Fund

The Snow Contingency Reserve Fund has been established to specifically offset the cost of major winter snow storms, the magnitude of which is indeterminable.

##### 5.3. Westshore Recreation Reserve Fund

The Westshore Recreation Reserve Fund has been established to assist with the District's share of any replacement or new facilities at Westshore Recreation.

If used, these operating reserves will be replenished usually within one to three years.

## **6. STATUTORY RESERVE FUNDS**

If monies are received from specific sources, certain Reserve Funds must be established for administering these funds, as per specific legislation. These Reserve Funds are termed by the District to be Statutory Reserve Funds as noted below.

### **6.1. Community Works Gas Tax Reserve Fund**

The Community Works Gas Tax Reserve has been established to account for funds received and used pursuant to the Community Works Gas Tax Agreement. Funds in this reserve are required to be used for projects allowed for under the Community Works Gas Tax Agreement.

### **6.2. Fire Buildings, Vehicles and Equipment Replacement Reserve Fund**

The Fire Buildings, Vehicles and Equipment Replacement Reserve has been established to replace the existing East and West Fire Halls, fire vehicles and equipment used by the District's fire service. (Asset Management Plan funding guideline).

### **6.3. Municipal Buildings, Vehicles and Equipment Replacement Reserve Fund**

The Municipal Buildings, Vehicles and Equipment Replacement Reserve has been established to replace the District Office, municipal vehicles and equipment used by the District's general operations. (Asset Management Plan funding guideline).

### **6.4. Heritage Structures Capital Replacement Reserve Fund**

The Heritage Structures Replacement Reserve has been established to assist in the replacement of heritage structures such as the Caleb Pike Dairy, Schoolhouse, Teacherage, Museum, and Caretakers Residence from time to time. (Asset Management Plan funding guideline).

### **6.5. Community Hall Replacement Reserve Fund**

The Community Hall Replacement Reserve has been established to replace the Community Hall. (Asset Management Plan funding guideline).

### **6.6. Park Facilities Replacement Reserve Fund**

The Park Facilities Replacement Reserve Fund has been established to replace existing facilities at Twinflower Park and Eagles Lake. (Asset Management Plan funding guideline).

### **6.7. Roads Replacement Capital Reserve Fund**

The Roads Replacement Capital Reserve has been established for capital road projects, as the District has a major road network that needs be renewed on an ongoing basis. This will be the primary source of funding for the District's Pavement Management Plan.

### **6.8. Bridge Replacement Capital Reserve Fund**

The Bridge Replacement Capital Reserve has been established for replacement of the District's road network bridges that need to be renewed on an ongoing basis. (Asset Management Plan funding guideline).

#### **6.9. Groundwater and Drainage Reserve Fund**

The Groundwater and Drainage Reserve has been established for major drainage projects, as the District has a significant natural groundwater and drainage network that needs to be renewed on an ongoing basis. (Asset Management Plan funding guideline).

#### **6.10. General Capital Project Reserve Fund**

The General Capital Reserve has been established to fund new infrastructure that is not specifically funded from other established reserves.

#### **6.11. Parkland Acquisition Reserve Fund**

Per subsection 188 (2) (b) of the *Community Charter*, funds received from the sale or disposal of parkland as well as funds received pursuant to section 941 of the *Local Government Act* (parkland funds received upon subdivision) must be set aside in a Reserve and be used exclusively to purchase parkland. The Parkland Acquisition Reserve has been established for accumulating and expending monies as per this requirement. (No specific funding level is established).

#### **6.12. Land Sale Reserve Fund**

Per subsection 188 (2) (e) of the *Community Charter*, funds received from the sale of land and improvements must be set aside for paying any debt remaining in relation to the property and for acquiring land, improvements and other assets of a capital nature. The Land Sale Reserve has been established for accumulating and expending monies as per this requirement. (No specific funding level is established).

### **7. ADMINISTRATION**

Reserves management is a corporate responsibility that involves senior staff and members of Council in the effective implementation of sustainable service delivery.

#### **7.1. Responsibilities**

Council is responsible for:

- adopting this Reserves and Surplus Policy and future updates;
- allocation of resources;
- providing high level oversight of the organization's reserves management; and

The District's Chief Administrative Officer (Financial Officer) is responsible for:

- Recommending the necessary contributions and transfers so that the District's Operating/Capital Reserve Funds, Unappropriated Surpluses and Statutory Reserve Funds are maintained in accordance with this Policy;
- Conducting an annual review of all Operating/Capital Reserve Fund, Unappropriated Surplus and Statutory Reserve Fund balances and reporting the results of such a review to Council during the annual budget/financial planning process;
- Recommending changes to the minimum and optimal balance guidelines shown in this Policy; and,

- Recommending any revisions or amendments to this Policy, as may be required from time to time, as a result of changes in applicable statutes, accounting standards or economic conditions.

### **7.2. Reserve Contributions**

Annual and/or periodic contributions to Reserve Funds shall be specific to each Reserve, as approved by Council through the District's annual financial planning/budgeting process.

### **7.3. Minimum and Optimal Reserve Balances**

Minimum and optimal fund balance guidelines have been set for some of the District's Operating and Capital Reserves Funds, Unappropriated Surpluses and Statutory Reserve Funds as shown in attached example Appendix "A". The purpose and sources of funding applicable to each Fund are also shown in this Appendix. The minimum balances ensure that the respective reserves are not depleted to the degree that they are no longer able to serve their intended purpose.

The optimal balances ensure that the District's guiding principles are achieved and that the reserves do not grow beyond their intended purpose and create idle assets that could be otherwise used for other priorities.

A comparative review of actual, minimum and optimal fund balances shall be undertaken annually.

### **7.4. Internal Borrowing**

Internal borrowing from specific Reserve Fund, Unappropriated Surplus and Statutory Reserve Fund balances shall be permissible as allowed for by legislation, if a clearly defined and attainable payback plan, including payment of foregone interest, is in place, as internal borrowing allows for more flexibility in terms of payback amounts and loan duration than that of external borrowing. Paybacks shall be executed according to plan.

### **7.5. Interest**

Operating/Capital Reserve Funds and Statutory Reserve Funds shall be allocated interest based on balances and the District's average rate of return on investments.

### **7.6. Guide and Transition**

The minimum and optimal fund balance guidelines shown in this Policy serve as a guide in moving the District towards the financial goals or targets it wishes to attain.

## **8. SCOPE**

This policy applies to all District of Highlands activities.

## **9. LEGISLATION**

Reserves and surplus appropriations will conform to the statutory/legal requirements of the Local Government Act and the Community Charter, generally accepted accounting principles (GAAP) and Public Sector Accounting Board (PSAB) recommendations.

**10. RELATED DOCUMENTS**

Asset Management Plan, Long Term Financial Plan (to be developed) and Five-Year Financial Plans.

**11. REVIEW DATE**

This policy has a life of 3 years. It will be reviewed in 2022.

## Appendix A – Reserves Scorecard Example

|   |                    | Reserves Scorecard (Example) |             |           |           |           |           |           |           |           |           |         |           |         |
|---|--------------------|------------------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|---------|-----------|---------|
|   |                    | Policy Target                |             | Balance   | Balance   | Balance   | Balance   | Balance   | Balance   | Balance   | Balance   | Status  | Balance   | Status  |
|   |                    | Minimum                      | Optimum     | 2018      | 2019      | 2020      | 2021      | 2022      | 2023      | 2023      | 2023      | 2019    | 2023      | 2023    |
| <b>WORKING CAPITAL</b>                                |                    |                              |             |           |           |           |           |           |           |           |           |         |           |         |
| Accumulated Surplus                                   | 3 Months Revenue   | \$693,600                    | \$2,774,400 | 1,437,155 | 1,444,155 | 1,444,155 | 1,444,155 | 1,444,155 | 1,444,155 | 1,444,155 | 1,444,155 | Good    | 1,444,155 | Good    |
|   | 12 Months Revenues |                              |             |           |           |           |           |           |           |           |           |         |           |         |
| <b>GENERAL FUND (Reserve Accounts)</b>                |                    |                              |             |           |           |           |           |           |           |           |           |         |           |         |
| Community Works Gas Tax Reserve                       | As Received        |                              |             | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
| Snow Contingency Reserve                              | Min \$75,000       |                              | \$150,000   | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
|   | 1 month Revenue    |                              |             |           |           |           |           |           |           |           |           |         |           |         |
| Financial Stabilization Reserve                       | \$231,200          |                              | \$463,000   | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
| Other Various Committed Reserves                      | N/A                |                              | As received | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
| <b>RESERVE FUND (Statutory Reserves)</b>              |                    |                              |             |           |           |           |           |           |           |           |           |         |           |         |
| Fire Buildings, Vehicles and Equipment Replacement    | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
| Municipal Building, Vehicle and Equipment Replacement | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Low     | xxx       | Minimal |
| Heritage Structures Replacement                       | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Low     | xxx       | Minimal |
| Community/Hall Replacement                            | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Minimal | xxx       | Good    |
| Park Facilities Replacement                           | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Low     | xxx       | Low     |
| Road Replacement                                      | Min \$250,000      |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Good    | xxx       | Good    |
| Bridge Replacement                                    | N/A                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | Minimal | xxx       | Low     |
| Drainage Capital                                      | TBD                |                              | Per SAMP    | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | TBD     | xxx       | TBD     |
| Parkland Acquisition                                  | N/A                |                              | As received | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | TBD     | xxx       | TBD     |
| General Land Sale                                     | N/A                |                              | As received | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | xxx       | TBD     | xxx       | TBD     |
| <b>OVERALL</b>  |                    |                              |             |           |           |           |           |           |           |           |           |         |           |         |