



# CORPORATION OF THE TOWN OF COBOURG

Division: Corporate Services

Effective Date: October 5, 2015

Department: Finance Department

Approval Level: Council

**Policy Title: Reserve Fund Policy  
- Administration**

**Section # 3-1  
Policy # FIN-ADM2**

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## Purpose

This policy is intended to set out the principles, requirements and guidelines for establishment, intention, maintenance, management and accounting treatment for Reserves and Reserve Funds, both obligatory and discretionary.

Reserve and Reserve Funds are financial management tools that are an essential part of a sound fiscal policy to address long-term objectives. The objective is to assist with funding the capital plan through current reserves while delivering efficient, effective programs to the ratepayers of the Town of Cobourg. The key to reserve policies and planning is to balance current and future requirements. Sound program and financial planning would accommodate future growth while maintaining relatively prudent tax rates.

Reserves can be segregated into two categories: Reserve and Reserve Funds. A reserve is unrestricted and is appropriated from net revenue at the discretion of Council after the provision for all known expenditures. The primary source of revenue for reserves is from current operations, usually surpluses at year-end or as a deliberate segregation during budget deliberations. Reserves may be used to mitigate fluctuations in economic factors, changes in government funding, or unanticipated events. They may also be used to accumulate funds in order to finance large capital projects as an alternative.

Reserve Funds differ from reserves in that they are segregated and restricted to meet a specific purpose as defined by the *Municipal Act, 2001*. For example, under the Canadian Institute of Chartered Accountants (CICA), Public Sector Accounting Board (PSAB) guidelines, development charges must be reported as deferred revenue (a liability) also known as an obligatory.

## Policy

### 1.0 PRINCIPLES

Reserves should be limited to amounts which meet liabilities, contingencies known or estimated. This includes the decline in value of assets, projects and economic factors. The maintenance of adequate Reserves and Reserve Funds is important to the Town of Cobourg's long term viability.



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## 2.0 ACCOUNTING PRINCIPLES

- 2.1 As outlined in the Municipal Financial Reporting Handbook, all increases and decreases in reserves are to be reported as appropriations to or from reserves;
- 2.2 Reserves form part of municipal surplus on the statement and financial position.

## 3.0 AUDITING REQUIRMENTS

- 3.1 Establishment of new reserves and reserve transactions must be supported by a resolution/By-law of Council.

## 4 APPROVAL AUTHORITY

- 4.1 All new reserves and reserve transactions must be authorized by the Town of Cobourg Council through the annual budget process.
- 4.2 In-year reserve transactions not contemplated during the budget process shall be authorized through a resolution of Town Council, and will may require a budget amendment to be approved by Council
- 4.3 Following the resolution of Council, the Treasurer has the sole authority to preform transactions to reserves for the amount budgeted. Transfers from reserves shall be for the amount of the actual expenditure/costs up to the approved budgeted amount.

## 5.0 RESPONSIBLITES

- 5.1 Municipal Council:

It is the role of Council.

- a) to represent the public and to consider the well-being and interests of the municipality;
- b) to develop and evaluate the policies and programs of the municipality;
- c) to determine which services the municipality provides;
- d) to ensure that administrative policies, practices and procedures and controllership policies, practices and procedures are in place to implement the decisions of Council;



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- e) to ensure the accountability and transparency of the operations of the municipality, including the activities of the senior management of the municipality;
  - f) to maintain the financial integrity of the municipality; and
  - g) to carry out the duties of Council under this or any other Act.

As such, Council has the ultimate authority for policy development and ensuring that administrative practices are in place to implement those policies. As well, policies should be in line with the financial integrity of the municipality. Therefore, the adoption of and any changes to this policy must be approved by Council.

Council has the responsibility to establish reserves and ensure that transactions to and from reserves are authorized, through the budget process or by specific resolutions.

## 5.2 Chief Administrative Officer

The CAO is responsible for supporting the Treasurer in ensuring the principles and mandatory requirements contained in this policy are applied consistently across all Town departments.

## 5.3 Treasurer

The Treasurer is responsible for:

- Develop and updating this policy as necessary and present changes to Council;
- Ensuring that the principles and mandatory requirements contained in this policy are applied consistently across all Town departments;
- Analyzing reserve status on an annual basis and ensuring that accounting principles are followed; and
- Performing the transfers to and from reserves as authorized by Council.

## 5.4 Division Directors

The Division Directors are responsible for:

- Informing the Treasurer when reserve transfers are required as per the resolution of Council.
- Providing documentation relating to the reserve transfer; and
- Consulting with the Treasurer for advice regarding the interpretation of this policy.



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## 6. PURPOSE OF RESERVES

Maintaining adequate reserve balances serves several municipal purposes. These include but are not limited to:

- **Asset Replacement:** established in order to smooth the spikes in operating budgets and smooth out property tax changes;
- **Project Reserves:** established to provide cost effective self-borrowing mechanisms to reduce risks associated with interest rate fluctuations.
- **Economic Stability Reserves:** established to buffer against significant fluctuations in the economy.
- **Contingency Reserves:** established to accommodate contingent, unfunded or known liabilities for current and/or future years;
- **Working Funds Reserves:** establishment to provide cash flow for operations to eliminate the requirement to borrow funds to meet immediate obligations; and
- **Self-Insurance Reserves:** established to provide self-insurance provisions.

For each reserve the establishing resolution/by-law shall have a description of the purpose and how the reserve may be utilized. Current and future areas of risk and exposure to economic volatility need to be identified for each reserve. The purpose of the reserve may be legislated.

## 8. LEVEL OF RESERVES

Each reserve resolution/by-law shall identify and include a description of the methodology to be utilized to determine the level of the reserve, how the reserve is replenished and/or its sunset date for elimination of the reserve. Service standards and/or capital planning and the related performance measures will be used to determine the appropriate level for the reserve.

### Definitions

“**Reserves**” shall mean appropriations from net revenue at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. A reserve cannot have a revenue or expense of itself, like a reserve fund.



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**“Reserve Funds”** shall mean assets that are segregated from the general revenues of the municipality and are restricted to meet the purpose of the reserve fund. Obligatory and discretionary reserve funds may be established.

**“Discretionary Reserve Funds”** shall mean established in cases where Council wishes to earmark funds to finance a future expenditure for which it has the authority to spend money and physically set aside for such purpose. The funds may be used for a number of different purposes, such as known or unknown contingencies (e.g. building repairs).

**“Obligatory Reserve Funds”** shall mean reserve funds that must be created by statute whereby special funds are received or obligated for specific purposes and must be segregated from the general revenues of the municipality (e.g. development charges), These funds must be used solely for the purpose prescribed for them by statute.

## Scope

The policy applies to all Reserve and Reserve Funds including the general reserves, local board and corporate reserves, trust reserves and donation reserves.

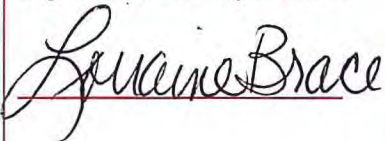
## Administration

The Chief Administrative Officer shall designate the Municipal Treasurer to implement and administer the terms of this policy and shall establish related operating procedures as required.

## Cross Reference

Policy #

Procedure #

Resolution # 431-15	Revision Description:	Signature/Municipal Clerk: 	Council Approval Date: October 5, 2015
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