

**1. Policy Statement:**

Innisfree is sustainable only if both its capital infrastructure assets and financial assets can be maintained over the long-term. It is the policy of the Village of Innisfree to establish reserve funds to ensure the long-term financial stability and flexibility of the Village of Innisfree, to position it to respond to varying economic conditions and changes affecting the Village's financial position, and to ensure the organization has the ability to continually carry out its responsibilities.

**2. Reason for Policy**

The purpose of this policy is to address some of the longer-term funding strategies for the Village and to ensure good financial and cash management for the overall financial stability of the Village. Maintaining sufficient balances in reserves and reserve funds is a critical component of a municipality's long-term financial plan as it strengthens long-term financial sustainability, helps to minimize fluctuations in the tax rate and provides funding to sustain infrastructure.

**3. Definitions**

- a. **Capital Reserves** means the portion of unrestricted net assets that the Village maintains, or that Council has designated (or "restricted") for use in maintaining an adequate reserve to acquire or construct new capital assets and replace and rehabilitate major capital infrastructure assets as required, and as identified in the Village's five-year Capital Plan.
- b. **Dedicated Reserves** means the portion of unrestricted net assets that the Village has collected from developers to fund specific initiatives or projects. The funds may not be used for any other purpose than what they were collected for.
- c. **Depreciation** means the amortization amount of tangible capital assets, such as buildings, equipment, and infrastructure, in order to allocate the cost over the tangible capital asset's useful life. It is a process of cost allocation and not valuation. Depreciation increases expenses but does not reduce cash.
- d. **Operating Expenses** means the annual expenditures to fund regular operations and for greater certainty, does not include depreciation, transfers from operations to fund capital expenditures, transfers to reserves, internal transfers between department, and funds expended on non-tangible capital assets.
- e. **Operating Reserves** means the portion of unrestricted net assets that the Village maintains, or that Council has designated (or "restricted") for use in:
  - i. Emergencies to sustain financial operations for a reasonable period in the event of significant and unanticipated, unbudgeted increases in operating expenses and/or loss in operation revenues; and/or
  - ii. Funding budgeted contingencies for non-emergent unpredictable revenues, volatile expenditures and unanticipated opportunities or challenges; and/or
  - iii. Carry forward of unexpended budget funds from the current year required to fund programs in the immediately following year; and/or funding for mitigation of tax increases.
- f. **Program Specific Reserves** means the portion of unrestricted net assets that the Village maintains that Council has designated (or "restricted") for use in specific initiatives or programs for which the funds are collected.

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Resolution No.: 2022-08-16/05

Next Policy Review Schedule: **2025-08**

**4. Guidelines**

- a. All reserve transactions, resignations, revisions, and new reserve requests must be approved by Council. These approvals will be comprehensively reviewed by the external auditor at the end of the fiscal year.
- b. All reserves must be fully described and must include purpose, source of funding, application, and approval, and, where applicable, a minimum level and a target level. Unless otherwise stated, all reserve funds are considered committed for the specific purpose as outlined by the reserve.
- c. All reserve accounts must be presented in the Village's financial statements both annually and in quarterly reports to Council.
- d. All reserve accounts must be reviewed annually by the CAO and Council during the annual budget process to determine if the reserves are still required. When the original intent of the reserve has been met, or changed, any remaining amounts in the reserve, shall through an appropriate review by the CAO and Council, be re-designated or returned to unrestricted surplus. Reserves that are deemed to be re-designated or returned to unrestricted surplus shall be approved by Council.
- e. Reserves can be funded from either internal or external sources:
  - i. Examples of internal sources of funds:
    - Approved budget contributions.
    - Carry over of current year's budget funds which were approved for a specific purpose but were not expended during the year; and
    - Annual surplus contribution
  - ii. Examples of external sources of funds:
    - Government grants; and
    - Donations.
- f. Departments may submit reserve requests in writing to fund existing or new reserves:
  - i. Through the annual budget process.
  - ii. From unexpended current year's operating or capital budgets to fund carryover projects
    - Reserves created for carryover projects and approved by Council may be drawn by the Departments after the actual expenditure has been incurred with no further approval required.
  - iii. Through unbudgeted revenues.
- g. Interest may be paid to reserves at the Village's short-term investments earnings rate where funding has come from external sources, unless otherwise recommended by the CAO and approved by Council. Council may also approve payment of interest to those reserves where the future costs to undertake an initiative or project might be subject to inflation.
- h. All expenditures from reserves must have prior approval. Approval will be obtained:
  - i. Through existing Municipal Policies.
  - ii. From annual operating or capital budget approvals.
  - iii. From approved carryover projects' and
  - iv. By Council resolution.

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- i. All reserves shall be administered by the CAO or their Designated Officer, in accordance with current municipal policies and Generally Accepted Accounting Principles as developed by Public Section Accounting Standards Board.

**5. Responsibilities:****a. Village Council to:**

- i. Approve by resolution, this policy, and any amendments.
- ii. Consider the allocation of resources for successful implementation of this policy in the annual budget process.
- iii. Review and approve all new reserve requests, reallocations, and transfers to and from reserves.

**b. Chief Administrative Officer to:**

- i. Implement this policy and approve procedures.
- ii. Ensure policy and procedures review occurs and verify the implementation of policies and procedures.
- iii. Ensure that all reserve funds are reported and approved by Council.
- iv. Ensure that this policy and procedure is reviewed every three (3) years.
- v. Recommend transfers to, or from, reserves and unrestricted surplus through the budget process.
- vi. Review the reserve schedule and present to Council on a quarterly basis.
- vii. Understand, and adhere to this policy and procedure.
- viii. Ensure employees are aware of this policy and procedure.
- ix. Maintain a reserve schedule that identifies the reserve, the purpose of the reserve, the source of funding for the reserve, the application of the reserve, the minimum and maximum levels where applicable, whether the reserve earns interest or not and the form of approval (e.g., budget approval or Council resolution number).

**c. All Employees to:**

- i. Understand and adhere to this policy and procedure.

**6. End of Policy.**