

Grand River Conservation Authority Reserves Policy



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Purpose and Objectives

Policy Statement

This policy establishes the objectives for reserves and reserve funds, standard of care and responsibilities for their management and administration.

Application

The General Membership and employees who are responsible for the creation, control, administration and management of reserves and reserve funds.

Corporate Structure and Applicable Legislation

Grand River Conservation Authority (GRCA) is a non-share corporation, which was incorporated in 1966 by Bill 32, “An Act to establish the Grand River Conservation Authority”. Bill 32 stated that the

Members also formed the Board of Directors of the Corporation. The Conservation Authorities Act (RSO 1990) applies to GRCA and, as an Ontario Corporation Without Share Capital, Part III of the Corporations Act (RSO 1990) is also applicable. The accounting standards for Canadian public sector organizations, including Conservation Authorities, are established by the Public Sector Accounting Board (PSAB).

Purpose of Reserves

A non-share corporation does not carry on business for the purpose of generating profits (surpluses). Under the PSAB standards, however, certain activities cause an “accumulated surplus” to be shown on a public sector organization’s balance sheet. A significant component of an accumulated surplus is the net (unamortized) value of the Tangible Capital Assets that the organization owns. A limited number of other items may also be included in the accumulated surplus on a Conservation Authority’s balance sheet, such as:

- a small surplus (or deficit) carried over from one year to the next, and,
- amounts that have been set aside in reserves.

Reserves are essentially savings that the organization has set aside for future projects, contingencies or emergencies. Reserves promote financial stability and flexibility or may be a result of statutory requirements. The money to fund a reserve could have come from an operational surplus in a given period or been raised through [municipal apportionment levies](#) or other revenues.

Reserves are an appropriate way to save for such events because Conservation Authorities:

- may wish to avoid large fluctuations in annual municipal [levies funding requests](#), and,
- may not be able to increase other revenues to accommodate major one-time expenditures.

Definitions/Types of Reserves

Some of GRCA’s reserves are created and funded at the discretion of the board of directors (the board) to ensure funds are available for future events (discretionary reserves). Other reserves are required due to outside interest or control over certain funds (non-discretionary reserves). The following table includes explanations and examples of reserves that fall into those two categories.

TYPE A: Discretionary Reserves	TYPE B: Non-discretionary Reserves
<p><u>Insurance, Building and Equipment Reserves:</u> At the discretion of the board, GRCA may establish reserves to fund uninsured losses, deductibles, and unanticipated building equipment maintenance expenses. The source of funds for these types of reserves could be savings resulting from reduced insurance premiums (due to self-insurance or increased deductibles) or unspent budgeted amounts for expenses that fluctuate over time.</p> <p><u>Miscellaneous Operating Reserves:</u> At the discretion of the board, GRCA may establish</p>	<p><u>Land Sale Reserves:</u> The Conservation Authorities Act, Provincial Regulations and MNRF Policies and Procedures require that proceeds from the disposition of property (where provincial grants were provided to acquire the property) must be held in a capital reserve and used only for projects of provincial interest.</p> <p><i>Disposition of Property</i> includes selling, exchanging, granting of easement or otherwise disposing of land and fixed assets. This includes all oil/gas/gravel leases over one year in duration. This also includes all other leases</p>

TYPE A: Discretionary Reserves	TYPE B: Non-discretionary Reserves
<p>reserves for future operating expenses that are intermittent in nature. Examples include regulation enforcement, forestry management, cottage lot maintenance, one-time personnel expenses, etc.</p> <p><u>Capital Reserves:</u> It may be necessary to set aside money over time for large capital projects that are expected to take place in future years. In some cases, the money is raised by municipal fundingCapital Levies, including matching fundinglevies for projects that are jointly funded by the province and GRCA. In other cases, the board may wish to set aside surpluses generated by a fee-based business unit for future capital improvements in that business unit (e.g. Conservation Areas).</p> <p><u>Stabilization Reserves:</u> The board may support setting aside surpluses generated by a non-municipallylevy-funded business unit to offset operating deficits in other years. GRCA has used this strategy for Conservation Areas, where revenues can fluctuate substantially due to uncontrollable factors such as weather, water quality, currency and other economic changes.</p> <p><u>Motor Pool/Computer Replacement Reserves:</u> These two departments are support areas that provide equipment and technology for other programs. Historically, the provincial granting process allowed costs for these two support areas to be allocated on an as-used basis to activities that were eligible for provincial grants. A process was developed whereby all departments are charged user fees for their use of Motor Pool and Information Systems and Technology. The internal revenue from those user fees goes into the Motor Pool and Computer reserves. All operating and capital costs associated with providing those services are paid from the same reserves. This ensures a fair allocation of costs while allowing the reserves to smooth out capital or other one-time expenditures over the long run. During the annual budgeting process, the board approves the user fees, expenditures and the methodology for staff to follow during the year.</p>	<p>over five years in duration (and renewals over five years in duration) where ownership/interest in the property is altered. This does not include management agreements in place for the operation and/or maintenance of the property where no exclusive rights or interest in the property are being transferred.</p> <p><i>Projects of provincial interest</i> include acquisition of provincially significant conservation lands or managed/agreement forest lands, major maintenance of flood control structures, acquisition of other ecologically significant lands, hazard land mapping in support of plan input or regulation programs, flood and erosion control capital projects and related studies and watershed/sub-watershed management plans that are inter-municipal in scope.</p> <p><u>Reserves required by contracts with others:</u> GRCA occasionally enters into contracts that stipulate that all, or a portion of funds provided by others be held in a reserve for future projects. Examples include school board contracts for outdoor education where <u>An example would be where</u> a portion of their fees <u>are</u> to be held for maintenance of buildings, municipal funds transferred to GRCA for maintenance of structures or public spaces, etc.</p>

Requirements

Governance

The board has the ultimate responsibility for the accuracy of financial reporting and prudent management of resources. An effective system of governance is critical in carrying out this responsibility, which includes board-approved by-laws, policies and procedures, as well as regular receipt and approval of reports regarding financial and other matters.

Each year, a financial audit is conducted by an external accounting firm. The board appoints members to an Audit Committee that is responsible for reviewing the audited financial statements and recommending their approval to the board. The Audit Committee is also responsible for reviewing internal controls, accounting practices/policies and significant accruals, provisions and estimates included in the financial statements.

Management Responsibilities

The Secretary-Treasurer is responsible for implementing the board's direction regarding reserves. The Secretary-Treasurer and/or Manager of Corporate Services will review and make recommendations to the board, at least annually, regarding the need for new reserves, the financial adequacy of existing reserves and funding sources for reserves.

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system.

Creation of Reserves

A Resolution of the board is required to create a new reserve, other than a reserve that falls under one of the exceptions outlined below. The required Resolutions are typically recommended by staff prior to year-end in an annual reserve report, but may also be recommended in a separate report when a specific transaction takes place.

The only exceptions to this are when reserves are non-discretionary reserves that are required under legislation or a board-approved contract with others (land sale reserves, funds provided by others for maintenance of a structure, etc.). In these instances, staff are authorized to create the reserves, with the details to be included in future board reports as information.

A staff recommendation to the board for the creation of a new reserve will include:

- rationale for creating reserve
- funding source(s)
- target balance for reserve (if applicable)
- amount and timing of projected disbursements (if known)

Transfers to/from Reserves

Transfers to reserves must be approved by a Resolution of the board, unless the transfer relates to one of the non-discretionary reserve exceptions outlined above (required by legislation or contract). A Resolution to transfer funds to a reserve can be a one-time lump-sum amount (THAT the \$X,XXX be transferred to the [name] reserve) or can be a formula or principle for staff to follow (e.g. the methodology for funding the Motor Pool & Computer reserves).

All transfers from reserves (use of reserve funds) must be approved by a Resolution of the board. Similar to above, the Resolution can be one-time or can be a formula or principle that staff will follow. When funds are to be transferred out of a non-discretionary reserve, staff will confirm that the use of the funds is consistent with the legislated or contracted requirement when presenting the recommended Resolution to the board for consideration.

Investment Income and Reserves

GRCA's cash balances are pooled or combined for investment purposes. Investment income will be allocated to a reserve if it is:

- a) required by Resolution of the board, for discretionary reserve, or,
- b) required by a provincial policy or contract, for a non-discretionary reserve.

Any investment income allocated to reserves will be credited monthly to each reserve fund according to its proportionate share of the total investment portfolio, based on the weighted average return for all investment income (including the interest-bearing current account) during the month. Investments shall be made in accordance with the GRCA Banking and Investment Policy.

Note: If a discretionary reserve is considered to have reached a level that is sufficient to meet the future needs that it was established for, the board may direct staff to suspend the allocation of investment income to that reserve.

Reporting

The monthly financial forecast board report will include actual and projected reserve adjustments as applicable.

The five year forecast, which is presented to the board mid-year, will include a summary of projected reserve balances and changes.

The annual budget review process will include detailed information on projected reserve balances and changes.

The audited financial statements will indicate the total amounts in reserve (on the balance sheet) and note disclosure will provide reserve details, compared to prior year.

In the final quarter of each year, staff will prepare a comprehensive reserve report with an explanation of each reserve, forecasted year-end balances and any recommendations for board approval of the current year's transfers and allocation of investment income, as required.

MNRF has the right to review details of any transaction involving the land sale reserves. Staff maintain records and documentation to support any such requests. A copy of the audited financial statements is also forwarded to MNRF annually.

Appendix - Summary of Procedures for Reserves

	TYPE A (discretionary reserves)	TYPE B (non-discretionary reserves)
Purpose	To set aside funds for future events, at the discretion of the board.	To meet requirements of legislation or contracts with other organizations
Creation of a new reserve	Requires Board Resolution*	Can be created by staff if required by legislation or board-approved contract. Requires Board Resolution* if the purpose is to carry capital levies into a future period
Transfers to a reserve	Requires Board Resolution*	Can be initiated by staff if required by legislation or board-approved contract. Requires Board Resolution* unless one of the above exceptions applies
Transfers from a reserve	Requires Board Resolution*	Requires Board Resolution* (staff to confirm eligibility)
Investment Income	Allocated to a reserve at the discretion of the board.	Allocated to a reserve if required by legislation or contract. <i>Note: MNRF policy requires allocation of interest to land sale reserves.</i>
Reporting to Board	Included in five-year forecast, budget process, monthly financial forecast and annual detailed reserve report.	Included in five-year forecast, budget process, monthly financial forecast and annual detailed reserve report.
Reporting to MNRF	Not required	Annually, for land sale reserves
Audited Financial Statements	Included on balance sheet and in note disclosure	Included on balance sheet and in note disclosure

*Resolution can be a one-time transfer or a formula or principle that staff will follow.