

	<h1>TOWN OF COCHRANE POLICY</h1>
<b>Policy No.:</b> <b>Policy Title:</b> <b>Approval Date:</b> <b>Revision Date:</b> <b>Department:</b>	<b>1705-01</b> <b>Operating Reserves</b> <b>June 13, 2011</b>  <b>Corporate &amp; Community Sustainability</b>

## Policy Statement

- i. In compliance with this policy and the Municipal Government Act, the establishment of all reserve accounts and the transfers to and from these accounts require Council approval through the budget.
- ii. Operating reserve balances for contingencies must be sufficient to achieve sustainability goals established by Council in the annual budgeting process. Operating reserves must have a minimum balance of five percent (5%) of current year budgeted total operating expenditures excluding amortization.
- iii. In the event of a balance below the minimum level, a strategy will be adopted to achieve the minimum level over a period not to exceed three (3) years, including replenishing the reserve with any unplanned one-time revenues, previously committed one-time contingent funds or appropriated items that are no longer required for their original purpose. Other reserve balances will be reassessed and where appropriate, amounts transferred to the operating reserve.
- iv. One hundred percent (100%) of any annual general government surplus above the minimum balance will be transferred into Facilities lifecycle capital reserves or as otherwise directed by Council.
- v. A target reserve balance for operating contingencies is 8% of current year budgeted total operating expenditures excluding amortization.

- vi. This policy does not apply to capital reserves as a separate strategy is being developed for capital reserves.
- vii. Reserve account balances will be reviewed on a periodic basis, with recommendations made to Council.

## **1. Reason for Policy**

Operating reserves are fundamental to the Town of Cochrane's financial stability. The Town's operating reserve accounts are savings that support resilient fiscal strategies in recessionary times. Operating reserves are vital for our financial sustainability.

- 1.1 There are two major categories of operating reserves. Reserves for projects approved by Council but not yet expended and operating reserves for contingencies

- 1.1.1 Reserve for projects approved but not yet expended.

- In municipalities taxes are levied for the net cost of operations which include specific projects that remain in progress at the end of a fiscal year. Unexpended funds are transferred to operating reserves to fund the balance of project costs expected in a future fiscal year.

- 1.1.2 Operating reserves for contingencies

- Reserves are needed in anticipation of unknown expenditures or liabilities. If a reserve for contingencies is not created it could have a significant effect on the future tax levy of the municipality should the liability actually materialize. Reserves established may also be used to stabilize service levels by providing funding in lean years and absorbing surpluses in good years.

## **2. Related Information**

- 2.1 Management of Operating Reserve Funds

- A number of statutory restrictions apply to the management of the assets of any Reserve Fund. Reserve funds may be invested only in the securities authorized under Investment Policy #1802: Earnings derived from the investment of a reserve shall form part of that reserve. Interest applied to reserve balances will normally be applied at the Town's short-term investment earnings rate.

- 2.2 Reporting of Operating Reserve Funds

- Operating reserve fund balances will be reported during the annual budget process and disclosed in the Town's annual audited financial statements.

### 3. Definitions

- 3.1 **Reserve** is an appropriation from net revenue at the discretion of Council, after provision for all known expenditures.
- 3.2 **Operating Reserve** is an appropriation from net revenue for future expenditures that are not tangible capital assets.
- 3.3 **Annual General Government Surplus** is the excess of revenue over expenses (excluding non-cash amortization), for government activities, as consistent with the Town's audited financial statements.
- 3.4 **Operating Reserve for contingencies** is an uncommitted reserve account established for the purpose of providing funding to address significant emergent financial issues.
- 3.5 **Net cost of operations** the most recently Council approved requisition of taxation required to operate the Town's services.

### 4. Responsibilities

- 4.1 Town Council to:
  - 4.1.1 Approve by resolution this policy and any amendments.
  - 4.1.2 Consider the allocation of resources for successful implementation of this policy in the annual budget process.
- 4.2 Chief Administrative Officer to:
  - 4.2.1 Implement this policy and approve procedures.
  - 4.2.2 Ensure policy and procedure reviews occur and verify the implementation of policies and procedures.
  - 4.2.3 Recommend transfers to or from reserve and equity accounts through the budget.
  - 4.2.4 Recommend to Council a strategy to replenish operating reserves if the balance falls below minimums approved by Council.
- 4.3 Senior Manager, Corporate Services to:
  - 4.3.1 Ensure implementation of this policy and procedure.

- 4.3.2 Ensure that this policy and procedure is reviewed every three (3) years.
  - 4.3.3 Make recommendations to the Chief Administrative Officer of necessary policy or procedure amendments.
  - 4.3.4 Reserve transfers will be reported and approved through the budget.
  - 4.3.5 Ensure interest earnings are applied at the Town's short-term investment earnings rate.
- 4.4 Supervisor to:
- 4.4.1 Understand, and adhere to this policy and procedure.
  - 4.4.2 Ensure employees are aware of this policy and procedure.
- 4.5 All Employees to:
- 4.5.1 Understand and adhere to this policy and procedure.

## **5. End of Policy**

	<h1>TOWN OF COCHRANE PROCEDURE</h1>
<b>Policy No.:</b> <b>Policy Title:</b> <b>Department:</b>	<b>1705-01</b> <b>Operating Reserves</b> <b>Corporate &amp; Community Sustainability</b>

**Policy Statement and Purpose:**

Operating reserves are fundamental to the Town of Cochrane’s financial stability. The Town’s operating reserve accounts are savings that support resilient fiscal strategies in recessionary times.

- i. In compliance with this policy and the Municipal Government Act, the establishment of all reserve accounts and the transfers to and from these accounts require Council approval through the budget.
  
- viii. Operating reserve balances for contingencies must be sufficient to achieve sustainability goals established by Council in the annual budgeting process. Operating reserves must have a minimum balance of five percent (5%) of current year budgeted total operating expenditures excluding amortization.
  
- ix. In the event of a balance below the minimum level, a strategy will be adopted to achieve the minimum level over a period not to exceed three (3) years, including replenishing the reserve with any unplanned one-time revenues, previously committed one-time contingent funds or appropriated items that are no longer required for their original purpose. Other reserve balances will be reassessed and where appropriate, amounts transferred to the operating reserve.
  
- x. One hundred percent (100%) of any annual general government surplus above the minimum balance will be transferred into the Major Facilities reserve (GL4-97-07-994) or as otherwise directed by Council.
  
- xi. A target reserve balance for operating contingencies is 8% of current year budgeted total operating expenditures excluding amortization.

## 1. Related Information:

- 1.1 There are two major categories of operating reserves. Reserves for projects approved by Council but not yet expended and operating reserves for contingencies
  - 1.1.1 Reserve for projects approved but not yet expended.  
In municipalities taxes are levied for the net cost of operations which include specific projects that remain in progress at the end of a fiscal year. Unexpended funds are transferred to operating reserves to fund the balance of project costs expected in a future fiscal year.
  - 1.1.2 Operating reserves for contingencies  
Reserves are needed in anticipation of unknown expenditures or liabilities such as damage claims, municipalities. If a reserve for contingencies is not created it could have a significant effect on the future tax levy of the municipality should the liability actually materialize. Reserves established may also be used to stabilize service levels by providing funding in lean years and absorbing surpluses in good years.

## 2. Definitions

- 5.1 **Reserve** is an appropriation from net revenue at the discretion of Council, after provision for all known expenditures.
- 5.2 **Operating Reserve** is an appropriation from net revenue for future expenditures that are not tangible capital assets.
- 5.3 **Annual General Government Surplus** is the excess of revenue over expenses (excluding non-cash amortization), for government activities, as consistent with the Town's audited financial statements.
- 5.4 **Operating Reserve for contingencies** is an uncommitted reserve account established for the purpose of providing funding to address significant emergent financial issues.
- 5.5 **Net cost of operations** the most recently Council approved requisition of taxation required to operate the Town's services.

## 3. Procedure

Senior Manager, Corporate Services to:

- 4.3.1 Ensure implementation of this policy and procedure

- 4.3.2 Ensure that this policy and procedure is reviewed every three (3) years.
- 4.3.3 Make recommendations to the Chief Administrative Officer of necessary policy or procedure amendments and to recommend a strategy to replenish operating reserves if the balance falls below minimums approved by Council.
- 4.3.4 Reserve balances and transfers are reported and approved through the annual budget process.
- 4.3.5 Ensure interest earnings are applied at the Town's short-term investment earnings rate.

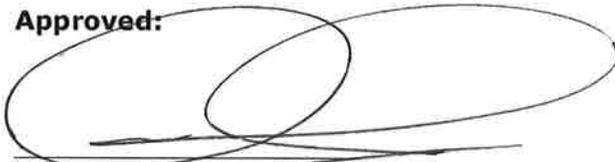
Manager, Financial Services to:

- 4.4.1 Understand, and adhere to this policy and procedure.
- 4.4.2 Ensure employees are aware of this policy and procedure.

4.5 All Employees to:

- 4.5.1 Understand and adhere to this policy and procedure.

**Approved:**



Julian deCocq, C.A.O.

June 28 2011  
Date