

Upper Thames River Conservation Authority Board of Directors'  
Finance and Audit Committee  
Tuesday April 16, 2024 at 12:00 pm, 1424 Clarke Rd. London

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- 1. Modifications to the Agenda**
- 2. Declaration of Pecuniary Interest**
- 3. Minutes of the Previous Meeting: September 26, 2023**
- 4. Election of Finance and Audit Committee Chair**
- 5. Closed Session – In Accordance with Section C.13 of the UTRCA Administrative By-Law**
  - 5.1. Financial Information that Belongs to the Authority and has Potential Monetary Value – 2023 Draft Audited Financial Statements and Audit Report Review FA-04-24-01
  - 5.2. Security of the Property of the Upper Thames River Conservation Authority FA-04-24-02
- 6. Budgetary and Reserve Policy Discussion Paper FA-04-24-03**
- 7. Adjournment**

Approved by Tracy Annett, General Manager

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**To: UTRCA Finance and Audit Committee**  
**From: Christine Saracino**  
**Date: 9 Apr 2024**  
**File Number: FA-04-24-03**  
**Agenda #: 6**  
**Subject: Budget & Reserves Policy Discussion Paper**

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## **Recommendation**

That the committee begins discussions on a Budgetary and Reserve Policy for input to its drafting.

## **Background**

The UTRCA has not previously prepared a document describing an approach to preparing budgets. As a result, planning without guidelines becomes a difficult matter. We should document our approach.

The status of reserves, what they are, where they come from, how they are, or should be, used and if there are funds supporting them, are equally difficult matters to understand and plan for.

Budgets as plans ultimately become actual events with actual spending. These results are the value that the organization creates over time. However, in order to facilitate planning, the setting of financial targets, by planning for specific reserve balances, though they might be long-term, can assist in annual planning and creation of budgets. For this reason we have tied the two concepts together in this discussion paper as a starting point for discussions. When we reach general agreement on a budget approach, and the reserves which may result from actual spending, we will be a more sound organization from a financial perspective.

## **Recommended by:**

Christine Saracino, Supervisor Finance

# UTRCA Budgetary and Reserve Policy Discussion Paper

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# Upper Thames River Conservation Authority Budgetary and Reserves Policy, Spring 2024

## Financial Management Practices

There are many sets of ‘rules’ that can be followed to ensure the Upper Thames River Conservation Authority (UTRCA) is governed with transparency and rigour from a financial perspective. Many would include steps such as:

- Develop a comprehensive budgeting methodology,
- Establish clear financial policies,
- Monitor cash flow,
- Utilize effective fundraising strategies,
- Track performance metrics,
- Assess potential funding sources,
- Continually review organizational performance,
- Develop plans for managing/avoiding debt,
- Conduct regular internal and financial audits,
- Implement internal controls and checks,
- Utilize technology where possible,
- Evaluate cost effectiveness.

This document mainly addresses the first two ‘rules’ and is intended to encourage discussion towards development of a draft budgetary and reserve policy for UTRCA. The Board established reserves in the past that no longer serve the organization under new Conservation Authority Act regulations. It is now becoming important to restructure the organization’s reserves and establish budgetary guidelines. In places, this document may look like policy, but there is much commentary not normally found in a Board policy document. It may also be determined that a budget policy and reserve policy should be prepared separately.

## Purpose

The UTRCA’s budgetary and reserves policy should demonstrate the Board’s commitment to ensuring the stability of Authority’s programs and services and ongoing operations of the organization, as well as providing a source of internal value for organizational priorities such as future program opportunities, capacity building, and asset management.

Such a policy provides guidelines for the development of both short and longer-term budgets. It governs both the management and administration of reserves and reserve funds because reserves can be the result of annual spending and operational decisions. The policy is implemented in concert with other governance and financial policies of the UTRCA and is

intended to support the goals reflected by those related policies and in strategic and operational plans.

## Policy Objectives

- Comply with legislated requirements,
- Adhere to sound financial management practices and accounting standards,
- Develop widely understood budgeting processes,
- Promote financial flexibility.

## Policy Principles

1. Applicability – this policy applies to all program, unit and organizational budgets, reserves, and reserve funds the UTRCA administers.
2. Integration – reserves and reserve funds management will be integral to the organization’s strategic financial planning and budgeting. All significant financial planning must consider the potential effect on reserves.

Liquidity – adequate working capital funding must be available for all approved budgets in addition to funds supporting long-term deferrals related to existing assets. Adequate and appropriate levels of reserves and reserve funds shall be maintained to meet financial obligations including those to:

- a. Replace and rehabilitate capital infrastructure as required and described in asset management plans,
  - b. Provide a funded contingency for unanticipated expenditures or needs that might arise from, for example, an unexpected loss of revenues.
3. Stability and consistency across years so that future municipal council budgets will not be unnecessarily impacted by either delayed or advanced project spending.

Credit and borrowing – maintaining reserves and reserve funds to keep the UTRCA’s credit status sound and to keep the cost of borrowing at a minimum. Borrowing is considered a funding source of last resort. Maintaining adequate working capital and managing creditworthiness keeps costs down.

## Policy Statement: Budgets

### Operating Budgets

The UTRCA will strive to prepare balanced annual operating budgets (inclusive of amortization expense) that clearly communicate our plans and priorities. These budgets will also:

- Shift the focus to budgeting for program outcomes as opposed to funding individual line items or cost centres,
- Take a strategic approach to guide program managers responsible for resource allocation and enhance our ability to adapt to changing priorities and needs,
- Avoid unduly burdening municipalities by unexpected levy demands while also balancing limited resources,
- Smooth participating member contributions as best as possible for better predictability,
- Reflect the full cost of program delivery,
- Assist in reaching and managing appropriate reserve levels,
- Position the UTRCA with appropriate asset replacement funding,
- Take into consideration adequate resources are available to mitigate environmental damages due to changing climate pressures occurring now and into the future,
- Achieve long-term financial stability and flexibility,
- Reflect public sector financial best practices of the Government Finance Officers Association.

### Program Categories

Category 1 operating program budgets should be balanced with no deficit or surplus planned. Achieving this will require provincially mandatory programs to be fully funded.

Category 2 program budgets must be balanced evidencing full cost recovery for contracted works. This will require careful review of charge-out rates or “selling” prices, and cost estimates.

Category 3 program budgets may not be balanced with the understanding that additional grants, contributions, and donations may be secured during the budget year. These individual projects / cost centres are particularly closely monitored so that excess expenditures can be controlled and program adjustments made in-year.

Other Category 3 programs (i.e., campground operations) and possibly other non-mandatory programs and services that we self-fund, must be balanced and will likely evidence a projected surplus. Any surpluses from campground operations generally fund future capital expenditures.

### Operating Budget Inclusions

The operating budget will include the following components:

- FTEs for all permanent staff and contract staff to be allocated to Questica cost centres, with allowance for overlap of retiring staff to be considered and included where known,
- Wage grid increase estimated,

- Best estimates for wages modifiers (i.e., statutory deduction rates, benefit rates) included and updated,
- Amortization for existing assets and estimates for future year amortization for budgeted capital expenditures,
- All known contract revenues as well as reasonably certain anticipated revenues.

The total operating budget may develop over several iterations. In preparing a budget for Board approval, plans must be reasonably developed to demonstrate transparency in program costs and funding sources. Implementation follows budget approval. Monitoring and budget reporting will be provided regularly to the Board and should be included the proposed policy.

## **Capital Budgets**

The UTRCA Capital Budget is a combination of asset acquisitions and renewals managed by multiple units across many locations. In the absence of a complete Asset Management Plan to inform the capital budget, capital projects will be identified and listed. As information for each project is advanced, the project budget will be developed to be ready for presentation. Full disclosure as to spending justification may be required.

Asset acquisitions and betterments to support campground operations will necessarily evidence deficits in spending, acknowledging that the cost for current year spending is borne into the future, supported through the annual operating surplus and/or absorbed through the campground reserve. For this reason, anticipated campground capital spending should present an analysis surrounding the expected returns from the expenditure, where possible. Ultimately, all capital budgets will include the cost of future amortization in the operating budget and ensure that revenues used to support the future amortization are available from deferred revenues or reserves.

Water and erosion control structure projects must be approximately 80% funded by the year they are completed or the following year. These capital projects must have as complete funding as possible so that future amortization expenses will be covered by deferring revenue secured concurrently with the project expenditures. Both the amortized cost and the future deferred revenues should be identified in the budget for approval. In addition, a projection of structure reserve balances should be made. Due to the fact that actual operating and capital spending can vary from planned spending, there may always be a small surplus or overage in the structure reserves. This will allow some capital spending to be made from reserves rather than directly through levy should it be available. This ultimately directs us to fund water and erosion control projects fully, unless we have more in reserve than is deemed necessary.

Equally, other capital expenditures for assets used authority-wide also need to be planned for so that they may be fully funded.

## **Capital Budget Inclusions**

Capital budgets will include the following components:

- UTRCA-wide vehicle and equipment needs, land improvement projects, new buildings and building system improvements, technology needs, land acquisitions and dispositions,
- Specific asset acquisitions, dispositions, or betterments at campground facilities,
- Water and erosion control projects including all projected Water and Erosion Control Infrastructure (WECI) funded projects and those requiring levies,
- Anticipated wages for capital expenditures and construction projects, along with corresponding decreases for wages in the operating budget,
- Amortization impacts on the operating budget starting in the current year plus one and following years for the life of the capital acquisition or project.

The nature of capital budgeting is such that until a capital project is underway, it is often difficult to get a clear idea of the ultimate cost. Initial estimates of costs are normally very rough and subject to change multiple times as the project scope is more clearly defined, vendor interest in the project is sought, and the full extent of the work becomes better known. As a result, approved capital budgets will not change except by way of Change Requests. These change requests will document the series of changes to costs (or sources of revenue in the case of WECI projects) and those related to the timing of a project. Change requests will be summarized and provided to the Board periodically for approval.

We must determine the degree to which a capital project or purchase can exceed the approved budget before it requires further board approval and include this information in a policy.

## Policy Statement: Reserves

1. Reserves shall be maintained in accordance with legislation and with respect to specific funding contributions. This requires periodic review and valuation of balances in conjunction with the setting of long-term asset management plans and capital budgets.
2. Reserves need not necessarily be fully funded. This too will require a plan developed in conjunction with cash management and investment guidelines. There is no requirement to segregate the funding of reserves into discrete accounts. Funds may be combined.
3. Use of reserves shall be approved along with annual budgets.
4. When reserves are deemed insufficient, a plan will be instituted to replenish them.
5. Reserves will be categorized as:
  - a. Obligatory – Created due to legislation, contractual agreement, donation, or the recognition of the source of funds which may require revenues to be used for special purposes separate from general revenues.
    - i. Directed donations (e.g., memorial forest programs, Harrington Grist Mill),
    - ii. Capital asset renewal and replacement as per asset management plans for capital needs spanning most categories of programs,
    - iii. Water and erosion control structure reserves (Category 1) created through special benefitting levies and as described through asset management plans.
  - b. Discretionary – Created through a Board motion to set aside value to finance future expenditure. Examples of such may be for contingencies, stabilization, or risk management efforts.
    - i. Operating reserves for:
      1. Category 1 programs,
      2. Category 2 programs,
      3. Category 3 programs,
      4. Category 3 programs – campground operations.
    - ii. Long-term investment reserve – held to smooth market advances and declines each year,
    - iii. Land transactions reserve to hold gains and accept losses from land sales
    - iv. Contingent reserve.

## Reserve Funding Status

A reserve can exist without it being funded because it is a representation of equity value. Reserves can be created because surpluses may have been generated; they are a “tag” placed on an accumulation of surpluses. Surpluses can be generated in part because depreciation expense is not a cash cost. The value of a surplus is cash but it is, in fact, cash plus some. Therefore, reserves can be represented by most of the cash an organization has generated, but not 100% or a specific percentage at all.

Reserves and reserve funds are different things. This is why most financial statements describe the list of reserves as “Reserves and Reserve Funds.”

Normally, it is desirable that at least some equity is accessible as cash; therefore, some reserves, or parts of reserves, need to be funded. Aside from campground operations, the funding of discretionary reserves can be addressed as a group.

1. Category 1 operating reserves need not be fully funded (i.e., reserve fund = 100% of reserve value) because they are created by the results of mandatory programs under provincial regulation and, therefore, fully fundable by member municipalities through levy. We often prepare budgets with operating deficits, but we normally have cash sufficient to operate, provided we do not run deficits larger than their depreciation expense.
2. Category 2 operating reserves need not be fully funded as they are intended to be very short-term balances to be cleared under a subsequent contract.
3. Category 3 operating reserves should be adequately funded to smooth the provision of those programs. Therefore, as a group, perhaps 50% of the total operating reserves should be represented by investments in cash accounts, or approximately \$2.7M.

The funding status of Other Category 3 programs (e.g., campground reserve) should approach 100% to allow for immediate and near-term capital spending. Annual operations have traditionally added to this reserve and cash will be required to conduct approved 2024 spending. In this way, the cash associated with the reserve is available for spending when the expenditure needs to be made; the cost of the spending, by way of future depreciation expense, will be borne in the annual operating budget and deplete the reserve in future as necessary.

This kind of capital spending plan needs to be more rigorous than water and erosion control structure capital spending and includes the analysis, among others, of payback. [OBJ]

## **Recommended Reserve Balances**

Establishing minimum balances for reserves and determining if a reserve must be funded or not are decisions to be made when the UTRCA can regularly plan for additions to reserves based on projected surpluses and when clearer asset plans are in place.

Because we are currently in a position where many program areas are projecting deficits, there will likely be no new funding to top up reserves. Nevertheless, actively managing reserves will necessitate discussion about what level of reserves should be maintained and what the funding status might be. In turn, this will dictate what our budget requirements may be (e.g., whether additional capital levies are required to be made), and if we budget for surpluses in order to specifically add to reserves. In effect, managing reserves gets us to a long-term plan for the finances of the Authority. This should then be a guide as to how we budget each year. This is a reverse approach to past practice under which we budgeted for a single year and the 'leftover' became the reserve addition or depletion. Setting recommended reserves provides a starting point for planning discussions which will naturally lead to answering "how do we get there?".

## **Obligatory Reserves**

### **Capital Asset Renewal Reserve**

The Capital Asset Renewal Reserve is intended to address the need for major repair or acquisition of buildings, equipment, furniture, fixtures, infrastructure, and technological tools necessary for the effective operation of the organization and its programs. This reserve is not intended to support water control structures funded through special benefitting levies.

Budgetary pressures often impede capital program expenditures or investments for maintenance and replacement, especially for organizations that do not prepare a multi-year capital plan or properly consider the impact of capital projects on the operating budget. This lack of investment makes it increasingly difficult to have assets available for use or sustain the asset in a condition necessary to provide expected service levels. Ultimately, deferring essential maintenance or asset replacement could reduce the organization's ability to provide services and could threaten public health, safety, and overall quality of life. In addition, as the physical condition of the asset declines, deferring maintenance and/or replacement could increase long-term costs and liabilities. Organizations should, therefore, establish capital planning, budgeting, and reporting practices to encourage adequate capital spending levels. Such a multi-year capital plan as determined through an asset management planning process should address the continuing investment necessary to properly maintain capital assets. These practices should include proactive steps to promote adequate investment in capital renewal and replacement and necessary expenditure levels for maintenance.

Until an asset management plan is established that can inform more accurate needs in Authority-wide budgeted reserves, UTRCA can begin to segregate 10% of the value of new assets acquired each year into a reserve which can be built over time. This practice will require annual capital budgets for this group of capital expenses to be not only fully funded now but to create a 10% surplus to add to the reserve.

The target amount of the Capital Asset Renewal Reserve may be considered as the minimum total of the next three years' capital requirements [currently estimated at \$3M].

Ultimately, reserve funds for the full cost replacement or rehabilitation of major assets, excluding flood control, will be funded from ongoing operations at a rate reflecting the asset's life. In the year of acquisition, contributions to these funds will begin and shall be based on an estimate of the useful life of each asset acquired. Funds shall be invested pursuant to the investment policy of the organization based on the timing of future asset replacements. This reserve will, therefore, be funded to about \$3M.

### **Structures Reserves**

The Authority is required to provide programs and services that support the operation, maintenance, repair, and decommissioning of: 1) any water control infrastructure the purpose of which is to mitigate risks to life and damage to property resulting from flooding or to assist in flow augmentation, and 2) any erosion control infrastructure. Development and implementation of an asset management plan for water and erosion control infrastructure must be completed on or before December 31, 2024. The Structures Reserves are intended to level demands on member municipalities and ensure a ready source of value for structure operating needs and major flood control structure capital needs. The funding of operating and capital costs is borne by levy to the benefiting municipality. Where this responsibility is shared among multiple municipalities, the share was established for the funding of the original construction. Each structure has its own reserve which represents the excess value of contributions made on its behalf (whether 100% benefiting or from co-beneficiaries).

The target amount of each Structure Reserve will be determined based on forecasts for operating activities and the need for water and erosion control structure capital expenditure (i.e., 20-year plan). It is expected that the 20-year plan, or asset management plan, and annual operating budget will determine annual levy requirements as a result, so that capital projects are as fully funded as possible at the time the renewal project is completed.

It is expected that the Structures Reserves may increase over time according to planned project expenditures and will be always funded to 100%, the investment of which should be maintained in the UTRCA's long-term portfolio.

For greater clarity, we will levy up to approximately 80% of a capital project if a reserve is available; if not, to 100% by the time the project is completed. It may take several years of levy to build to an adequate amount to cover the full cost of a large capital expenditure. What reserves there may exist must be always funded so that cash is available when required to cover actual capital spending.

## Discretionary Reserves

### Lands Reserve

The Lands Reserve is intended to hold value for land acquisition according to the UTRCA's Lands Strategy. The strategy will inform the Authority's decision-making related to the lands it owns and controls, including decisions related to the policies governing the acquisition and disposition of such lands. While constraints as to the use of gains on the sales of land are now relaxed, it is useful to recall that Authority lands have been acquired over a long period of time. They were recorded at their original cost and may have been acquired at a comparatively high value, and subsequently had buildings removed. They may now be simply vacant flood plain lands. As a result, not all land sales may produce gains.

The Authority should keep land sale values in a reserve for potential future land acquisition which may arise at any time. The land reserve should be fully funded to make it possible to buy land as desired.

The Lands Reserve may held in two parts: UTRCA Interest Only Lands and Joint Interest Lands. At present, the land reserves need to be recorded as Joint Interest Lands because full and complete records of historical land transactions do not permit another method.

### Long-term Investment Reserve

A long-term investment reserve shall be established to hold gains and losses of the long-term investment portfolio. Due to the nature of these investments in market-based securities and the desire to make this investment a perpetual pool of value to the organization, current annual fluctuations may be more impactful than desired on normal operations. Therefore, to insulate against the effect of market swings, it is recommended that these gains and losses be held in a separate reserve at this time, subject to future review.

At a point in time when this reserve reaches perhaps 30% to 40% of the portfolio value, then we could consider ceasing additions to this reserve. This implies that a 30% to 40% loss of value in that portfolio in a single year, while not appealing, would not completely derail the finances of the organization at a single stroke.

### Operating Reserves

Minimum operating reserves will be established in an amount sufficient to maintain ongoing operations and programs for a set period, measured in months. Because reserves are by nature a contingency for a year with poor financial performance, operating reserves are dynamic pools of value, and they should be reviewed and adjusted in response to both internal and external changes. The bulk of the cost centres found in our annual budget are operating cost centres, which create the increase or decrease in operating reserves.

### Category 1 Program Operating Reserve

The target range for the Category 1 Program Operating Reserve is between two and three months of annual operating costs or approximately \$2.8M [\$12.4M spending in 2024]. The calculation of average operating costs includes all recurring, predictable expenses such as

salaries and benefits, overhead costs, office, utilities, travel, program, and ongoing professional services. The calculation of average monthly expenses shall exclude some expenses, for example, flow-through amounts and one-time or unusual purchases. Depreciation, in-kind, and other non-cash expenses are not included in the calculation.

### **Category 2 Program Operating Reserve**

The target range for the Category 2 Program Operating Reserve is zero and it will be unfunded. Category 2 programs are contracts, the cost of which will be set in advance considering all possible costs to recover over the period of the contract. It is possible that small surpluses or shortfalls (aka surpluses or deficits) may occur in which case they will be assumed to clear in the following contract period.

### **Category 3 Program Operating Reserve**

The target for the Category 3 Program Operating Reserve shall be six months of annual operating costs or approximately \$2.5M [\$5M spending in 2024] due to the funding variability of the programs in this category. It may be necessary to restrict programs quickly in response to shortage of funding so adequate reserves could be necessary to complete or wind down programs.

### **Other Category 3 Program Reserve (Campground Operations)**

The other Category 3 program (Campground Operations) constitutes approximately 20% of the annual expenses of the organization. The parks have proven over time to be highly successful at generating sufficient income for operations and a surplus also, without any municipal support and without significant, long overdue capital investment. This program reserve is long established, and plans are currently in place for significant capital investments in 2024 which will deplete the reserve in future years over the life of the assets acquired. The potential risk to the organization should the campgrounds fail to open (as envisioned in early 2020) or should a serious event occur which prohibits continued operations (e.g., fire) requires the campground reserve to be a minimum of six months operating costs, or approximately \$2.1M.

### **Contingent Reserve**

Organizations face potential legal risks which differ based on the business environment. The Authority regularly budgets for routine legal advice and insurance deductibles; however, substantial costs can be incurred through court or tribunal proceedings or legal claims. *Planning Act* appeals, court proceedings related to the *Conservation Authority Act*, contractual difficulties, employment scenarios, and major uninsured losses are examples. A complete risk management review is required to determine if a contingency reserve is appropriate for the Authority. It could be intended for extraordinary legal expenses and claim settlements which are otherwise unbudgeted. The reserve's target amount shall be set with legal and insurance provider advice. This reserve is not expected to be fully funded.

Notwithstanding the potential use of the contingent reserve described above, it could also be used as a pool for opportunities. This may include funding the matching portion of a new, unforeseen program, or a similar situation. The contingent reserve should not be used for land

transactions, equipment purchases, or expenses more closely connected to other existing reserves. This type of reserve should be viewed as a pool of value for extreme events akin to self-insurance or for significant new opportunities.

## Accounting for Reserves

Approved budgets effectively dictate where and how reserves can be increased or will decrease.

Movements of value in and out of reserves (i.e., reserve transactions) will be planned for each budget period. As projects or special activities are completed during the year, reserve entries may be made even though final accounting is completed at year end. A report of reserve balances is made each year end.

1. **Long-term investment portfolio gains** recognized are not allocated in-year through service cost centre allocations with the belief that those gains should support long-term financial strength. They will be held in the Long-term Investment Reserve.

Unrecognized long-term portfolio gains will be accounted for using Public Sector Accounting Board (PSAB) Standard 3450 in effect from 2022.

Once past 30% or 40% funded status then any excess goes to operating reserve????

Which category??? Or split among several reserves?

**Long-term investment portfolio losses and impairments recognized** will be applied in order of:

- a. the Long-term Investment Reserve,
- b. the Operating Reserve for Category 1.

Any other **annual operating surpluses** will be applied in order of:

- c. the draw against the appropriate category Operating Reserve to first clear it (the draws are included in Appendix B figures),
- d. the Capital Reserve to the extent of 10% of the current year's capital expenditures (excluding water control structures) until it reaches its target and to maintain it at target,
- e. of the remainder, to build a Contingent Reserve, if desired, to the extent of half that recorded to the Capital Reserve until it reaches its target and is maintained,
- f. of the remainder, to the appropriate category Operating Reserve.

Any **annual operating deficits** will be applied in order of:

- g. the appropriate category Operating Reserve with plans for rebuilding, and
- h. if the Operating Reserve is insufficient, to the Contingent Reserve, if existing

The Structures Reserves will be supported and depleted from surpluses and deficits of flood control operating activities and capital projects which may arise from differences between budgets and actual results.

The Lands Reserves will be maintained with the gains from land dispositions after costs and support new land acquisition as necessary and according to provincial policy regulation on land reserves.

## **Use of Reserves**

### **Appropriate Use of Reserves**

The General Manager and staff will identify the need for access to the various Operating Reserves, and others, and confirm that the use is consistent with the purpose of the reserves as described in the policy. This step requires analysis of the cause to use reserves, the availability of any other sources of value, the period of time that the reserve will be needed, and how it will be replenished.

Similarly, as annual budgets are prepared, any planned use of the Structures Reserves will be identified and plans for reserve replenishment provided.

As land transactions are planned, the effect on the Lands Reserve will be identified and presented to the Board by special request as they are not common transactions.

### **Authority to Use Reserves**

The Board has control over reserves. By approving an annual budget, the Board provides authority to the General Manager / Secretary-Treasurer for use of reserves. The budgets requested will include a rationale of the use of reserves and plans for replenishment. The organization's goal should be to replenish the reserves used to the target minimum amount by the end of the year after their use or, for Structure Reserves, up to three years after their use.

## **Reporting Requirements**

The General Manager / Secretary-Treasurer is responsible for ensuring that the reserves are maintained and used only as described in this Policy. Upon approval for the use of reserves via budget approval, the General Manager and staff will maintain records of the use of funds and a plan for replenishment, if required. Reports to the Finance and Audit Committee on progress to restore the reserve to the target minimum amount may be made if requested.

## **Relationship to Other Policies or Procedures**

The UTRCA maintains the following Board-approved policies and plans, which may contain provisions that affect the creation, sufficiency, and management of reserves:

- Contingency or Disaster Preparedness Plan,
- Investment Policy (requiring revision),
- 20 Year Capital Maintenance Plan for Water and Erosion Control Structures (updated annually),
- UTRCA Asset Management Plan (underway in 2024),
- Purchasing Guidelines (2018).

## **Review of Policy**

This policy will be reviewed every other year at a minimum, or sooner if warranted by internal or external events. Changes to the policy will be recommended by management to the Board of Directors.

## **Implementation of Policy**

Reserves must be restructured during 2024 to align with the new regulations made under the Conservation Authorities Act. They will need to be created so that as we prepare our 2025 and 2026 budgets, the effects of those budgets on reserves can be identified.

1. Present draft policy to Board for review and support.
2. Reassign existing reserve balances.
3. Develop more precise definitions for reserve target values and more comprehensive descriptions of intended use of each reserve, for inclusion in the final policy document.
4. Present final policy to Board for approval.
5. Target date for full implementation: end of 2024.

## Appendix A. Definitions

**Budget:** An approved plan, represented by dollars as income and dollars as expenditure, to spend a certain amount in a given fiscal year or project period. UTRCA currently prepares annual budgets for approval and long-term budgets for information and discussion purposes.

**Capital Asset Renewal:** Capital assets are used in operations and have initial useful lives extending beyond a single reporting period. They include major government facilities, infrastructure, equipment, and networks that enable the delivery of public sector services. The performance and continued use of these capital assets is essential to the health, safety, economic development, and quality of life of those receiving services. Renewal and replacement refer to the process by which these assets are kept in good repair or replaced as needed.

**Discretionary Reserves:** Reserves created by the Board for specific purposes.

**Government Finance Officers Association (GFAO):** A professional association of federal, state, provincial, and local public finance officials throughout the United States and Canada, dedicated to the sound management of financial resources.

**Liquidity:** A measure of an asset's convertibility to cash. The hierarchy of need for funds in an organization typically prioritizes:

1. Daily operations for vendor accounts and payroll including source deductions and pension payments (often referred to as working capital funds); then, Peak period expenses, in the case of UTRCA, summer through fall; then, Planned capital spending for significantly large purchases such as vehicles, major construction repairs on flood control assets, or building projects; and finally, Reserve funds required on depletion.

**Public Sector Accounting Board (PSAB):** A board created to serve the public interest by establishing accounting standards for the public sector. Canada's standard-setting boards and oversight councils are the Accounting Standards Board, Public Sector Accounting Board, Auditing and Assurance Standards Board, Canadian Sustainability Standards Board, Accounting Standards Oversight Council, and Auditing and Assurance Standards Oversight Council. These bodies together form the Financial Reporting and Assurance Standards of Canada.

**Reserve:** An appropriation from net revenue and/or cost savings at the discretion of the Board, after the provision for all known expenditures. A reserve has no reference to any specific asset or bank account and does not require the physical segregation of money or assets as in the case of a reserve fund. The Board may set up reserves for any purpose for which they have the authority to spend. Therefore, reserves may not have a fund of cash associated with it.

**Operating Reserve:** A reserve intended to provide an internal source of value for situations such as a sudden in-year increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or minor uninsured losses of an operating nature. While UTRCA use of reserves

to balance funding gaps should be minimal as the Authority budgets annually, from time to time, small program surpluses or deficits may arise which may increase or decrease these reserves. An operating reserve is not intended to replace a permanent loss of revenue, eliminate an ongoing budget gap, or hold value for unplanned future operating use. The UTRCA's intention is that the operating reserves are used when required and rebuilt within a reasonably short period of time. They can be considered the "general equity" account.

**Reserve Fund:** A pool of dollars or a bank account which may or may not equal the full value of a reserve. Reserve funds can be segregated or combined with other reserve funds. A reserve may or may not have a reserve fund associated with it. If it does, it may not always be 100% of its reserve value. Reserve funds are dollars set aside by a resolution of the Board or a requirement of government by statute or agreement to meet a future expenditure. Reserve funds are either discretionary (being established by the Board) or obligatory (being established by virtue of a government requirement). To maintain cash flow flexibility and adequate liquidity, and because the Authority has an approved investment policy regulating cash management, reserve funds need not be segregated from other monies. Funds supporting reserves will be held in the various investment accounts the Authority maintains.

## Appendix B. Reserve Balances

UTRCA reserve balances as of January 2024 assuming restructuring

Count		Total	Category 1 General	Category 1 Special Distr.	Category 2	Category 3	Cat 3. Other Campgrounds
	<b>Obligatory Reserves</b>						
1	Land Transactions - Provincial interest only	30,859	30,859				
5	Donor-Directed Reserves	82,379	82,379				
1	Capital asset renewal Reserve	1,014,702	1,014,702				
19	Structures Reserves	1,532,262		1,532,262			
		-					
	<b>Discretionary</b>	-					
1	Land Transactions - Authority interest only	-					
3	Operating Reserves	3,287,083	315,593			(90,368)	3,061,858
1	Long-term Investment Reserve	146,228	146,228				
31		6,093,513	1,589,760	1,532,262		(90,368)	3,061,858