



TOWN OF THREE HILLS

POLICY # 530-A1

RESERVES POLICY

Adopted by Council on: August 24, 2020
Resolution No.: 390-2020

1. PURPOSE

- 1.1. The Town of Three Hills recognizes the need to maintain and manage the reserve funds that:
 - 1.1.1. Retain a stable municipal taxation structure, balance the current year deficit, accommodate any emergency type expenditure and for non-budgeted operating items that require funding Council approval during the year;
 - 1.1.2. Maintain and improve the Town's working capital requirements;
 - 1.1.3. Provide funding for vehicles and equipment replacement and continued development of new construction and/or capital repairs of the Town's infrastructures;
 - 1.1.4. Address overall current and future initiatives of the Town.
- 1.2. The purpose of this Policy is to provide guidance with respect to the development, maintenance and use of the Town's Reserve Funds.

2. AUTHORITY

- 2.1. The authority for this Policy is by resolution of the Council of the Town of Three Hills.
- 2.2. The CAO is accountable and responsible for the development, evaluation, and implementation of this Policy.
- 2.3. The CAO reserves the right to exercise appropriate managerial judgement to take such actions as may be necessary to achieve the intent of this Policy.

3. DEFINITIONS

- 3.1. Whenever the singular masculine gender is used in this Policy, the same shall include the feminine and neutral gender whenever context requires.
- 3.2. In this Policy, unless the context otherwise requires:
 - 3.2.1. "Amortization" shall refer to the systematic and logical process of recognizing the expense associated with using a Tangible Capital Asset during a fiscal period. Often referred to as "depreciation".
 - 3.2.2. "CAO" shall mean Chief Administrative Officer for the Town of Three Hills or his

designate.

- 3.2.3. “Capital Reserves” means reserves established to replace and/or rehabilitate major capital infrastructure assets and fund new capital assets.
- 3.2.4. “Council” shall mean the body of elected officials who govern the Town.
- 3.2.5. “Operating Reserve” means a reserve established to fund one-time expenditures of an operating nature and used to stabilize budgets with volatile revenue streams.
- 3.2.6. “Reserves” means funds specifically set aside to finance future expenditures which are operating, or capital related and are approved by Council.
- 3.2.7. “Tangible Capital Assets” shall refer to non-financial assets having physical substance that:
 - i. are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
 - ii. have useful economic lives extending beyond an accounting period;
 - iii. are to be used on a continuing basis; and
 - iv. are not for sale in the ordinary course of operations.
- 3.2.8. “Town” shall mean the Town of Three Hills.

4. POLICY STANDARDS

- 4.1. 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.
- 4.2. Accounting principles adopted in respect of reserves will be in accordance with generally accepted accounting principles.
- 4.3. All reserves, as allocated, will be fully funded.
- 4.4. Every active Reserve will be reviewed at least once every year by Administration and Council.
- 4.5. All unallocated surplus funds will be allocated to a reserve within any financial year.
- 4.6. Quarterly reports shall be provided to Council regarding committed reserves, as well as the transfer to and transfer from reserves.

5. RESPONSIBILITIES

- 5.1. Administration
 - 5.1.1. Ensure that all transactions regarding reserves are approved and reported to Council.
 - 5.1.2. To transfer funds to and from Reserve Funds as directed by resolution of Council where Council deems that such transfers should occur.

- 5.1.3. Manage reserves in accordance with this policy.
- 5.1.4. Provide quarterly reports to Council regarding committed reserves and any transfers to and from reserve funds.
- 5.1.5. Present in each annual capital and operating budget the transactions necessary to comply with this policy.

6. OPERATING RESERVE GUIDELINES

- 6.1. The purpose of maintaining Operating Reserves is to:
 - 6.1.1. meet unexpected operational needs of the Town; and
 - 6.1.2. To fund planning expenditures during the current budget year when expenses exceed budget allocations; and
 - 6.1.3. To fund items not fully allocated in the current year's budget; and
 - 6.1.4. To use in an emergency or disaster situation.
- 6.2. Establishing
 - 6.2.1. The Operating Reserve is established by Council resolution.
- 6.3. Contribution To
 - 6.3.1. Council approval is required to transfer amounts from operations to Operating Reserves.
 - 6.3.2. Unexpended revenue collected in the current year for a specific purpose may be transferred from operations to Operating Reserves with Council approval.
- 6.4. Contribution From
 - 6.4.1. Council approval is required to transfer funds out of Operating Reserves to operations Contributions from Operating. Reserves may be made with Council approval to match current expenditures made for a specific purpose and for which revenue was previously raised.
- 6.5. Accumulated Deficit
 - 6.5.1. Where the Town has an accumulated deficit as at the end of a fiscal year, an amount equal to the deficit will be transferred with Council approval from Operating Reserves to bring the accumulated deficit to nil.

7. CAPITAL RESERVE GUIDELINES

- 7.1. The purpose of Capital Reserves is to:
 - 7.1.1. Establish a systematic method of capital equipment/infrastructure replacements that emphasizes the long-term annual expense of equipment/infrastructure; and
 - 7.1.2. Encourage long term planning for new capital needs and a systematic method of financing for those needs.

7.2. Establishing

7.2.1. Capital Reserves are established by Council for the funding of any authorized expenditure.

7.3. Contributions To

7.3.1. Contributions to Capital Reserves shall be based on the respective reserve policy, as approved by Council.

7.4. Contributions From

7.4.1. Contributions from Capital Reserves to fund specific capital expenditures and/or specific operating expenses of the current year shall be approved as part of the annual budget process or by resolution of Council, as required. Operating expenses financed from Capital Reserves are normally of a construction or development nature.

7.5. Capital Reserve Accounting

7.5.1. Capital Reserve funds used to purchase Tangible Capital Assets shall be accounted for in accordance with the Town’s Tangible Capital Asset Policy, as amended.

7.5.2. Amortization of a Tangible Capital Asset purchased using Capital Reserve funds shall be contributed to the corresponding Reserve account in which the asset was purchased.

8. PRIOR POLICY

8.1. This policy shall supersede and replace all prior policies, oral or written, regarding Reserve accounts within the Town of Three Hills.

8.2. This policy repeals Policy 530 – Reserves Policy.

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