



**THE CORPORATION OF THE TOWNSHIP OF TAY  
AUDIT COMMITTEE AGENDA  
JANUARY 24, 2018  
10:00 a.m.**

**MUNICIPAL OFFICE – COUNCIL CHAMBERS**

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- 1. Call to Order:**
- 2. Declarations of Pecuniary Interest:**
- 3. Adoption of Minutes:**
- 4. Correspondence:**
- 5. New & Unfinished Business:**
  - 5.1 2018 Meeting Dates
  - 5.2 Internal Control Notes – Accounts Receivable
  - 5.3 2016 Financial Indicator Review
  - 5.4 2017 Annual Repayment Limit
  - 5.5 Reserve and Reserve Funds Policy
- 6. Adjournment & Next Meeting:**

**THE CORPORATION OF THE TOWNSHIP OF TAY  
AUDIT COMMITTEE MEETING  
WEDNESDAY, OCTOBER 25, 2017  
10:00 A.M.**

**PRESENT:** Mayor Scott Warnock\*  
Deputy Mayor Dave Ritchie  
Mike English  
Larry Pattullo  
Jerry Van Dyk

**STAFF PRESENT:** Joanne Sanders, Director of Finance  
Lindsay Barron, Financial Analyst  
Cyndi Bonneville, Recording Secretary

**REGRETS:** Councillor Gerard LaChapelle

\*Mayor Warnock arrived at 10:24 a.m.

**1. CALL TO ORDER:**

The Chair called the meeting to order at 10:00 am.

**2. DECLARATIONS OF PECUNIARY INTEREST:**

None were presented.

**3. ADOPTION OF THE MINUTES:**

**Moved By: Deputy Mayor Ritchie**

**Seconded By: Jerry Van Dyk**

**That the minutes of the Audit Committee meeting dated August 2, 2017 be adopted as presented.**

**Carried.**

**4. CORRESPONDENCE:**

None were presented.

**5. NEW & UNFINISHED BUSINESS:**

- 5.1 The committee reviewed for consideration the Internal Control Notes – Purchasing and Accounts Payable report. Discussion ensued with respect to the report with the committee agreeing that the report is comprehensive and in need of few modifications.

A lengthy discussion ensued regarding the use and process of purchase orders. The Director of Finance spoke to the matter and advised that the Township's current use of purchase orders is minimal as the process is very time consuming. The Committee agreed that the steps to process purchase orders may be cumbersome but felt it makes for good control measures and a way to avoid discrepancies. It was suggested that should staff wish to pursue a purchase order system they should look into a software program that will eliminate extra staff time yet provide the essential internal controls.

The Committee then reviewed the thresholds identified for purchasing. The Director of Finance responded to questions regarding the guidelines and approval process as outlined in the Township's Procurement Policy.

Discussion regarding security measures and internal control included cheque signing authority, purchasing limits up to \$10,000 and creation of new vendors. The committee concurred that for the purpose of internal controls the Accounting Clerk (Payables) set up new vendors should be reviewed by the Treasurer, thus providing another check point as well as a fraud deterrent.

It was noted that payments made to vendors are currently carried out by cheque with the implementation of EFT (Electronic Funds Transfer) underway. Discussion took place regarding the tighter internal controls Electronic Funds Transfers will provide.

The Director provided an overview on the guidelines of the Township's Corporate Purchase Cards program which allows approved employees to purchase business-related goods and services.

As an added control committee members questioned if the Township considered running two bank accounts which allows one for revenue and one for expenses. This system is considered efficient and from a bank's prospective the corporation is operating under one account. The Director advised staff previously reviewed the cheque fraud protection service by TD Bank but felt the process was time consuming with hefty bank fees. It was suggested that staff revisit this system for consideration.

- 5.2 The committee reviewed the Financial Operating Report to September 30, 2017 as prepared by the Financial Analyst. Staff provided an overview of the report which is presented to Council with a summary of operating revenues and expenses in comparison to the annual budget.

Council members commented on staff vigilance as it relates to the quarterly reports, concerns can be identified immediately bringing awareness of expenses to management and Council.

At this point in the meeting the budget process was reviewed with the area of discussion including guidelines and targets to control expenses. It was noted that staff is encouraged to be cost effective whenever possible to control expenses and deliver services in a cost effective manner.

**6. ADJOURNMENT:**

**Moved by: Jerry Van Dyk**

**Seconded by: Mike English**

**That this Audit Committee meeting adjourn at 11:15 a.m.**

**Carried.**

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**Larry Pattullo**

## *Audit Committee – 2018 Calendar*

<i>Date</i>	<i>Time</i>
<b>January 24</b>	10:00 a.m.
<b>April 25 (meeting cancelled)</b>	10:00 a.m.
<b>May 23</b>	10:00 a.m.
<b>September 26</b>	10:00 a.m.

Audit Committee Meetings are held at the Municipal Office, 450 Park Street, Victoria Harbour

The Township of Tay  
Accounts Receivable Narrative  
December 31, 2017

**Positions Responsible**

Accounting Clerk (Cashier)  
Accounting Clerk (Receivables/Payables)  
Deputy Treasurer

Control Objectives for the Accounts Receivable Process are as follows:

**Environment (includes Segregation of Duties)**

**Validity**

**Completeness**

**Authorization**

**Accuracy**

**Classification**

**Accounting**

**Proper Period**

**Billings**

**General**

- Invoice requests are generated from various departments for services performed. A Request for Invoice form is filled out and forwarded to the Accounting Clerk (Receivables/Payables) for processing through the Accounts Receivable Module. Taxes applicable are assessed by Treasury staff. **VALIDITY**
- The Deputy Treasurer reviews all invoices created by the Accounting Clerk (Receivables/Payables) before they are posted. **ACCURACY**
- Fees charged for general municipal services such as septic inspections, building permit maintenance and facility rentals are tracked by the department responsible for the service performed. In these instances, copies of forms or notices are kept in a file, which are then removed by Treasury staff when paid. Once the deadline has passed for payment, amounts are either added to the customer's tax account or a formal invoice is created through the Accounts Receivable Module (see above). **VALIDITY**

The Township of Tay  
Accounts Receivable Narrative  
December 31, 2017

- All invoices processed through the Accounts Receivable Module are sequentially numbered by the system and attached to a customer card. If the customer owns property in the township the invoice will be attached to the same customer card as their tax and water accounts.

**COMPLETENESS**

**Property Taxes**

- The Deputy Treasurer is responsible for billing taxes (including special area charges and levies). Assessment information is uploaded by the Township from CD's provided electronically by MPAC. Billings are balanced to budget by Deputy Treasurer and supplemental/omitted billings are spot checked by Deputy Treasurer. Spreadsheets are used to calculate tax rates and calculate the total required levy for municipal, county and education. These spreadsheets are used to verify calculations in the Great Plains financial software system. Preliminary reports are run from Great Plains and are compared to the tax levy spreadsheets to ensure the accuracy of all levies billed.

**VALIDITY/ACCURACY**

**Water and Wastewater**

- The Accounting Clerk (Cashier) is responsible for billing residential Water & Wastewater charges. A YTD utility balancing spreadsheet showing the number of billings for each class as well as the number new water billings and/or closed accounts, is used by the cashier to verify the residential flat rate billings. The cashier reviews a report supplied by the building department showing building permit activity for the month to ensure all new services are added.
- The Accounting Clerk (Payroll) is responsible for the commercial Water & Wastewater billings. Monthly meter reads used to perform the commercial billings are submitted by the Water and Wastewater staff. A "Utility Levy Journal" or edit listing is printed from Great Plains, listing each water and/or wastewater account that makes up the billing for that cycle. The Deputy Treasurer checks the G/L, the Edit Listing and the spreadsheet to ensure that all the numbers balance.

**VALIDITY/ACCURACY**

## Account Review

### Property Taxes

- Reminders are sent following the February, June and September due dates and again in November/December. Stickers are added to reminder notices after September due date onward to highlight properties that will be eligible for tax sale in the New Year. **VALIDITY**

### Water and Wastewater

- Reminders are sent to quarterly flat rate customers following the March, June, September and December due dates. Accounts which remain outstanding for a period of 40 days after the due date shall be sent a final notice stating that after an additional 14 days, the outstanding amount (>\$100) will be added to taxes. An admin fee for adding the invoice to taxes will be charged. **VALIDITY**
- Metered customers are notified of past due balances through the balance forward on their next billing. Past due balances will be added to taxes 4 months after the due date. An admin fee for adding the invoice to taxes will be charged. **VALIDITY**

### General

- Department heads are given a monthly report of their department's outstanding accounts receivable to review and follow up on. **VALIDITY**
- Credit memos requested by various departments are processed by the Accounting Clerk (Receivables/Payables) and are approved by the Deputy Treasurer. **VALIDITY**
- Reminder notices are sent monthly for 2 months by the Account Clerk (Receivables/Payables). These notices have increasingly stronger messages (use of stickers) and a notice that if unpaid it will be added to taxes or sent to collections with an admin fee added. **VALIDITY**
- Outstanding septic inspection fees and building permit maintenances fees are added to taxes 60 days after the first notice (no additional reminder notices are sent). **VALIDITY**

The Township of Tay  
Accounts Receivable Narrative  
December 31, 2017

- Invoices that cannot be added to taxes are discussed with the respective department head and may be sent to collection. Accounts are usually sent to collection at 90+ days unless other arrangements are made.

**VALIDITY**

- Our financial software (Great Plains) calculates the interest on outstanding receivables (excluding o/s penalty). Spot checks are done by Treasury staff to ensure that the system is calculating interest and penalties correctly. **ACCURACY**

- Penalty and interest is not written off without the consent of Council except in the following situations: **AUTHORIZATION**

- Processing errors

- Customer is granted a one-time interest/penalty reversal

- The Accounting Clerk (Receivables/Payables) does customer account adjustments. Tax adjustments due to a change in assessment are processed on a monthly basis by the Accounting Clerk (Payroll). Each adjustment is sequentially numbered by the accounting system.

**COMPLETENESS**

- The Great Plains system shows all adjustments to each property assessment by year. Adjustment spreadsheets are maintained by staff and are balanced annually to the General Ledger. Detailed reporting is provided to the County and School Boards with their quarterly remittances. **COMPLETENESS**

- The edit listing for all adjustments is run and checked by Deputy Treasurer before updates are posted. **AUTHORIZATION**

- All adjustment posting journals are filed in sequential order.

**COMPLETENESS**

- All Treasury staff has the ability to perform adjustments through the "Cashier Adjustment" screen. The cashier has not been trained how to do this, but has access to do so. If another Treasury staff were to do an adjustment, the name of the individual that performed the adjustment would appear on the edit list. **VALIDITY/AUTHORIZATION**

- Taxes and Utility accounts receivable are balanced monthly by the Deputy Treasurer. These are balanced before and after each billing and at year-end. **ACCOUNTING**



The Township of Tay  
Accounts Receivable Narrative  
December 31, 2017

- The Accounts Receivable sub-ledger is balanced monthly to the General Ledger by the Accounting Clerk (Receivables/Payables). **ACCOUNTING**

# FINANCIAL INDICATOR REVIEW

(Based on 2016 Financial Information Return)

## Tay Tp

Date Prepared:	08-Nov-17	2016 Households:	5,401	Median Household Income:	65,190
MSO Office:	Central	2016 Population:	8,739	Taxable Residential Assessment as a	
Prepared By:	Tristin McCredie	2017 MFCI Index:	5.1	% of Total Taxable Assessment:	94.0%
Tier	LT			Own Purpose Taxation:	8,023,211

## SUSTAINABILITY INDICATORS

Indicator	Ranges		Actuals	South - LT - Counties - Non-Rural		Level of Challenge
				Median	Average	
Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied	Low: < 10% Mod: 10% to 15% High: > 15%	2012	15.0%	8.4%	8.3%	MODERATE
		2013	15.2%	8.2%	8.4%	HIGH
		2014	13.0%	7.7%	7.8%	MODERATE
		2015	12.5%	6.8%	7.2%	MODERATE
		2016	11.1%	6.4%	7.0%	MODERATE
Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees	Low: > -50% Mod: -50% to -100% High: < -100%	2012	106.5%	-23.9%	-18.5%	LOW
		2013	121.2%	-11.4%	-16.2%	LOW
		2014	105.9%	-8.0%	-13.1%	LOW
		2015	78.9%	-3.9%	-11.2%	LOW
		2016	45.7%	1.4%	11.1%	LOW
Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses	Low: > 20% Mod: 10% to 20% High: < 10%	2012	115.3%	50.0%	55.2%	LOW
		2013	127.0%	50.1%	52.3%	LOW
		2014	110.0%	49.1%	52.4%	LOW
		2015	101.9%	53.4%	56.9%	LOW
		2016	79.3%	55.1%	58.9%	LOW
Total Cash and Cash Equivalents as a % of Current Liabilities	Low: > 5% Mod: 0% to 5% High: < 0%	2012	1841.2%	183.4%	298.2%	LOW
		2013	1035.2%	186.8%	238.5%	LOW
		2014	608.2%	161.3%	240.0%	LOW
		2015	662.2%	205.6%	250.1%	LOW
		2016	352.3%	221.6%	314.5%	LOW

## FLEXIBILITY INDICATORS

Debt Servicing Cost as a % of Total Operating Revenue	Low: < 5% Mod: 5% to 10% High: >10%	2012	6.5%	6.5%	7.4%	MODERATE
		2013	4.2%	6.7%	6.8%	LOW
		2014	4.3%	5.8%	6.3%	LOW
		2015	5.0%	5.6%	6.1%	LOW
		2016	5.1%	5.2%	5.9%	MODERATE
Asset Consumption Ratio	Low: < 50% Mod: 50% to 75% High: > 75%	2012	32.3%	32.6%	33.0%	LOW
		2013	34.0%	33.9%	33.9%	LOW
		2014	35.4%	35.1%	34.1%	LOW
		2015	33.7%	35.2%	34.4%	LOW
		2016	35.4%	35.4%	35.2%	LOW
Operating Surplus Ratio	Low: >= 0% Mod: 0% to -30% High: < -30%	2012	12.5%	15.5%	20.1%	LOW
		2013	24.9%	15.7%	16.6%	LOW
		2014	17.0%	12.5%	17.6%	LOW
		2015	0.1%	15.7%	19.1%	LOW
		2016	9.0%	13.8%	21.8%	LOW

\*\*\*\*\*  
 The data and information contained in this document is for informational purposes only. It is not an opinion about a municipality and is not intended to be used on its own - it should be used in conjunction with other financial information and resources available. It may be used, for example, to support a variety of strategic and policy discussions.  
 \*\*\*\*\*

*Financial Information Returns ("FIRs") are a standard set of year-end reports submitted by municipalities to the Province which capture certain financial information. On an annual basis, Ministry staff prepare certain financial indicators for each municipality, based on the information contained in the FIRs. It is important to remember that these financial indicators provide a snapshot at a particular moment in time and should not be considered in isolation, but supported with other relevant information sources. In keeping with our Financial Information Return review process and follow-up, Ministry staff may routinely contact and discuss this information with municipal officials.*

## Supplementary Indicators of Sustainability and Flexibility

The following is a summary, adapted from the Chartered Professional Accountants of Canada Statement of Recommended Practice (SORP) 4.

- A government (including a municipality) may choose to report supplementary information on financial condition, to expand on and help explain the government's financial statements.
  - Supplementary assessment of a government's financial condition needs to consider the elements of sustainability and flexibility.
  - Sustainability in this context may be seen as the degree to which a municipality can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without inappropriately increasing the debt or tax burden relative to the economy within which it operates.
  - Sustainability is an important element to include in an assessment of financial condition because it may help to describe a government's ability to manage its financial and service commitments and debt burden. It may also help to describe the impact that the level of debt could have on service provision.
  - Flexibility is the degree to which a government can change its debt or tax level on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.
  - Flexibility provides insights into how a government manages its finances. Increasing taxation or user fees may reduce a municipality's flexibility to respond when adverse circumstances develop if the municipality approaches the limit that citizens and businesses are willing to bear.
- A government that increases its current borrowing reduces its future flexibility to respond when adverse economic circumstances develop.
- For each element of financial condition, the report on indicators of financial condition should include municipality-specific indicators and municipality-related indicators. It may be useful to also include economy-wide information when discussing financial condition.

## *Additional Notes on what Financial Indicators may indicate:*

**Total Taxes Receivable less Allowance for Uncollectibles as a % of Total Taxes Levied** - *How much of the taxes billed are not collected.*

**Net Financial Assets or Net Debt as a % of Own Purpose Taxation Plus User Fees** - *How much tax and fee revenue is servicing debt?*

**Reserves and Reserve Funds as a % of Operating Expenses** - *How much money is set aside for future needs / contingencies?*

**Cash and Cash Equivalents as a % of Current Liabilities** - *Measures the ability of the municipality to meet its current obligations with its current resources on hand.*

**Debt Servicing Cost as a % of Total Operating Revenue** - *Indicates the extent to which past borrowing decisions may impact the current budget.*

**Asset Consumption Ratio** - *measures the age of a municipality's physical assets. It measures the extent to which depreciable assets have been consumed by comparing the amount of the assets that have been used up and their cost.*

**Operating Surplus Ratio** - *Indicates the municipality's ability to cover its operational costs and have funds available for other purposes (i.e. reserves, debt repayment, etc.)*

**The Northern and Rural Municipal Fiscal Circumstances Index (MFCI)** *is used by the Ministry of Finance to calculate the "Northern and Rural Fiscal Circumstances Grant" aimed at northern as well as single and lower-tier rural municipalities. The index measures a municipality's fiscal circumstances. The MFCI is determined by six indicators: Weighted Assessment per Household, Median Household Income, Average Annual Change in Assessment (New Construction), Employment Rate, Ratio of Working Age to Dependent Population, and Per Cent of Population Above Low-Income Threshold. A lower MFCI corresponds to relatively positive fiscal circumstances, whereas a higher MFCI corresponds to more challenging fiscal circumstances. (Note: the MFCI index is only available for northern and rural municipalities)*

## 2017 ANNUAL REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403 / 02)

<b>MMAH CODE:</b>	<b>70625</b>	<b>FIR CLEAN FLAG:</b>	<b>Accepted Clean</b>
<b>MUNID:</b>	<b>43070</b>		
<b>MUNICIPALITY:</b>	<b>Tay Tp</b>		
<b>UPPER TIER:</b>	<b>Simcoe Co</b>		
<b>REPAYMENT LIMIT:</b>		<b>\$</b>	<b>2,564,331</b>

The repayment limit has been calculated based on data contained in the 2015 Financial Information Return, as submitted to the Ministry. This limit represents the maximum amount which the municipality had available as of December 31, 2015 to commit to payments relating to debt and financial obligation. Prior to the authorization by Council of a long term debt or financial obligation, this limit must be adjusted by the Treasurer in the prescribed manner. The limit is effective January 01, 2017

### FOR ILLUSTRATION PURPOSES ONLY,

The additional long-term borrowing which a municipality could undertake over a 5-year, a 10-year, a 15-year and a 20-year period is shown.

If the municipalities could borrow at 5% or 7% annually, the annual repayment limits shown above would allow it to undertake additional long-term borrowing as follows:

5% Interest Rate			
(a)	20 years @ 5% p.a.	\$	31,957,232
(a)	15 years @ 5% p.a.	\$	26,616,879
(a)	10 years @ 5% p.a.	\$	19,801,084
(a)	5 years @ 5% p.a.	\$	11,102,211
7% Interest Rate			
(a)	20 years @ 7% p.a.	\$	27,166,559
(a)	15 years @ 7% p.a.	\$	23,355,706
(a)	10 years @ 7% p.a.	\$	18,010,788
(a)	5 years @ 7% p.a.	\$	10,514,263

# DETERMINATION OF ANNUAL DEBT REPAYMENT LIMIT

(UNDER ONTARIO REGULATION 403/02)

MUNICIPALITY:

Tay Tp

MMAH CODE:

70625

		1
		\$
<b>Debt Charges for the Current Year</b>		
0210	Principal (SLC 74 3099 01) . . . . .	463,969
0220	Interest (SLC 74 3099 02) . . . . .	215,387
0299	<b>Subtotal</b>	679,356
0610	Payments for Long Term Commitments and Liabilities financed from the consolidated statement of operations (SLC 42 6010 01) . . . . .	0
9910	<b>Total Debt Charges</b>	679,356
		1
		\$
<b>Amounts Recovered from Unconsolidated Entities</b>		
1010	Electricity - Principal (SLC 74 3030 01) . . . . .	0
1020	Electricity - Interest (SLC 74 3030 02) . . . . .	0
1030	Gas - Principal (SLC 74 3040 01) . . . . .	0
1040	Gas - Interest (SLC 74 3040 02) . . . . .	0
1050	Telephone - Principal (SLC 74 3050 01) . . . . .	0
1060	Telephone - Interest (SLC 74 3050 02) . . . . .	0
1099	<b>Subtotal</b>	0
1410	Debt Charges for Tile Drainage/Shoreline Assistance (SLC 74 3015 01 + SLC 74 3015 02) . . . . .	17,622
1411	Provincial Grant funding for repayment of long term debt (SLC 74 3120 01 + SLC 74 3120 02) . . . . .	0
1412	Lump sum (balloon) repayments of long term debt (SLC 74 3110 01 + SLC 74 3110 02) . . . . .	0
1420	<b>Total Debt Charges to be Excluded</b>	17,622
9920	<b>Net Debt Charges</b>	661,734
		1
		\$
1610	Total Revenues (Sale of Hydro Utilities Removed) (SLC 10 9910 01) . . . . .	13,717,680
<b>Excluded Revenue Amounts</b>		
2010	Fees for Tile Drainage / Shoreline Assistance (SLC 12 1850 04) . . . . .	4,724
2210	Ontario Grants, including Grants for Tangible Capital Assets (SLC 10 0699 01 + SLC 10 0810 01 + SLC 10 0815 01) . . . . .	1,519,819
2220	Canada Grants, including Grants for Tangible Capital Assets (SLC 10 0820 01 + SLC 10 0825 01) . . . . .	0
2225	Deferred revenue earned (Provincial Gas Tax) (SLC 10 830 01) . . . . .	0
2226	Deferred revenue earned (Canada Gas Tax) (SLC 10 831 01) . . . . .	427,521
2230	Revenue from other municipalities including revenue for Tangible Capital Assets (SLC 10 1098 01 + SLC 10 1099 01) . . . . .	78,970
2240	Gain/Loss on sale of land & capital assets (SLC 10 1811 01) . . . . .	-2,580,386
2250	Deferred revenue earned (Development Charges) (SLC 10 1812 01) . . . . .	1,066,014
2251	Deferred revenue earned (Recreation Land (The Planning Act)) (SLC 10 1813 01) . . . . .	0
2252	Donated Tangible Capital Assets (SLC 53 0610 01) . . . . .	4,000
2253	Other Deferred revenue earned (SLC 10 1814 01) . . . . .	155,157
2254	Increase / Decrease in Government Business Enterprise equity (SLC 10 1905 01) . . . . .	137,601
2299	<b>Subtotal</b>	808,696
2410	Fees and Revenue for Joint Local Boards for Homes for the Aged . . . . .	0
2610	<b>Net Revenues</b>	12,904,260
2620	<b>25% of Net Revenues</b>	3,226,065
9930	<b>ESTIMATED ANNUAL REPAYMENT LIMIT</b>	2,564,331
		(25% of Net Revenues less Net Debt Charges)

\* SLC denotes Schedule, Line Column.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
1 of 13**

### **Table of Contents**

<b>PURPOSE:</b> .....	<b>2</b>
<b>OBJECTIVE:</b> .....	<b>2</b>
<b>DEFINITIONS:</b> .....	<b>3</b>
<b>RESERVES &amp; RESERVE FUNDS</b> .....	<b>5</b>
<b>Reserves</b> .....	<b>5</b>
<b>Reserve Funds</b> .....	<b>6</b>
Obligatory Reserve Funds (Deferred Revenue) .....	6
Discretionary Reserve Funds .....	6
<b>RESERVES AND RESERVE FUND CONTROLS</b> .....	<b>10</b>
Reserve Transfers .....	11
Temporary Reserve Fund Borrowing .....	13
Closing Reserves and Reserve Funds .....	13



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
2 of 13**

### **PURPOSE:**

The purpose of this Reserve and Reserve Fund Policy is:

- To ensure that the Township's cash resources are optimized and sufficient liquidity is maintained to meet the on-going financial requirements of the municipality;
- To provide a framework for reserves and reserve funds, for planned future capital expenditures, unexpected or unpredicted events, or extraordinary expenditures which would otherwise cause fluctuations in the tax or user rates;
- To minimize or eliminate future debt servicing costs through prudent financial planning.

### **OBJECTIVE:**

This policy will support decisions relating to long-range financial planning for operations and capital projects. Prudent use of reserves mitigates significant fluctuations in taxation and user rates and assists in stabilizing the impact of unanticipated occurrences. Annual contributions to reserves, ensures a fair and equitable approach to funding the future replacement of the Township's infrastructure and general capital needs. Using a model that offers a "pay as you go" approach ensures that the assets being used today are paid for as they are used.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
3 of 13**

### **DEFINITIONS:**

**“Capital Asset”** - Tangible capital assets, as stated in the “Guide to Accounting for and Reporting Tangible Capital Assets,” published by PSAB, are non-financial assets having physical substance that:

- a) 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;
- b) Have useful economic lives extending beyond an accounting period;
- c) Are used on a continuing basis; and
- d) Are not for resale in the ordinary course of operations. (PS 3150.05)

**“Capital Budget”** – The annual plan for the purchase and financing of Capital Assets.

**“Capital Project”** – The development or construction of roads, water and wastewater systems, land, buildings, machinery, equipment or other items that provide benefits to the Township for several years.

**“Director”**- shall mean the Head of a department within the Corporation of the Township of Tay.

**“Expenditures”** shall mean the payment of monies by the Corporation in consideration of the acquisition of goods and/or services.

**“Operating Budget”**– The annual plan for the purchase and financing of goods and services needed to perform the Township’s operations.

**“Operating Surplus/Deficit”** – The difference between revenues and expenditures not allocated to the Capital Budget, Reserves or Reserve Funds. An excess of revenue is a surplus. An excess of expenses is a deficit.





## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
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**PAGE:  
4 of 13**

### **DEFINITIONS CONTINUED:**

**“Reserve”** – is an allocation of accumulated net revenue with no reference to any specific asset and does not require segregation as in the case of a reserve fund.

**“Reserve Fund”** – means a fund with assets which are segregated and restricted to meet the purpose of the reserve fund. It is based on a statutory requirement, defined liability, or planned capital expenditure. There are two types of reserve funds: obligatory reserve funds and discretionary reserve funds.

**“Obligatory Reserve Fund”** – means a reserve fund established when a provincial or federal statute requires that the revenue received for specific purposes be segregated from the general revenues of the municipality. Obligatory reserve funds are to be used solely for the purpose prescribed for them by the statute. Unspent funds are classified in the financial statements as Deferred Revenue. The revenue is recognized in the in the year in which it is used for the specified purpose.

**“Discretionary Reserve Fund”** – means a reserve fund under the Municipal Act when Council wishes to earmark revenue to finance a future expenditure for which it has the authority to spend money, and to set aside a certain portion of any year’s revenues so that the funds are available as required.

**“Township”** – means the Corporation of the Township of Tay.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
5 of 13**

### **RESERVES & RESERVE FUNDS**

#### **Reserves**

*Future Capital Reserve* – Council has contributed a portion of the tax rate during final budget deliberations (varied \$60,000 to \$350,000) for asset replacement as well as surplus funds at year end. The reserve balance fluctuates greatly from year to year, with funds typically being used to help with the infrastructure funding gap allowing projects to be completed that otherwise would have been deferred due to budget constraints.

*Contingency Reserve* – Is contributed to on an annual basis for election costs and strategic planning exercises that are recurring every term of Council. This reserve would be used as emergency funds under the Ontario Disaster Relief Assistance Program (ODRAP) or other extraordinary events.

*Working Funds Reserve* – Provides the Township with the cash needed to carry out operations prior to the first tax due date each year. Although the balance in this reserve would not fully offset our Accounts Receivable (predominantly outstanding taxes, water and wastewater rates), sufficient cash is available in the Contingency Reserve and other discretionary reserves held by the Township to ensure that outstanding liabilities are paid.

*Recreation & Special Event Reserve*– This reserve is not contributed to on an annual basis. The balance is from an arena reserve that was repurposed by Council, for significant events such as 100th Anniversary Celebrations.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:**  
**December 20, 2017**

**REVISION DATE:**

**PAGE:**  
**6 of 13**

### **Reserve Funds**

#### **Obligatory Reserve Funds (Deferred Revenue)**

Development Charges Reserve Fund – This reserve was established to receive and hold payments collected from developers in accordance with the *Development Charges Act*. The money in a reserve fund established for a service may be spent only for capital costs determined under paragraphs 2 to 8 of subsection 5(1) of the *Development Charges Act*.

Cash-in-lieu of Parkland Reserve Fund – This reserve was established to receive and hold cash payments received in lieu of the conveyance of parklands otherwise required in respect of the development or redevelopment of lands as set out in the *Planning Act*. This reserve shall only be used for purposes defined under the section 42(15) of the *Planning Act*.

Federal Gas Tax Reserve Fund – This reserve is funded through the annual contribution from Federal Gas Tax revenues as set out in the Municipal Funding Agreement. This reserve shall be used for only those eligible projects as defined on schedule C in the Municipal Funding Agreement.

#### **Discretionary Reserve Funds**

*Policing Reserve Fund* – The balance in this reserve is a result of estimated Policing costs being lower than anticipated. This reserve is contributed to as a result of taxation dollars levied from the supplemental billing process and additional payments received from the Ontario Courts. This reserve is used to provide tax rate stabilization when costs change dramatically year over year (i.e. significant fluctuations in calls for service).



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
7 of 13**

### **Discretionary Reserve Funds Continued**

*Studies and Hearings Reserve Fund* – This reserve is contributed to on an annual basis from the Planning Department's budget. Funding from this reserve is used for plans and studies such as background studies under the *Development Charge Act* and updates to the Township's Official Plan and Zoning By-Law. Limited funding is also available for OMB appeals.

*Parks & Recreation Reserve Fund* – Past proceeds from the sale of park land and road endings used as access to the water, sold by the Township have contributed to this reserve. The reserve is used annually to fund park improvements and replace assets at our existing parks (play structures, etc.). Council has determined the annual contribution required from the tax rate to sustain Parks and Recreation Capital. Surplus funds at year-end within the Parks capital budget are transferred to this reserve to be used in a subsequent year.

*Water & Wastewater Operations Reserve Funds* – This reserve is used to track and manage the annual surplus or deficit in the Water and Wastewater Operating Budgets, giving staff the ability to easily compare the Township's actual cost of operations to the annual forecast.

*Municipal Building Reserve Fund* – Contributions to this reserve come from General Government, Fire and Parks & Recreation based on the replacement value and useful life of the buildings operated. Rehabilitation and replacements of buildings and their components (roofs, HVAC, etc.) will be funded from this reserve. Large projects may be only partially funded from this reserve, with the balance being funded from other sources (i.e. debt financed). This strategy will allow for smaller projects to be completed as scheduled, without incurring additional administrative costs.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
8 of 13**

### **Discretionary Reserve Funds Continued**

*Municipal Equipment Reserve Fund* – This reserve is contributed to on an annual basis from General Government's budget. Funds from this reserve support computer and office related capital upgrades/replacements.

*Municipal Fleet & Equipment Reserve Fund* – This reserve is contributed on an annual basis from the Bylaw, Fire, Building, Roads and Park's budget. Reserves are held for the replacement of vehicles and equipment. Due to underfunding in the Roads and Parks portion of this reserve, revenue received from the rental of equipment to outside agencies and Water and Wastewater Operations is transferred to the Municipal Fleet Reserve for the future replacements of vehicles and equipment.

*Infrastructure/Bridges Reserve Fund* – This reserve is contributed to annually from the Road's budget. Funding is used to rehabilitate and replace the Township's existing road and trail bridges and culverts. Large projects may be only partially funded from this reserve, with the balance being funded from other sources (i.e. debt financed). This strategy will allow for smaller projects to be completed as scheduled, without incurring additional administrative costs.

*Streetlighting Reserve Fund* – Streetlighting costs are funded from taxation with an annual transfer to reserves included in the operating budget for asset replacement.

*Tay Shore Trail/Albert Street Docks Reserve Fund* – This reserve is contributed to an annual basis from the Park's budget. Replacement of the trail is expected to be completed in phases, with additional funding being required to complete the project.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
9 of 13**

### **Discretionary Reserve Funds Continued**

Water and Wastewater Vehicle Reserve Fund – This reserve is contributed on an annual basis from Water and Wastewater's budget (60/40 split). Reserves are held for the replacement of vehicles and equipment.

General Library Reserve Fund – This reserve has three funding components tracked separately, equipment replacement, buildings and prior surpluses from the annual operating budget. The reserve is contributed to annually from the Library Board's budget. Funding from this reserve is used to upgrade computer equipment and perform building renovations at the three branch libraries. Funding shortages have been noted with respect to making the branch libraries fully accessible under *ADOA legislation*. The Boards' annual surplus has been directed to this reserve. Annual operating deficits may be funded from this reserve.

Water & Wastewater Capital Reserve Fund – These reserves are contributed to annually from the Water and Wastewater Operations' annual budget. Once Water and Wastewater's annual operating budget is set, the excess revenue is transferred to the reserve for capital works.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
10 of 13**

### **RESERVES AND RESERVE FUND CONTROLS**

1. All proposals to establish or create a new reserve or reserve fund in any year, whether for capital or operating purposes, will be contained in the budget estimates and will be approved by Council (typically part of the Long-term Plan) and added to the appropriate reserve schedule by Council By-law.
2. All contributions to and/or withdrawals from reserves or reserve funds will be approved in advance by Council, normally as part of the Long-term Plan and annual budget approval process, or specifically by resolution or in conjunction with the adoption of a report to Council.
3. All contributions and withdrawals will be clearly identified and segregated in the Township's accounting system.
4. No Director will, without first consulting the Director of Finance, propose to finance capital or operating expenditures from reserves or reserve funds.
5. The Director of Finance will prudently invest reserve and reserve funds as set out in the Township's Statement of Investment Policies and Goals.
6. Only Obligatory Reserve Funds, and Water and Wastewater Reserve Funds receive interest income.
7. Money in a reserve or reserve fund shall be spent only for the approved purpose(s) of the reserve or reserve fund, unless otherwise approved by Council.
8. The Director of Finance will prepare a summary to Council each year setting out a Statement of Continuity showing the beginning balance, transfers to/from each reserve and reserve fund and the projected year- end balance.
9. Final year-end transfers of operating and capital surpluses will be identified as part of the Year-End Financial Summary.



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:**  
**December 20, 2017**

**REVISION DATE:**

**PAGE:**  
**11 of 13**

### **Reserve Transfers**

Annual transfers to reserves are calculated during the Long Term Planning process and are based on the expected replacement cost and lifecycle of the assets they are used to replace.

Significant changes to the replacement schedule may warrant an increase to the annual reserve transfer. Increases to annual transfers are done using a phased in approach to help mitigate significant increases to the tax rate.

Due to the timing of purchases, the annual transfer may be less than the mathematical requirement. Staff will review the combined reserve balances and expected purchases over an extended period that is well beyond the forecasted period to ensure that sufficient funding is available in the reserves without unfairly taxing ratepayers for future requirements.

### **Year End Reserve Transfers**

#### *Land Sales*

All net land proceeds are to be transferred to reserves. The current use of the land will help determine which reserve is credited. For example, land used for water/wastewater purposes will be allocated to the Water/Wastewater Reserve Funds; Land used for park purposes or water access will be allocated to the Parks and Recreation Reserve Fund; Land with no current use will be transferred to the Contingency Reserve unless otherwise directed by Council;

#### *Policing Levy*

Any surplus (deficit) resulting from the annual Policing Levy will be transferred to/from the Policing Reserve.





## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
12 of 13**

### **Year End Reserve Transfers**

#### *Fire Equipment (capital)*

Any surplus/(deficit) resulting from the annual purchase of fire gear, bunker suits and other pooled equipment funded by the tax rate will be transferred to/from the Municipal Fleet and Equipment Reserve Fund.

#### *Parks Capital*

Any surplus/ (deficit) resulting from the annual tax rate contribution to Parks capital will be transferred to the Recreation & Facilities/Equipment Reserve Fund.

#### *Operating & Capital Surpluses*

Any uncommitted surplus resulting from the Annual Operating and Capital Budget will be transferred to the Future Capital Reserve unless otherwise directed by Council.

#### *Water & Wastewater Rates*

Any surplus/ (deficit) resulting from Water and Wastewater's annual operations will be transferred to/from the Water Operations Reserve Fund and the Wastewater Operations Reserve Fund.

#### *Library Board*

Any surplus/ (deficit) resulting from the Library Board's annual operations will be transferred to/from the Library Board's General Reserve Fund.

Use of the above reserves to finance the Capital or Operating Budgets must be approved through the annual budgeting process and/or by Council;

**Council may by By-law provide that the money raised for a reserve fund may be spent, pledged or applied to a purpose other than that for which the fund was established.**



## THE CORPORATION OF THE TOWNSHIP OF TAY APPROVED COUNCIL POLICIES MANUAL

**SUBJECT: TREASURY  
RESERVE AND RESERVE FUND  
POLICY**

**EFFECTIVE DATE:  
December 20, 2017**

**REVISION DATE:**

**PAGE:  
13 of 13**

### **Temporary Reserve Fund Borrowing**

Temporary inter-fund borrowing to cover a shortfall in a reserve or a reserve fund shortfall is permitted and encouraged to avoid external debt charges. However, borrowing from reserves or reserve funds may only occur when an analysis of the reserve has determined that excess funds are available and that the use of these funds will not adversely affect the intended purpose of the reserve. Any inter-fund borrowing between these reserves would require Council approval.

### **Interest Income**

Interest on temporary loans between Obligatory Reserve Funds or Water and Wastewater Reserve Funds shall be the average interest earned on the Township's investments for the period the funds were borrowed.

A portion of interest income earned on reserves and discretionary reserve funds will be used to fund the Annual Operating Budget. As interest rates increase, any excess interest income earned over budget amount, will be transferred to the Future Capital Reserve has a means of reducing the infrastructure gap.

### **Closing Reserves and Reserve Funds**

If the purpose for which the reserve or reserve fund was created has been accomplished or the reserve or reserve fund is deemed to be no longer necessary, the Director of Finance, in consultation with the Department Director, shall report to Council with a recommendation on:

- a) The closure of the reserve or reserve fund
- b) The disposition of any remaining funds
- c) The necessary amendment to the Reserve and Reserve Fund Policy

A resolution of Council and an amended By-law will be required to close a reserve.