

# RESERVE FUND POLICY

## PURPOSE:

### RESERVE FUNDS (Internally Restricted Funds):

These funds have restrictions imposed by the membership and can only be used for the specific purpose outlined. When establishing an internally restricted fund, it's important to create a policy that clearly outlines:

- The purpose of the funds
- A definition of the fund, its intended use, and a calculation of target amounts
- Assignment of authority for fund usage
- Responsibilities around reporting fund amounts and their use
- Specific rules regarding fund investment

**The Income Tax Act and the Association:** A reserve policy is important to any not-for-profit organization that has accumulated an excess of assets over liabilities. As a non-profit organization the Association can still earn income - in excess of expenditures - providing the requirements of the Income Tax Act are met. The Association's status as a tax-exempt NPO could be affected by accumulating surplus funds in excess of its current needs, or spending excess funds on purposes unrelated to the Association's purposes. The amount of accumulated excess income considered reasonable in relation to the needs of the Association to carry on its non-profit activities and goals is a question of fact to be determined with regard to the Association's particular circumstances.

Any funds accumulated for this purpose should be clearly identified and all transactions concerning a special project should be clearly set out in the Association's accounting records. (ref: CRA - IT-496R 4). Provided the funds accumulated for a special project are used for that project, our Association's tax-exempt status should not be affected. The Reserve Policy explains why our Association accumulated the net assets, what they will be used for, and how these incidental profits were communicated to our Association members.

## SCOPE OF RESERVE FUNDS:

The Association's reserves are a *distinct pool of net assets that are managed to achieve a specified set of objectives*. These objectives are summarized within the accounting policy notes and elsewhere in more detail. The assets and, if applicable, the liabilities associated with these restricted balances should be clearly identified and managed. Merely carving out and labelling a portion of the Association's net asset balance as a "reserve" does not constitute a best practice; *and it's important to implement a formal policy surrounding reserve funds. This policy clearly articulates and links reserves to the mission and activities of our Association while providing transparency and accountability.*

### **Four Types of Reserve Funds: Operating; Contingency; Special Programs; Capital Reserves**

**Operating Reserves:** An unrestricted fund balance set aside to stabilize our Association's finances by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses. The most common trigger for use of operating reserves is on the income side, such as when a previously reliable source is reduced or withdrawn. Operating reserves are most valuable if they are reliable and an important factor in using reserves is having a realistic plan to replenish them. Operating reserves should not be used to cover a long-term or permanent income shortfall. Reserves can allow our Association to weather serious bumps in the road by buying time to implement new strategies. This reserve should be used to solve temporary problems, not structural financial problems.

**Contingency reserves:** These reserves are typically established if our Association anticipates changes in laws or regulations, or changes resulting from political issues or potential catastrophic events. A reserve for potential payouts relating to human resource-related issues may also be appropriate. Changes in accounting regarding employee future benefits may result in our Association creating a reserve to account for surpluses or deficits in funding these long-term future liabilities.

**Special program reserves:** Funds for unique events, new programs, research and specifically restricted grants or gifts where our Association may find it helpful to establish a special reserve. The amount of the reserve will typically be linked to the budget approved or the funding provided for the initiative. Externally-restricted multi-year donations are tracked in special program reserves.

**Capital reserves:** These reserves are established for existing or future buildings, an expansion or other major additions to property and equipment.

## RESPONSIBILITY:

This Policy involves the Treasurer, the Finance Committee, the Board of Directors, and the General Membership. The Finance Committee and the Board shall annually review Reserve Fund allocations. Any recommended changes to Fund allocations should go before the General membership at the June General meeting for informational purposes.

**IMPLEMENTATION:**

**CDFGPA Reserve Funds:**

The Association has specifically set aside monies allocated to future anticipated expenditures. These funds have been generated from surplus annual income, investment income, and sale of former Association property in Courtenay.

**Allocation Process within Reserve Funds:**

The Finance Committee will review the fund allocations and work with the Board to understand the future needs for access to the funds (timing / projects, etc.).

The Board will provide updates to the membership re: allocation amounts within Reserve Funds at the Budget Meeting in September of each year as well as at each monthly members meeting.

The allocation of dollar amounts to Reserve Funds may be amended by majority vote providing the allocations support the Association’s purposes.

**Use of Reserve Funds:**

A Special Resolution by the General Membership (75% approval of those members in attendance) is required to spend any allocated Reserve Funds.

**Allocation of Earned Income from Reserve Funds:**

1) Allocation of Reserve Fund *Earned Income* is to be fixed for three year terms; then may be reviewed for subsequent three year terms. This will encourage and facilitate long term planning. “Reserve Fund Earned Income” are funds generated from Reserve Fund investments.

2) To allow time for Budget preparation, and for Budget presentation to the September General meeting, any changes to ‘Allocation of *Earned Income*’ will be recommended by the Board at the June General meeting;

3) Reserve Fund levels should be maintained through ‘topping up’ from the “*Earned Income*” from Reserve Fund investments. (Inflation should be a consideration.)

**RESERVE FUND ALLOCATIONS** (as at December 9, 2024) (\*\*\*\*See Notes: Bottom of page 2)

|   |                             |   |
|---|-----------------------------|---|
| <b>Contingency:</b>                         | Lead Remediation: \$500,000 | Insurance Deductible: Build to: \$150,000 |
| <b>Special Programs &amp; Conservation:</b> | \$200,000                   |   |
| <b>Capital Reserve:</b>                     | Build to: \$100,000         |   |
| <b>Establish Operating Reserve:</b>         | \$100,000                   |   |
| <b>Land Acquisition Reserve:</b>            | Build to: \$500,000         |   |

**EARNED INCOME ALLOCACTION:** For the next three fiscal years (2025/2026/2027) 100% of earned income will be allocated to increasing Reserve Funds towards the levels noted in the above Recommendation.

References: Association Finance Policy; Bylaws: Definition – Special Resolution

**Approved by the Board: November 25, 2024**

**Adopted by the Membership: December 9, 2024**

**\*\*\*\*Notes: Allocation recommendations.**

- Justification for amount and allocation of reserve funds must be as rational as possible.
- Lead Contamination: While the reserve fund for land acquisition is outdated and not realistic at this time, the potential for lead contamination cleanup (due to extensive use of ranges over time) is much more so. While this work may not be required until a much later date, there is always the potential for changes in Government policy which could force the Association to act.
- Insurance Deductible: In the event of a complete loss of Association buildings / facilities the current deductible could be as high as \$126,000.
- The Capital Reserve is for replacement / refurbishment of buildings or other facilities.
- The Operating Reserve is for sudden unexpected loss of operating revenue during a fiscal year: eg: loss of significant range rental income; loss of ‘tax exempt’ status due to change in ‘social license’ resulting in significant property tax bill.