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# St. Joseph's Parish Financial Reserves Policy

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## 1 Objective / Purpose

A key aspect of sound financial and risk management is the maintenance of adequate reserves and balances to meet either known future commitments or expenditures arising from unforeseen, unexpected or emergency situations.

The purpose of this policy is to:

- Outline the principles underpinning the creation, use and assessment of the adequacy of reserves;
- Identify the principles to be employed by St. Joseph's Parish Finance Committee (*Finance Committee / Committee*) in assessing the adequacy of the Parish's reserves;
- Indicate how frequently the adequacy of the Parish's reserves will be reviewed; and
- Set out the arrangements relating to the creation, amendment and use of reserves.

## 2 Background

As a matter of policy, many public organizations, private enterprises and not-for-profit organizations maintain reserve funds. In the United Kingdom, the Church of England encourages each parish to hold reserves and their National Stewardship & Resources team has put together good practice guidance material and a "Simple Guide to Parish Reserves Policies" which were helpful in the development of this document.

In the Archdiocese of Ottawa, there is no policy requiring parishes to establish and maintain reserve funds. Typically, when a parish has excess funds it provides those funds to the Archdiocese which holds them in trust, and provides interest payments (3% per year) for the privilege of the use of said funds. If the funds are required by the parish, they are requested and a cheque is delivered. In this way, some parishes do maintain funds in reserve; however, the decision as to whether a reserve fund is required, and if so, how large it must be, and how it is disbursed, resides with the individual parish.

The requirement for the establishment and maintenance of financial reserves stems from our commitment to the just stewardship of our assets, resources and talent, and the just stewardship of the environment. In keeping with this commitment we need to be prepared for unforeseen or emergency situations, we need to plan for the refurbishment and renewal of our capital assets (including projects with longer payback periods that yield positive environmental and financial results), and we need to be prepared financially to provide for continued staffing and operations for a defined period of time as a contingency in the event of shut down. St. Joseph's Parish encompasses a large set of operations with annual

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expenditures in excess of \$1 million – largely a function of its social service programs – increasing the onus on us for strong financial management practices.

The concept of holding funds or resources in reserve is not a new one, and is in fact referenced a number of times in our scriptures. From Genesis 41:34-36 where the Egyptians are called upon to establish a grain reserve in the years of abundance against the years of famine, to Proverbs (e.g., 6:6-8; 13:16; 21:5; 24:27; 27:23), to the admonishment in Luke's Gospel to plan (14:28-30) and the advice in 1 Corinthians (16:1-2) concerning putting aside and saving, there are many examples of those who trust in God planning for the future. One particular passage in Matthew (25:1-13) stands out:

*Then the kingdom of heaven will be comparable to ten virgins, who took their lamps and went out to meet the bridegroom. Five of them were foolish, and five were prudent. For when the foolish took their lamps, they took no oil with them, but the prudent took oil in flasks along with their lamps. Now while the bridegroom was delaying, they all got drowsy and began to sleep. But at midnight there was a shout, 'Behold, the bridegroom! Come out to meet him.' Then all those virgins rose and trimmed their lamps. The foolish said to the prudent, 'Give us some of your oil, for our lamps are going out.' But the prudent answered, 'No, there will not be enough for us and you too; go instead to the dealers and buy some for yourselves.' And while they were going away to make the purchase, the bridegroom came, and those who were ready went in with him to the wedding feast; and the door was shut. Later the other virgins also came, saying, 'Lord, lord, open up for us.' But he answered, 'Truly I say to you, I do not know you.' Be on the alert then, for you do not know the day nor the hour.*

St. Joseph's Parish's reserves will most typically be used to cover unanticipated significant expenses such as plumbing, electrical or fixed asset breakdowns and long-term asset renewal (e.g., boiler or roof replacement, major masonry work, etc.) and/or renovation expenses (e.g., Supper Table kitchen renovation). Additional reserves will be held as contingency against contractual liabilities in the event that the Parish should (for any reason) have to close.

### 3 Types of Reserves

St. Joseph's Parish maintains a range of reserves and balances which can be categorized into two main types: general reserves, and specific reserves. Reserves are distinct from the normal cash operating balance which is equivalent to two months' operating expenses.

#### 3.1 General Reserves

A *general reserve* is a sum of money which is not earmarked for specific purposes but rather set aside to:

- Deal with unexpected events or emergencies;
- Meet contractual liabilities should the Parish have to close – this includes severance pay and pay in lieu of notice, amounts due to creditors and commitments under leases and other agreements;

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- To meet unexpected costs such as the breakdown of essential office machinery, cover additional staffing costs during illness (costs not covered by short- and long-term disability insurance), maternity leave and parental leave, and cover unforeseen legal costs required to protect the Parish's interests;
  - Ensure that the Parish can continue to provide stable and quality services to those who need them; and
  - To address the need for a mechanism to hold directed funding in restricted reserves until it is spent in line with the funding agreement.

Two general reserves are maintained by St. Joseph's Parish: the *St. Joseph's Parish General Reserve (General Reserve)* and the *Women's Centre General Reserve*.

### 3.2 Specific Reserves

As the name suggests *specific reserves* represent amounts typically built up over a period of time which are earmarked for specific items of expenditure to meet known or predicted liabilities or projects. Specific reserves are often used to "smooth" the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditures in any one year.

Specific reserves should not be created for general revenue items but may include one-off items. The item should be identifiable and tangible but its cost may not be exact. Round figure specific reserves are acceptable. Specific reserves should only be created where the funding requirement is to be raised over two or more years.

For each specific reserve a description including the following discussion points must be appended as a schedule to this policy:

- The reason for/purpose of the reserve;
- The minimum and/or target level for the reserve;
- The manner in which revenues shall be generated and/or set aside to fund the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescales for review of the reserve to ensure continuing relevance and adequacy.

In keeping with its *Real Property Management Policy*, St. Joseph's Parish will create and maintain a *Capital Asset Renewal Reserve (CARR)* to "...assist the Parish with cash flow requirements related to more significant maintenance and renovation activities, to provide necessary (planned) funds for long-term capital asset renewal, and to act as a short-term source of funds in the instance of any significant unforeseen building or property-related expense requiring immediate action."

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## 4 Level of General Reserves

General reserves typically represent between 15% and 25% of expenditures or in the range of three months operating expenses plus an additional month's contingency for employee benefits. For St. Joseph's Parish this represents a target General Reserve level of \$300,000.

The Women's Centre General Reserve has a target level of \$50,000 based on an initial estimate of potential shut down expenses and liabilities, and a maximum level of \$220,000 based on its fiduciary obligations as a publicly funded social service agency.

## 5 Establishing and Maintaining a Prudent Level of Reserves

It is essential that the annual budget includes a reasonable amount for repairs and maintenance. However, it should also include an annual allocation to the Capital Asset Renewal Reserve. In addition, in the instance where the General Reserve is below the target level, a plan shall be put in place whereby the General Reserve is fully re-funded within a finite time period as recommended by the Finance Committee and approved by the Parish Council.

The approach wherein budgeted amounts not used belong to the area or ministry where they were first allocated must be avoided. Significant expenditures not initially part of the budget need advance Parish Council approval. If excess funds are not needed by a program in the year budgeted they shall be moved to a reserve fund.

However, the Parish cannot rely solely on year end surplus amounts to build reserve funds; the funds must be built through regular contributions from revenue in addition to transfers from overestimated budget categories and specific fundraising initiatives.

If the General Reserve exceeds \$300,000 on an ongoing basis, the Finance Committee will, as part of the annual budget preparation and reserve review process, provide a recommendation to the Parish Council as to how best the funds may be allocated.

Should the Women's Centre General Reserve exceed \$220,000 on an ongoing basis, the *Women's Centre Board of Trustees (Board of Trustees)* will, as part of the annual budget preparation and reserve review process, provide a recommendation to the Parish Council as to how best the funds may be allocated.

## 6 How and When Reserves May be Used

- i. Specific reserves should be used only for the purpose for which they are created. Where that purpose of the specific reserve becomes obsolete, or where there is an over provision of funds, the excess may, on the recommendation of the Finance Committee and the approval of Parish Council, be transferred to other budget headings within the revenue budget or to the General Reserve.

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- ii. The use of the General Reserve must be authorized by Parish Council. Where the reserve amount has arisen as a result of excess funds through cancelled or obsolete activities, Parish Council may elect to use these funds for another purpose for which no other budget is available. General reserves should not be so used in a year where it has been necessary to use general reserves for emergency or unexpected events as detailed in (iii) below.
  - iii. The use of general reserves where the funds have been created to deal with unexpected events or emergencies should only be used for this purpose.
  - iv. The use of the Women's Centre General Reserve must be authorized by the Parish Council on the recommendation of the Board of Trustees.

## **7 Procedures for Reserve Management and Control**

Movements in specific reserves and the General Reserve will be reported to the Finance Committee on a quarterly basis as part of the normal accounting quarterly reports, and on an annual basis as part of the annual accounting reports. Movements in the Women's Centre General Reserve will be reported to the Board of Trustees on a quarterly basis as part of the normal accounting quarterly reports, and on an annual basis as part of the annual accounting reports. An annual report will be provided to the Parish Council by the Board of Trustees.

The use of reserves will be approved by Parish Council having regard to this policy and the recommendations of the Finance Committee and the Board of Trustees as appropriate.

## **8 Monitoring & Review**

- The *Financial Reserves Policy* will be reviewed annually. This review will include a review of the minimum level of the General Reserve and the Capital Asset Renewal Reserve considering their adequacy in light of any potential changes in circumstances. The result of this review will form part of the Finance Committee's recommendations for the budget process.
- The respective levels of the General Reserve and the Capital Asset Renewal Reserve will be reviewed on an annual basis during the annual budget review. The Finance Committee will provide a statement on the adequacy of these reserve funds in respect of the forthcoming financial year and Parish Council's medium term financial plan.
- Other specific reserves will be reviewed on an individual basis by the Finance Committee. This review will be undertaken on an annual basis as part of the annual budgeting process. Recommendations on creation, amendment, cessation or continuance of Specific Reserves will be given to the Parish Council as part of Finance Committee's recommendations under the annual budget process. Approval

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for the creation, amendment, cessation or continuance of specific reserves will be given by the Parish Council.

- As part of the Women's Centre's annual budget preparation process, the Board of Trustees will review the minimum level of the Women's Centre General Reserve in light of any potential changes in circumstances. The Board of Trustees will also provide a statement on the adequacy of the reserve funds which will be submitted to the Parish Council as part of the annual budget preparation process.

## 9 Effective Date

This *Financial Reserves Policy* comes into effect on the date of approval by Parish Council.

## 10 Approvals

Parish Council approved by vote on December 11, 2012.



Donald Duthie

Chair

St. Joseph Parish Council

December 11/2012  
Date



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# Schedule 1: Capital Assets Renewal Reserve

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## 1 Objective / Purpose

As outlined in St. Joseph's Parish's *Real Property Management Policy*, the purpose of the Capital Assets Renewal Reserve (CARR) is to "...assist the Parish with cash flow requirements related to more significant maintenance and renovation activities, to provide necessary (planned) funds for long-term capital asset renewal, and to act as a short-term source of funds in the instance of any significant unforeseen building or property-related expense requiring immediate action."

## 2 Minimum / Target Level of the Reserve

The minimum / target level of the CARR will be recommended to the Parish Council by the Finance Committee within the first year of this policy coming into effect on the basis of an inventory and review of the condition of the capital / built assets of St. Joseph's Parish. The target level may vary in a cycle according to the asset renewal schedule; however, a minimum value must also be specified to provide for funds to cover unanticipated events affecting the capital assets.

## 3 Establishing and Maintaining a Prudent Level of Reserves

A portion of all general revenues shall automatically be allocated to the CARR in such a manner as to support the CARR being maintained at its target level and / or built up through its normal cycle. The Finance Committee shall recommend this rate to the Parish Council as part of its annual budget process. The Finance Committee may recommend setting this rate to zero until such time as the structural deficit is addressed.

## 4 Use of the Reserve

Funds held in the CARR are to be used for capital renewal and renovation projects outside the scope of normal operation and maintenance activities that could be expected to be undertaken by the Parish on an annual basis. The CARR may be used to fund assessments, consulting studies, the development of bid packages and related oversight and other similar activities in addition to the actual construction, repair or refurbishment work, equipment rental, and related materials.

Funds designated for use related to a particular undertaking within a given budget cycle may not be repurposed without the prior consent of Parish Council.

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## 5 Procedures for Reserve Management and Control

Movements in the CARR will be reported to the Finance Committee on a quarterly basis as part of the normal accounting quarterly reports, and on an annual basis as part of the annual accounting reports.

Use of CARR funds will be approved by Parish Council having regard to this schedule, the broader *Financial Reserves Policy* and the recommendations of the Finance Committee.

## 6 Process / Timescale for Review

The process and timescale for review of the CARR is set out in the main *Financial Reserves Policy* document.

## 7 Approvals

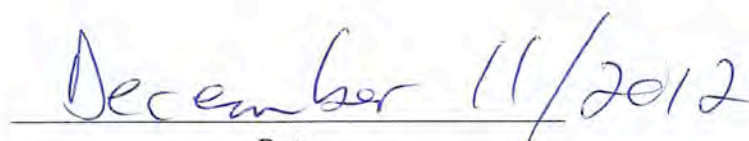
Parish Council approved by vote on December 11, 2012.



Donald Duthie

Chair

St. Joseph Parish Council



Date