



COMMUNITY SERVICE PARTNERSHIPS PROGRAM

Policy on the Consideration of Unrestricted Reserves and Operating Surpluses in the Assessment Process

Reserves

The Community Services Partnership Program (CSP) defines "unrestricted" reserves as those funds that have not been restricted by the donor and whose use is therefore at the discretion of the Board of Directors of the organization, or one of its affiliated organizations (such as a trust fund, property corporation or foundation).

"Restricted" reserves are funds designated for a specific purpose by the donor, and over which the Board of the organization and its affiliates have no discretion.

The CSP considers it desirable for organizations to have a reasonable level of unrestricted reserve funds to meet the following kinds of needs:

- offsetting operating deficits
- establishing new or expanded programs
- repairing and renewing fixed assets
- capital expansion
- positive cash flow.

The size of an applicant organization's unrestricted reserve will be considered by the CSP during the assessment and allocations process.

Thresholds

As a part of the assessment and allocations process, applicant organizations will be required to provide the size of their unrestricted reserves in terms of months of operating expenditures.

Unrestricted reserves that are greater or equal to 1 months operating expenses and less than or equal to 3 months operating expenses will not generally receive further consideration during the assessment or allocations process.

Unrestricted Reserves in Excess of Three Months Operating Expenditures

Applicant organizations with unrestricted reserves larger than 3 months of operating expenditures will be required to submit additional information to establish the reasonableness of the size of the reserves.

An assessment of the “reasonableness” of the size of the reserves will include:

- an examination of the intended use of the fund
- an examination of previous use of the fund
- a review of Board approved policies and procedures related to the fund
- a review of the organization’s sources of funding.

If an organization’s unrestricted funds are assessed as being larger than reasonable, the excess funds will be considered as an operating surplus.

Unrestricted Reserves Less than One Months Operating Expenditures

Applicant organizations with unrestricted reserves of less than 1 month of operating expenditures will be required to submit additional information demonstrating the organization’s ability to meet its legal and financial obligations.

If an organization’s unrestricted funds are assessed as smaller than required to meet legal and financial obligations, additional conditions may be placed on the grant, if appropriate.

Organization Operating Surpluses

The Community Services Partnership Program (CSP) defines an “operating surplus” as the revenue received by an organization that is in excess of the organization’s expenditures in any one financial year.

Applicant organizations are required to explain the planned use of any operating surplus. When an organization’s operating surplus exceeds its total revenue from non-grant sources (i.e. fundraising, fees, etc.), the organization will be required to document the source of the operating surplus.

Adjusted Surplus

When an applicant organization’s unrestricted reserves are assessed as being larger than reasonable, the excess funds will be added to the organization’s operating surplus to calculate an “adjusted surplus.” This adjusted surplus will be reviewed to determine the organization’s need for CSP funds.

Program Surpluses

CSP-funded programs are expected to operate on a balanced budget. Organizations will be required to document the source of any program surpluses, and these surpluses will be considered in determining the program’s need for CSP funds. Where program surpluses are the result of unexpended CSP funds, the City will recover these funds from the funded organization.

Unrestricted Reserves Factsheet

Why do organizations need reserve policies and business plans?

Reserve policies and business plans are an integral part of good financial management practices. A policy that sets out organizational reserve levels and a business plan that directs the implementation of this policy can ensure that organizations have funds available to meet a number of unforeseen needs throughout the year, including:

- offsetting operating deficits
- establishing new or expanded programs
- repairing and renewing fixed assets
- capital expansion, and
- positive cash flow

Organizations that have no unrestricted reserves may not be able to meet these needs, and their financial viability may be in question.

Why does the Community Services Grants Program require that organizations have reserve policies and business plans?

Unrestricted reserve levels are one of the things that the Community Services Grants Program reviews to determine whether organizations are financially viable, and whether organizations need funding from the CSP. Unrestricted reserve policies and business plans to implement them, enable organizations to assure the City of Toronto that they are viable and need CSP funds, and will continue to meet CSP eligibility criteria.

What should be our level of unrestricted reserves?

The CSP requires that organizations maintain a level of unrestricted reserves that is reasonable for their needs, normally between one and three months of operating expenses.

The CSP allocates City dollars to organizations that are financially viable, can demonstrate a need for funding, and can demonstrate that the CSP funds will significantly contribute to the effectiveness of the program. If unrestricted reserve levels are unreasonably small, staff may determine that an organization is not able to meet its legal and financial obligations. If unrestricted reserve levels are unreasonably large, staff may determine that the organization's need for City dollars is less than that of other organizations.

What is a policy relating to unrestricted reserves?

An unrestricted reserve policy is a document that gives direction about building unrestricted reserves and their intended uses. A policy that meets CSP requirements is one that:

- contains a statement of intent,
- identifies who is responsible for implementing the policy,
- is approved by the organization's board of directors, and
- sets out a period of review.

An example of a simple reserve policy can be found at the end of this document.

What is a business plan?

A business plan is a document that outlines the steps involved in implementing the reserve policy including:

- ⇒ reserve level goals and actuals
- ⇒ activities that will be undertaken to meet the goal
- ⇒ timing
- ⇒ resources needed
- ⇒ persons responsible and/or partnerships involved
- ⇒ review dates
- ⇒ progress to date, and
- ⇒ board approval

The business plan should be revisited often during the implementation period and updated periodically.

Sample Policy relating to Unrestricted Reserves

Reserve Fund Policy

Effective Date: Month xx, 20xx

Approved by the Board of Directors on: Month xx, 20xx

Purpose:

To establish guidelines for the building and maintenance of a reserve fund for XYZ Organization. This fund will be used to meet the following needs:

- offsetting operating deficits
- establishing new or expanded programs or partnerships
- repairing and renewing fixed assets
- capital expansion

Policy:

XYZ Organization requires a reserve equal to 1.5 months operating expenses (30,000) in order to address the following needs:

Daily Operations: 1 months operating expenses (\$20,000)

- Includes salaries, rent, leases, travel, office expenses etc.

Capital purchases/repair/expansion: \$10,000

Responsibility for Implementation:

The Executive Director of XYZ Organization will be responsible for the implementation of this policy, under the direction of the Board of Directors.

This policy will be reviewed annually at the beginning of each fiscal year.

Months of operating reserves are less than 1 month

CHECKLIST FOR FINANCIAL VIABILITY AND REASONABLENESS OF RESERVES

- We have considered our overall financial viability.
 - Our current level of reserves is suitable to our overall circumstances
 - Our level of reserves needs to be increased to improve our financial viability

Some areas to consider:

1	Budget is project driven (e.g. no employees, only implement a project when funded)	7	Plans to increase reserve (current situation is temporary)
2	Positive cash flow	8	Organization continues to have assets greater than liabilities
3	Stability of operating budget (stable organization that can manage a balanced budget)	9	Organization does not have deficit in most recent audited year
4	Is connected with a related organization that can provide income for unexpected problems	10	Organization does not have responsibilities for buildings or vehicles
5	Can borrow against restricted reserve	11	Other
6	Had a reserve in the past which has been used for a planned purpose		

NOTES:

Months of operating reserves are greater than 3 months

CHECKLIST FOR REASONABLENESS OF RESERVES

- We have reviewed the purpose and use of our reserve funds
 - Our current policies address major areas of responsibility
 - Our current policies are linked to business plans
 - We review our policies on a regular basis

Some areas to consider:

1	Small size of annual operating budget	7	Capital Expansion
2	Nature of the organization's revenue streams.	8	Positive Cash Flow
3	Stability of reserve levels over a 3 year period	9	Legal Requirements
4	Offsetting operating deficit	10	Demonstration of appropriate use of reserve over 3 year period
5	Establishing new or expanded programs with a business plan	11	Organization has committed its own funds to the project budget, or has committed significant other resources to the development of the project.
6	Repairing and Renewing Fixed Assets	12	Other

NOTES:

Reserve policy worksheet---SAMPLE

<i>Reserve fund addresses this area:</i>	<i>Purpose</i>	<i>Desired Funding level</i>	<i>Current fund level</i>	<i>Plan in place to meet goal or maintain desired funding level?</i>	<i>Board approval and revision dates (attach policy documents)</i>	<i>Most recent activity</i>
Daily operations	Cash flow	2 months of annual operating	1 month of annual operating	Yes. Included in annual fundraising target for coming year.	Fundraising plan approved in February, 20XX Cash flow target approved January, 20XX, to be reviewed on annual basis.	Accessed in April, May and June for payroll.
Capital upkeep and expenses	Renovations	\$20,000.00 for accessibility improvements	\$5,000 (internally restricted)	No. To be reviewed by fundraising committee and ED in 20XX.	Approved by board as part of Access and Equity implementation plan, June, 20XX. To be reviewed annually.	\$18,000 spent in 20XX for accessibility on first floor, including \$4,000 from reserves.
Capital purchases	Purchase a youth camp for summer activities	\$1 million	\$200,000	Yes. Committee struck to initiate capital campaign.	Approved by members at 20XX AGM.	Portion of surplus added to reserve fund in each of last 10 years.
Meeting our mission	Start new programs to meet new community needs.	\$50-100,000	\$25,000	Yes, general goal of fundraising includes responding to community needs. Targets set each year.	Overall approach approved by Board June, 20XX. To be updated in 20XX as part of the current fundraising plan.	3 years of start-up funding provided for youth leadership program, from 20XX-20XX. \$15,000 in each of 3 years.

Developing a policy for use of unrestricted or internally restricted reserve funds

The following questions and categories can be used to start looking at your organization's reserve needs and policies. The Board has control over unrestricted reserves and internally restricted reserves.

1. What type of reserve funds do we need to support the following areas of our work? What level of reserve fund is suitable for this purpose? Are there any legal responsibilities we need to address through a reserve fund in these areas?

Daily operations:

Examples: cash flow needs, backfill for staff positions for leaves or illness

Capital upkeep and expenses:

Examples: major repair, renovations and improvements, building studies

Capital purchases:

Examples: Building funds, major equipment purchases, vehicle replacement

Meeting our mission:

Examples: responding to urgent community needs, initiating new programs, support for mergers or new partnerships, building needs studies.

- 2. What level of reserve fund do we now have? What level do we want to have? How will we get to that level?**
- 3. How often will the board need to review its reserve needs? What information will be needed to make a decision about the level of need and the board's policies?**

During the implementation of the Policy on the Consideration of Unrestricted Reserves, a variety of questions have been asked about why we consider some reserves as unrestricted.

Issue: Donor designation. When we receive donations, some of our donors give us money for specific things. We consider these externally restricted reserves, but CSP considered them as unrestricted reserves.

Discussion: Donors may designate that their donation be used for a specific purpose within the organization. It is the responsibility of the organization to administer these funds as externally designated, in order to clearly differentiate them from other donations that may be unrestricted or restricted for other purposes. If the reserves shown on the audited financial statement include externally restricted amounts from donations, you may be asked to provide additional documentation. Ideally this information would be included in the audited statement.

The **Ethical Fundraising & Financial Accountability Code** provides useful information on the treatment and accounting for donations. You can find it on the Imagine Canada web site: www.imaginecanada.ca in the Programs and Services section.

Issue: Purpose of the fund. We have raised money in the community for many years for a building. Everybody in the community knows this but the audit calls the funds reserves, and CSP considered them as unrestricted reserves.

Discussion: Audited financial statements should indicate if funds are restricted or unrestricted. The organization can discuss this issue with the auditor to determine if any changes need to be made to the presentation of information on the audited statement. Audited statement notes can provide additional information to the users of the audit which would include the community, donors and funders such as CSP.