

Financial Reserves Policy

APPLICABLE SECTIONS OF THE ACT, BY-LAWS AND REGULATIONS and/or PURPOSE	By-law S.6(1), 43 Ensuring Effective Stewardship of CPATA Assets		
RESPONSIBILITY	CEO and CFO		
APPROVED BY	EFFECTIVE	REVIEWED	REVISED
Board	September 22, 2023	Date	Date

Rationale

The College’s main sources of revenue are Annual Licensee fees, exam fees and application fees. These revenues are set by the Board and are intended to be sufficient to cover the annual budgeted expenses of the College and establish financial reserves to deal with regulatory contingencies.

Given that programs and operations are still being developed, the possibility exists that a decrease in revenue and/or unforeseen and unavoidable costs may be incurred that may result in additional funds being needed to pay for these costs.

As is the case for all professional regulators, the College’s professional regulatory costs, including investigations, complaints, discipline and unauthorized practice matters are an area of budgetary uncertainty. The costs associated with professional regulation will depend on the number of cases received, as well as their complexity. Investigation, hearing and committee costs can increase significantly when there are complex or high-risk issues that must be addressed in the public interest. For example, a lengthy hearing may add significant foreseeable costs related to professional fees (legal, expert opinion, transcription, hearing costs, etc.); however, the College cannot control when such matters will arise.

To help the College ensure that funds are available to offset these unpredictable items, two separate Reserve Funds will be established: an Operating Reserve Fund and a Professional Regulation Reserve Fund. The Operating Reserve is to be established first, followed by the Professional Regulation Reserve.

Protocol

The oversight of the Reserves is the responsibility of the Audit & Risk Committee, who are to make recommendations to the Board of Directors along with the annual budget.

The College's policy is to maintain the aggregate of the Operating Reserve Fund at no less (minimum) than three (3) months, and a target of six (6) months of Operating budgeted expenses. For this policy and the calculation of reserve balances any budgeted contingencies and/or professional regulation related expenses will be deducted from the calculation of Operating budgeted expenses. (See Appendix A for an example of calculations)

The College's policy is to maintain the aggregate of the Professional Regulation Reserve Fund at a target amount which represents the estimated costs for a very complex (i.e. once in ten year) discipline matter and includes such costs as legal fees, hearing and investigation costs, committee and panel remuneration, translation fees, etc. Currently this target estimate is \$750,000. The College budgets costs for discipline related cases each year. The Reserve is established to offset costs that materially exceed the overall annual budgeted costs of discipline-related cases.

Guidelines for establishing and adjusting Operating Reserve Fund annually during the budgeting process:

A. Fund balance exceeds target policy benchmark

If the projected total of the Operating Reserve Fund exceeds six (6) months of budgeted operating expenses the College may utilize the excess for one or more of the following strategies:

- Transfer the excess to another Reserve Fund, such as the Professional Regulation Reserve if that fund balance is below its stated policy benchmark;
- Fund planned non-recurring expenditures in the upcoming fiscal year(s); and/or
- Develop or add to a Strategic Reserve fund developed for a specific use/project with defined terms and timeline.

B. Fund balance falls below minimum policy benchmark

If the projected total balance of the Operating Reserve Fund is less than three (3) months of budgeted Operating Fund expenses, the Board of Directors will budget for an annual surplus to restore the Fund balance to its minimum policy benchmark. The minimum policy benchmark should be restored within two (2) fiscal years and ideally within one year.

C. Fund balance falls between minimum and target policy benchmarks

If the projected total balance of the Operating Reserve Fund is more than (3) months of budgeted Operating Fund expenses and less than six (6) months of budgeted operating expenses, then it is within the set benchmarks. The Board of Directors may then apply funds from the Operating Reserve Fund for one or more of the following strategies in the amount that draws the Fund down, but no lower than to the three-month benchmark:

- Transfer the excess to another College Reserve fund if the fund balance is below its stated policy benchmark (e.g. Professional Regulation Reserve);
- Fund planned non-recurring expenditures in the upcoming fiscal year(s); and/or

- Develop or add to a Strategic Reserve fund developed for a specific use/project with defined terms and timeline.

Guidelines for establishing and adjusting Professional Regulation Reserve Fund annually during the budgeting process:

A. Fund balance exceeds target policy benchmark

If the projected total of the Professional Regulation Reserve Fund exceeds the established target (i.e. \$750,000), the College may utilize the excess for one or more of the following strategies:

- *Continue to build the Professional Regulation Reserve Fund;*
- Transfer the excess to the another Reserve Fund, such as the Operating Reserve if that fund balance is below its stated policy benchmark; and/or
- Develop or add to a Strategic Reserve fund developed for a specific use/project with defined terms and timeline.

B. Fund balance falls below target policy benchmark

If after the Operating Reserve Fund is adjusted according the guidelines above, and the projected total balance of the Professional Regulation Reserve Fund is still less than the established target (i.e. \$750,000), the Board of Directors will budget for an annual surplus to restore the Fund balance to its target benchmark as soon as possible, this may also include a transfer from another reserve fund if available. The target benchmark should be restored within three (3) fiscal years.

Appendix A – Example of Calculations from 2023 Budget

Operating Reserve Fund:

Budgeted Expenses for 2023 (not including professional regulation related expenses and Contingency)

Total Expenses	\$ 2,330,500
Contingency	(100,000)
Professional Regulation legal fees	(366,750)
Total for calculations	<u>\$ 1,863,750</u>

Monthly average Expenses $\$1,863,750 / 12 \text{ months} = \$155,000$

Minimum Policy Benchmark $3 \text{ months} \times \$155,000 = \$465,000$

Target Policy Benchmark $6 \text{ months} \times \$170,000 = \$930,000$