

**DATE:** July 17, 2023

**REPORT NO:** T-18-2023

**SUBJECT:** **2022 Accumulated Operating Surplus**

**CONTACT:** Donna DeFilippis, Director of Finance and Treasurer

**OVERVIEW:**

- Closing Balance in the Accumulated Operating Surplus as of December 31, 2022 is \$747,518
- Council previously approved a \$150,000 transfer from the accumulated surplus to be used as revenue in the 2023 budget
- \$597,518 of the remaining surplus is recommended to be transferred to the 2024 Operating Budget and the Contingency Reserve as outlined in the report below

**RECOMMENDATION:**

1. That, Recommendation Report T-18-2023, regarding “2022 Accumulated Operating Surplus”, dated July 17, 2023 be received; and,
2. That, Council authorizes that \$150,000 of the 2022 Accumulated Operating Surplus be used as revenue in the 2024 Operating Budget; and,
3. That, Council authorizes that \$447,518 of the remaining Accumulated Operating Surplus be transferred to the Contingency Reserve.

**ALIGNMENT TO STRATEGIC PLAN:**

**Strategic Priority #4**

- **Foundational** – Advance organizational capacity and effectiveness.

**BACKGROUND:**

The 2022 Financial Statements for the Township of West Lincoln have been audited and as such, the final surplus numbers are being communicated for Council’s review. Council approved a 2022 Operating budget of \$19.7 million. The final 2022 financial results indicate a closing accumulated surplus of \$747,518, with various items contributing to this number. Council approved as part of the 2023 budget process that \$150,000 of the prior year closing surplus be treated as revenue in the 2023 budget. It is recommended that the remainder of the surplus of \$597,518 be utilized as discussed later in this report.

### **CURRENT SITUATION:**

There are several factors that have contributed to the 2022 closing surplus of \$747,518. \$150,000 of that amount is from prior years and was allocated by Council in report T-21-2022 to be used as revenue in the 2023 budget. As part of the 2023 Budget approval, the recognition of \$150,000 of prior year surplus as 2023 revenue was formally adopted.

The Township had the following positive revenue outcomes that contributed to the 2022 surplus as follows:

- 1) Income from investments has exceeded budget by \$492,538. The Township was fortunate to have investments mature as interest rates started rising in the latter part of 2022. This allowed staff to secure investments at the new, higher rates of interest. In addition, the Township received a dividend of \$114,240 from Peninsula West Power Inc. that had not been included in the 2022 budget.
- 2) Supplementary Property Taxes exceeded budget by \$83,558. Supplemental Property Tax Revenue represents additional revenue collected on assessment changes that were not reflected in the MPAC assessment roll received in December 2021, for 2022. This includes, for example, new homes and property enhancements such as additions.

Also contributing to the surplus was expenditure that was below budget, as outlined below:

- 1) Governance and Corporate Services realized a combined savings of \$78,082 through decreased expenditures over various operating lines, including protocol, mileage, advertising, training, legal fees and consulting fees.
- 2) The Fire Department had savings in their operating budget, totalling approximately \$152,149. The main contributing factor was savings in the Volunteer Firefighter expenses as a result of lower calls compared to budget. In addition, the revenue collected from fire permits contributed to the positive results.
- 3) There was underspending within the operating budgets for Bridges of \$43,223, Storm Water of \$53,466 and Drainage of \$31,586. These savings are attributable to underspending on outside services. This is an area that fluctuates year over year dependent on in year events.
- 4) The balance of the surplus of \$62,916 is attributable to underspending within all of the other various departments within the municipality.

The above amounts total \$1,147,518. As part of report T-03-2023 2023 Draft Operating and Capital Budget Council approved a transfer of \$400,000 to the Capital Reserve as staff had advised Council that the 2022 Operating results would result in an accumulated surplus. The final amount of the accumulated surplus is net of the \$400,000, resulting in \$747,518.

### **FINANCIAL IMPLICATIONS:**

The availability of surplus funds provides the Township the opportunity to once again review its financial needs and reflect on the best options in utilizing these funds.

The recommendations below are based on two important principles: avoiding large fluctuations from one budget year to another and ensuring our reserves have adequate balances.

**Utilize \$150,000 of this surplus as revenue in the 2024 budget.**

The current 2023 budget is using \$150,000 of prior year surplus as a revenue source. Using a portion of the current accumulated surplus towards the 2024 budget will avoid a large fluctuation in revenue in the 2024 budget. This will assist with managing any tax levy increase in 2024.

**Transfer \$447,518 into the Contingency Reserve**

The Contingency Reserve is used to fund in year funding shortfalls that may occur as a result of one time expenditures. The target balance for this reserve, as outlined in the reserve policy, is 10% of the previous year tax levy, which for 2023 is a target balance of \$835,200. The Contingency Reserve currently has an uncommitted balance of \$818,933, which is quite close to the target. However, the implementation of the non-union grid will require transfers from the Contingency Reserve totalling \$395,000 over the years 2024 to 2027. Using the accumulated surplus to increase this reserve will ensure that it does not fall short of its target balance in the upcoming years.

**INTER-DEPARTMENTAL COMMENTS:**

This report was reviewed by the CAO.

**CONCLUSION:**

Staff is recommending that Council approve Report T-18-2023 and the recommended usage of the 2022 operating surplus as outlined within this report.

**Prepared & Submitted by:**



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**Donna DeFilippis,  
Director of Finance/Treasurer**

**Approved by:**



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**Bev Hendry,  
CAO**