

**DATE:** July 15, 2024

**REPORT NO:** T-15-2024

**SUBJECT:** **2023 Accumulated Surplus**

**CONTACT:** Katelyn Repovs, CPA, CA, Acting Director of Finance  
Donna DeFilippis, CPA, CA Interim CAO/Treasurer

**OVERVIEW:**

- Closing Balance in the Accumulated Operating Surplus as of December 31, 2023 is \$643,980
- Council previously approved a \$150,000 transfer from the accumulated surplus to be used as revenue in the 2024 budget
- \$493,980 of the remaining surplus is recommended to be transferred to the 2025 Operating Budget and the Contingency Reserve as outlined in the report below

**RECOMMENDATION:**

1. That, Recommendation Report T-15-2024, regarding “2023 Accumulated Operating Surplus”, dated July 15, 2024 be received; and,
2. That, Council authorizes that \$150,000 of the 2023 Accumulated Operating Surplus be used as revenue in the 2025 Operating Budget; and,
3. That, Council authorizes that \$343,980 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 2023 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 2023 Operating budget of \$21.5 million. The final 2023 financial results indicate a closing accumulated surplus of \$643,980, with various items contributing to this number. Council approved as part of the 2024 budget process that \$150,000 of the prior year closing surplus be treated as revenue in the 2024 budget. It is recommended that the

remainder of the surplus of \$493,980 be utilized as discussed later in this report.

**CURRENT SITUATION:**

There are several factors that have contributed to the 2023 closing accumulated surplus of \$643,980. \$150,000 of that amount is from prior years and was approved by Council in report T-18-2023 to be used as revenue in the 2024 budget. As part of the 2024 Budget approval, the recognition of \$150,000 of prior year surplus as 2024 revenue was formally adopted.

The Township had the following significant positive revenue outcomes that contributed to the 2023 surplus as follows:

- 1) Income from investments has exceeded budget by \$713,600. The Township was fortunate to be in a position to take advantage of the higher rate of interest that was available on investments in 2022 and 2023. Staff have been strategically making investment decisions to also ensure that a portion of our investments are locked in for over a year to take advantage of the current higher rates of interest in anticipation that rates will slowly decline. Included in the amount above is a dividend of \$131,280 from Peninsula West Power Inc. that had not been included in the 2023 budget.
- 2) Supplementary Property Taxes exceeded budget by \$45,440. Supplemental Property Tax Revenue represents additional revenue collected on assessment changes that were not reflected in the MPAC assessment roll received in December 2022, for 2023. This includes, for example, new homes and property improvements such as additions.
- 3) The Township applies an interest rate of 1.25% on unpaid property tax balances. At the end of 2023, this revenue exceeded budget by \$63,190.

There were some expenditure lines that exceeded budget as follows:

- 1) Governance and Corporate Services exceeded budget by \$19,700. Most areas in these departments were underspent, unfortunately, an over expenditure in corporate legal fees of \$91,500 resulted in an overall over-expenditure.
- 2) The Planning Department has completed the year with an overspending compared to budget of \$236,355. The main contributor to this was the funding of Development Charge Exemptions totalling \$224,800, which is a requirement of the Development Charges Act.

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

- 1) Transportation Services, which includes Road and Roadside Maintenance, Winter Control, Streetlights and Bridge Maintenance experienced an overall savings of \$201,600.

- 2) The recreation department- which includes Parks, Facilities and Recreation Programming saw an overall savings of \$49,960. The majority of the savings was related to Adult Programming and Youth Programming.
- 3) There were savings of \$24,170 in the By- law department, mainly attributable to underspending in the legal services budget line..
- 4) The Storm Sewer operating budget had a final balance that resulted in savings of \$77,300. Contracted services were not used as budgeted.
- 5) The balance of the surplus of \$74,775 is attributable to underspending within all of the other various departments within the municipality.

As part of report T-01-2024 “ 2024 Draft Capital Budget” Council approved a transfer of \$500,000 to the Capital Reserve as staff had advised Council that the this transfer would reduce the 2023 draft Capital tax levy increase from 4.2% to 2.71%. Staff recommended that transfer as a 2023 accumulated surplus was anticipated. The resulting 2023 final accumulated surplus amount is \$643,980.

#### **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. As noted above, \$150,000 of the accumulated surplus is being used as revenue in the 2024 budget. That leaves \$493,980 to be allocated.

#### **Utilize \$150,000 of this surplus as revenue in the 2025 budget.**

The current 2024 budget is using \$150,000 of prior year surplus as a revenue source. Using a portion of the current accumulated surplus towards the 2025 budget will avoid a large fluctuation in revenue in the 2025 budget. This will assist with managing any tax levy increase in 2025.

#### **Transfer \$343,980 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 2024 is a target balance of \$908,155. The Contingency Reserve currently has a projected uncommitted balance of \$102,122. Staff have taken into account that \$630,000 of the Contingency Reserve has been committed to provide funding for the implementation of the non-union grid. The new grid was approved in 2022 and is slowly being funded through the tax levy, but it will require transfers from the Contingency Reserve over the years 2024 to 2027. Using the accumulated surplus to increase this reserve will result in an uncommitted balance of \$446,102 in the Contingency Reserve, which unfortunately will still fall short of the target balance by \$462,053.


**INTER-DEPARTMENTAL COMMENTS:**

Comments from other departments was not required in preparation of this report.

**CONCLUSION:**

The Township is fortunate to have a significant accumulated surplus. \$500,000 of this surplus has already been transferred to the Capital Reserve, which provided needed funding to the Ten Year Capital Plan. \$300,000 of the accumulated reserve will be used to offset tax levy increases in 2024 and 2025. Finally, \$343,980 is to be transferred to the Contingency Reserve.

**Prepared, Submitted and Approved by:**



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**Donna DeFilippis, CPA, CA**  
**Interim CAO/Treasurer**