

Category: FINANCE

Subject: Year End Surplus Policy

Purpose

The City of Penticton Year End Surplus Policy will govern the City's treatment of fund surpluses as calculated in the annual financial statements to ensure funds are set aside to address future City priorities while meeting statutory requirements.

Scope

The City of Penticton Year End Surplus Policy provides direction to staff on the distribution of the annual surplus for each fund.

Policy Statement

The City of Penticton Year End Surplus Policy applies to the treatment of the annual surplus for each fund as calculated during Year End.

1. Definitions:

"Accumulated Surplus" means the accumulated excess of revenues over expenditures from prior years which has not been set aside for specific purposes;

"Annual Surplus" means the accumulated excess of revenues over expenditures for the current year;

"General Surplus" means the accumulated excess of revenues over expenditures for the current year for the General Fund;

"Non-Statutory Reserve" means funds allocated for a specified purpose but not established by bylaw;

"Maximum Accumulated Surplus" means the amount as calculated under S.2 of this policy;

"Statutory Reserve" means a reserve fund established by bylaw for a specified purpose as per the *Community Charter*;

"Total Actual Annual Expenditures" means the total expenditures from the City's Financial Statements Statement of Operations as published in the City's Annual Report;

"Year End" means the end of the fiscal year.

2. Use of Surplus Funds

- A. The goal is to ensure the City maintains an adequate Accumulated Surplus while also setting aside reserves for specific priorities. The balance in the Accumulated Surplus account has an optimal balance of 16% of the net expenditures for the previous fiscal year:

Net expenditures are calculated as the Total Actual Annual Expenditures from Financial Statements for the previous year

Less:

Collection of annual payments to other Governments

Transfers to other Funds/Reserves

Example:

Total Expenditures		\$ 90,000,000.00
Less the total of:		
Collections for other governments	20,000,000.00	
Transfers to other funds/reserves	12,000,000.00	
		32,000,000.00
Net Expenditures to which the 16% applies		58,000,000.00
Guideline maximum Accumulated Surplus		\$ 9,280,000.00

- B. If the City's annual General Surplus for a fiscal year is in excess of \$500,000 it will be allocated as follows:
1. 40% to Accumulated Surplus until the Maximum Accumulated Surplus is achieved
 2. Any remaining surplus amounts after item 'a' will be allocated as follows:
 - i. A maximum of \$250,000 per annum to the RCMP Services non-statutory (own) reserve if there is a surplus of RCMP yearly contract expenditures under budgeted expenditures
 - ii. 25% to the Financial Stabilization Reserve
 3. Any remaining surplus amounts after items 'a-b' have been allocated shall be split equally between the following:
 - i. Equipment Replacement statutory reserve
 - ii. Asset Emergency non-statutory reserve
 - iii. Asset Sustainability statutory reserve

Once the Maximum Accumulated Surplus is achieved no further funds would be added to the Accumulated Surplus and allocations would be based solely on items '2-3'.

- C. If the City's General Surplus for a fiscal year is less than \$500,000 it will be allocated as follows:

1. 40% to Accumulated Surplus until the Maximum Accumulated Surplus is achieved

2. Any remaining surplus amounts after item 'a' has been allocated shall be split equally between the following:
 - i. Equipment Replacements statutory reserve
 - ii. Asset Emergency non-statutory reserve
 - iii. Asset Sustainability statutory reserve

D. Electric, Water and Sewer Surplus

The City's Electric, Water or Sewer fund Surplus for a fiscal year will be allocated into the accumulated surplus for each respective Electric, Water or Sewer fund.

Related Policies and Legislation

- Council Policy - Reserve Policy (dated February 5, 2019 Resolution No. 39/2019)

Approval History			
Replaces: Year End Surplus Policy Resolution 67/2018			
Approved by Council on:	February 15, 2022	Resolution No.:	37/2022

Certified Correct:

Angie Collison, Corporate Officer