

May 13, 2013

Accounting 101: Understanding when a surplus does not mean cash to spend

A \$3.704 million annual surplus noted by City of Campbell River auditors does not represent available cash to reduce property taxation, confirms City auditor MNP.

At the May 7, 2013 Council meeting, the accounting firm presented the 2012 audited financial statements.

"The auditors noted significant improvement in both the audit process and the City's financial management, but unfortunately, an item called 'annual surplus' has been misinterpreted by some people – including the Mayor," says Council's Finance Liaison Andy Adams. "It needs to be clarified that what's called a 'surplus' does not represent real dollars available to be spent on general City operations.

"To put it in a more simple context, if you are a home owner and you receive an income tax refund in May, your bank account shows a 'surplus' for a few months, but in July you receive your property tax bill, so the so-called surplus was never really there as there were known expenses that needed to be covered. The same situation applies here for the City only on a larger scale, in that Council, as a whole, already has endorsed and approved expenses for projects that have yet to be completed."

Provincial accounting regulations require that an "annual surplus" be calculated on local government financial statements. It is an accounting term that can include items such as:

- surplus / deficits in general operating, airport, water and sewer accounts
- asset depreciation over useful asset life
- funds remaining to complete capital projects already underway

Brad Piercy of MNP explains that: *"The calculation of annual surplus is complicated, and in this case does not represent excess tax money or cash available for the City to spend without looking at capital projects first."*

The \$3.704 million calculated as a City of Campbell River "annual surplus" on December 31, 2012 relates primarily to money that was to be carried forward into 2013 to complete capital projects.

"Some projects were underway, but not completed in 2012, and, in accounting terms, when we calculate funding set aside to finish these, it's included in what we called a 'surplus'," Adams says. "Council voted to dedicate money for capital projects to improve local infrastructure, and once contracts are awarded, the funds can only be used for that work."

Adams also notes: *"City staff have worked hard to reduce our operating costs, and with some delays in projects, less money was spent in 2012 than anticipated, but regulations on local government finances stipulate that water and sewer funding is not eligible to be used for general expenses. This money can only be used for operations and projects related to water and sewer."*

Adams concludes: *The audited financial statements showed that the City of Campbell River property tax levy decreased by \$125,000 over 2011 funding, and senior government grant funding decreased by about \$4 million, which confirms the City did a good job balancing 2012 expenses to match the funds available while continuing to provide the citizens of Campbell River with the services and support they expect."*

"Council has worked diligently to improve the City's financial position, and the auditor's report speaks to that success," states City manager Andy Laidlaw, who has been fielding calls from concerned citizens.

The financial statements are available on the City's website and will be included in the City's annual report, which will be available to the public on June 9, 2013.

XXX

Contact: Councillor Andy Adams

250-286-5708