

The Balance Sheet Problem

This is an ongoing problem that the GFPID has had for many years. It is something that is poorly understood and has largely been ignored. It is also something that is exacerbated by large budget increases and with the recent large budget increases, it is something that can no longer be ignored. This paper is intended to bring clarity to the problem and answer questions like; What is the problem? Why is this happening? What are the solutions?

What is the GFPID Balance Sheet Problem?

At the most basic level, the GFPID tends to run out of money every June. The annual tax levy comes in early July, which is the vast majority of the money required to run the organization. And prior to this, the money from the previous year's tax levy runs out. This is appropriately called a balance sheet problem. There is not enough money on the balance sheet, to pay wages and invoices. This is a problem.

Of course, nothing is ever simple. So, we have many things to unpack. Let's start with a look at a GFPID balance sheet.

The GFPID Balance Sheet

Below is the December 31, 2024 GFPID balance sheet from the 2024 Annual Report. The first thing to note is that this document is called the Statement of Financial Position, which is the same thing as a balance sheet. I am going to use the term balance sheet, as that is the term that I am more familiar with and believe is more common. Also, "Balance Sheet Problems" are a thing, they are fairly common business problems.

Definitions aside, the top number is the one that concerns us the most. In 2024, \$927K. At first glance that seems like a lot of cash, but if we dig deeper into that number, it's not quite that big. This number includes \$483K from the Truck Capital Reserve Fund, \$78K from the Equipment Capital Reserve Fund and plus a few more smaller reserve funds. All in all, I am fairly comfortable saying that there is about \$350K available for operations of the organization. I am learning this stuff through an opaque lens, so my accuracy is probably plus or minus \$25K. But for this paper, I am going to go with \$350K.

GABRIOLA FIRE PROTECTION IMPROVEMENT DISTRICT
Statement of Financial Position
December 31, 2024

	Total 2024	Total 2023
Financial assets		
Cash and cash equivalents	\$ 926,556	\$ 950,119
Accounts receivable (Note 4)	19,525	46,935
Restricted cash (Note 8)	1,613	22,396
Inventory (Note 5)	2,910	3,988
	950,604	1,023,438
Liabilities		
Accounts payable (Note 6)	61,157	32,915
Payroll liabilities (Note 7)	23,375	28,460
Deferred revenue (Note 8)	121,358	174,937
Current portion of long term debt (Note 9)	142,170	139,109
Long term debt (Note 9)	445,552	587,722
	793,612	963,143
Net financial assets	156,992	60,295
Non-financial assets		
Prepaid expenses (Note 10)	75,211	66,012
Tangible capital assets (Note 11)	5,062,738	5,007,378
	5,137,949	5,073,390
Accumulated surplus	\$ 5,294,941	\$ 5,133,685

So, \$350K cash to run the fire department operations... at a point in time. At this point in time, this is a pretty good looking balance sheet. There is plenty of cash to pay the bills.

Balance sheets are snap shots of an organization's financial position at a given point in time; What does the GFPID cash for operations look like over time?

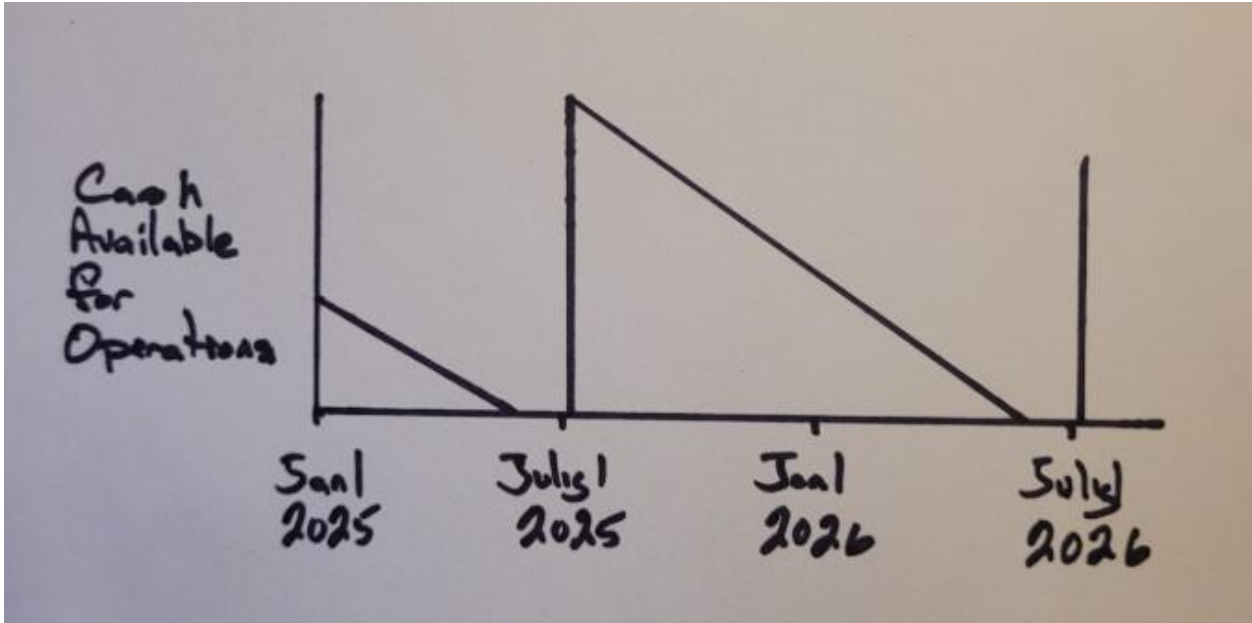


Figure 1. Cash Available for Operations.

It would look something like Figure 1. According to our 2024 financials, we would have about \$350K cash available for operations on Jan 1, 2025. It sounds like it went down to about zero in May and/or June. At this point wages and invoices were not being paid, because there was no money to pay them. So, in the Liabilities section of the Balance Sheet, I would expect the Accounts Payable and Payroll Liabilities lines to have increased. Then on July 3rd, when the tax levy came in, the cash available for operations would have gone up by a million dollars. Then the Accounts Payable and Payroll Liabilities would have come back to a normal level. Then this cycle would repeat with different numbers.

Because cash available for operations goes to zero for a month or two, I consider that problematic. The organization is effectively broke. It can't pay its obligations. I am calling this a Balance Sheet Problem, because the problem is within one line of the balance sheet... for a month or two per year. What would a good balance sheet look like?

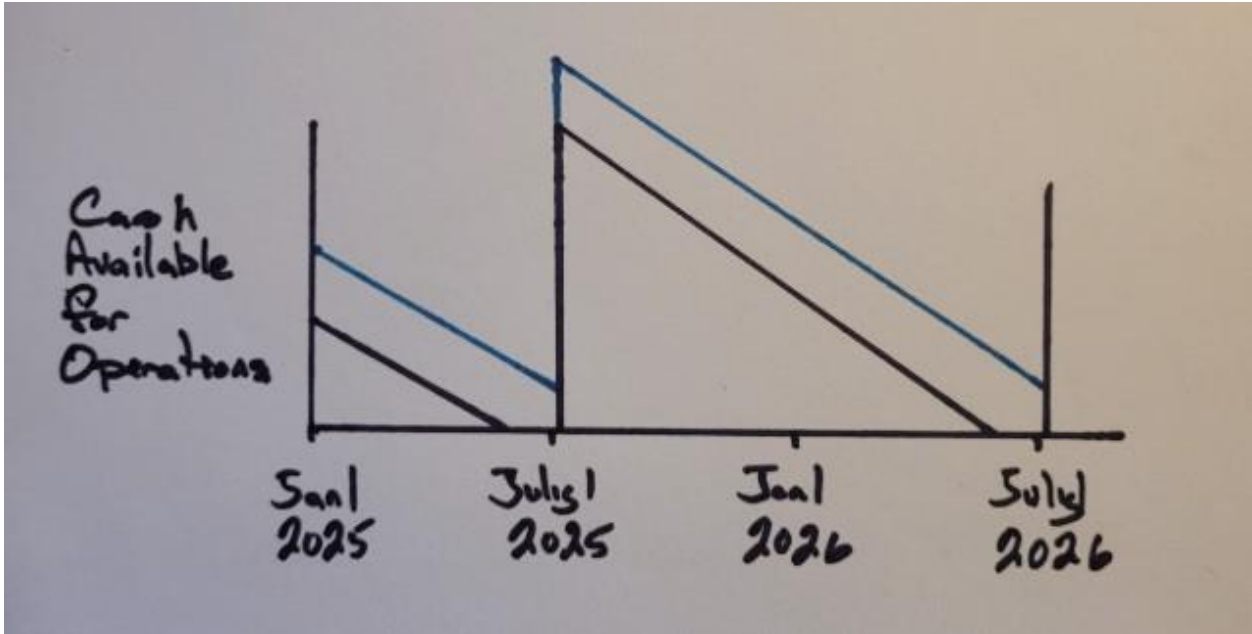


Figure 2. A Good Balance Sheet- the blue line

A good balance sheet would look like the blue line in Figure 2. Cash available for operations would never hit zero. The organization would never go broke. It is the same amount of revenue and the same amount of spending throughout the year, the cash available is just offset higher. Of course there is a certain amount of cash required to fix this, but once fixed, cash required to operate does not change.

An obvious question at this point is; How much money is appropriate to have available for operations on July 1st of the year? The way I frame this in my head is that, that amount is the contingency fund. I think there should be targets for this number. It becomes a question; How close to the line do we operate, at the leanest time? How close to "cheque to cheque" do we operate? My opinion is, about \$100K for this size or organization..

I also think it is important to recognize that it is not as simple as creating a target for cash available for operations on June 30th, as this is a highly manipulatable number. Deferring payments and deferring spending can significantly affect this number. So, any target needs to be understood in that broader perspective.

Take Away:

- The only balance sheet that ever gets shown to the public is the audited December 31st one. Yet the one that really matters, is the June 30th one. And, the Cash and Cash Equivalents line, needs to be broken down to show cash available for operations and restricted funds separately.

Why is this happening?

This is the big question. Let's break it down into a couple of smaller topics. First, let's think a bit about how to manipulate the balance sheet. Then let's understand the GFPID budget process and how it would affect the balance sheet.

How to Affect a Balance Sheet

This isn't that hard.

In particular we are concerned with Cash Available for Operations. Think of it as a bank account that gets a million dollars deposited into it on July 3rd every year. Then that million dollars is spent over the next twelve months. And the cycle repeats itself. It is a bit more complicated than this, but this gives you the big picture.

One of the complexities is the capital cash. It comes in with the tax levy and then gets distributed to capital accounts soon thereafter. Also when capital money is spent, it comes out of the capital accounts, into the operational accounts to be spent. But for the purposes of this paper, let's just ignore the capital cash - it doesn't change our balance sheet problem.

At this point, let's add a new concept - if the money coming in for a year equals the money going out for that same year, at the end of that year the balance will be the same. Common sense, I think. The money coming in for the year will be the tax levy (minus the capital portion). The money going out will be specified by the budget. So, if the tax levy (minus the capital portion) equals the budget, and the budget is adhered to, the balance should be the same every year.

But, there is other money coming in like deployment funds. Let's assume that everything is great and tax levy is equal to the budget and the budget is being adhered to and we are expecting the cash available for operations to be the same at the end of the year... and then we get \$50K (after expenses) of deployment funds. What happens to the cash available for operations at the end of the year? It would go up \$50K.

Conversely, what if the Fire Chief went over budget by \$30K one year? We could expect cash available for operations to be \$30K lower at the end of the year.

My point here is that an imbalance between money coming in and money going out - over a year - will affect cash available for operations. When this matters is in June of the year... when the organization is typically broke.

Being over budget is really problematic in June. Being under budget is necessary in June. This is the game which is normally played. It's called deferred spending. Underspend in the first six months of the year and then once the levy is in, spend the budget. I think it is worth pointing out

that being over or under budget on December 31, affects cash available for operations the following June 30, when it really matters.

I think all of this is fairly straight forward. Let's move onto the GFPID budget process.

GFPID Budget Process

This is where the systemic problems are and people get confused. Let's start out very basic.

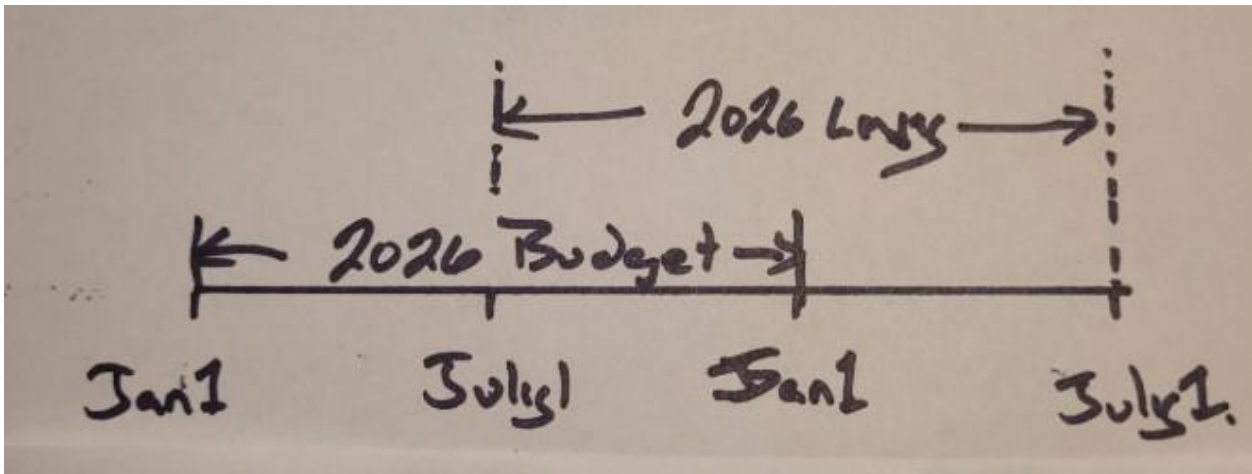


Figure 3. The GFPID Budget Process

In August 2025, we started working on the 2026 budget/levy. The 2026 budget is for January 1, 2026 December 31, 2026. The 2026 budget is authorization for the Fire Chief to spend the money in that budget over that time period. Think of it as money going out or money coming off the balance sheet. The 2026 Levy is money coming in or going onto the balance sheet. It comes in, in one lump sum a few days after July 1, 2026. Although I am depicting it over a year, because it needs to last until the next levy comes in. We can get advances on this money, but for now I am going to ignore that and will bring in that complexity in a few pages. For now, I am going to pretend that that option does not exist. Anyways, the budget is the money going out and the levy is the money coming in. And these two amounts are equal... On the surface, it's a good system - bring in the money that one plans on spending.

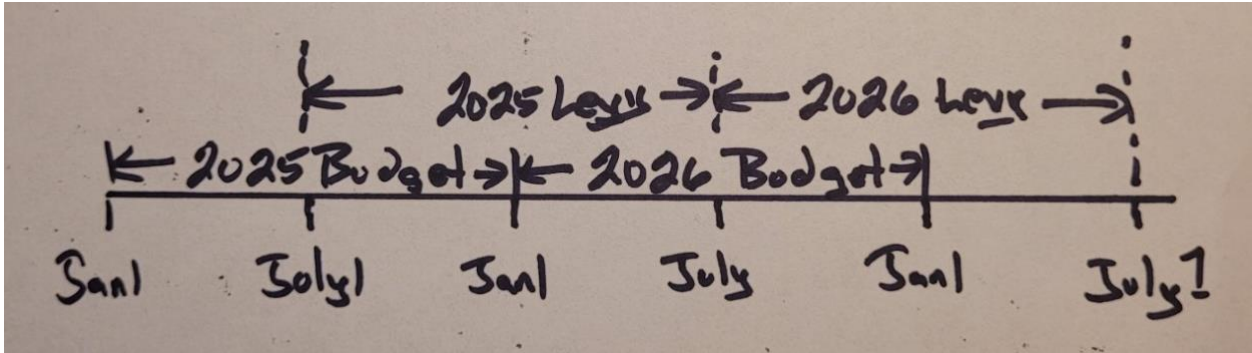


Figure 4. Levy Timing

Figure 4 is basically the same as Figure 3, it just has two years back to back on it, 2025 and 2026. This figure shows the fundamental problem, that the money comes in the middle of the budget year. I have heard this framed in two different ways, let's call them Framework A and Framework B.

Framework A, of which is the one I am friendly to and goes as follows. The tax levy for 2025 came in on July 3rd and needs to be used to fund the fire department until the next tax levy comes in, on about July 1st the following year. I think this is fairly straight forward and is why I depicted the 2025 and 2026 levy on the figure, like I did.

Framework B, is that the 2025 tax levy came in on July 3rd and should be used to fund the fire department from January 1, 2025 to December 31, 2025. Technically this is correct, although I am going to park it for a while and move forward with Framework A. I will come back to Framework B.

I think it is important to understand both of these frameworks, you don't need to agree with both, I just want you to understand both.

Framework A

Given Framework A, let's put some numbers to it.

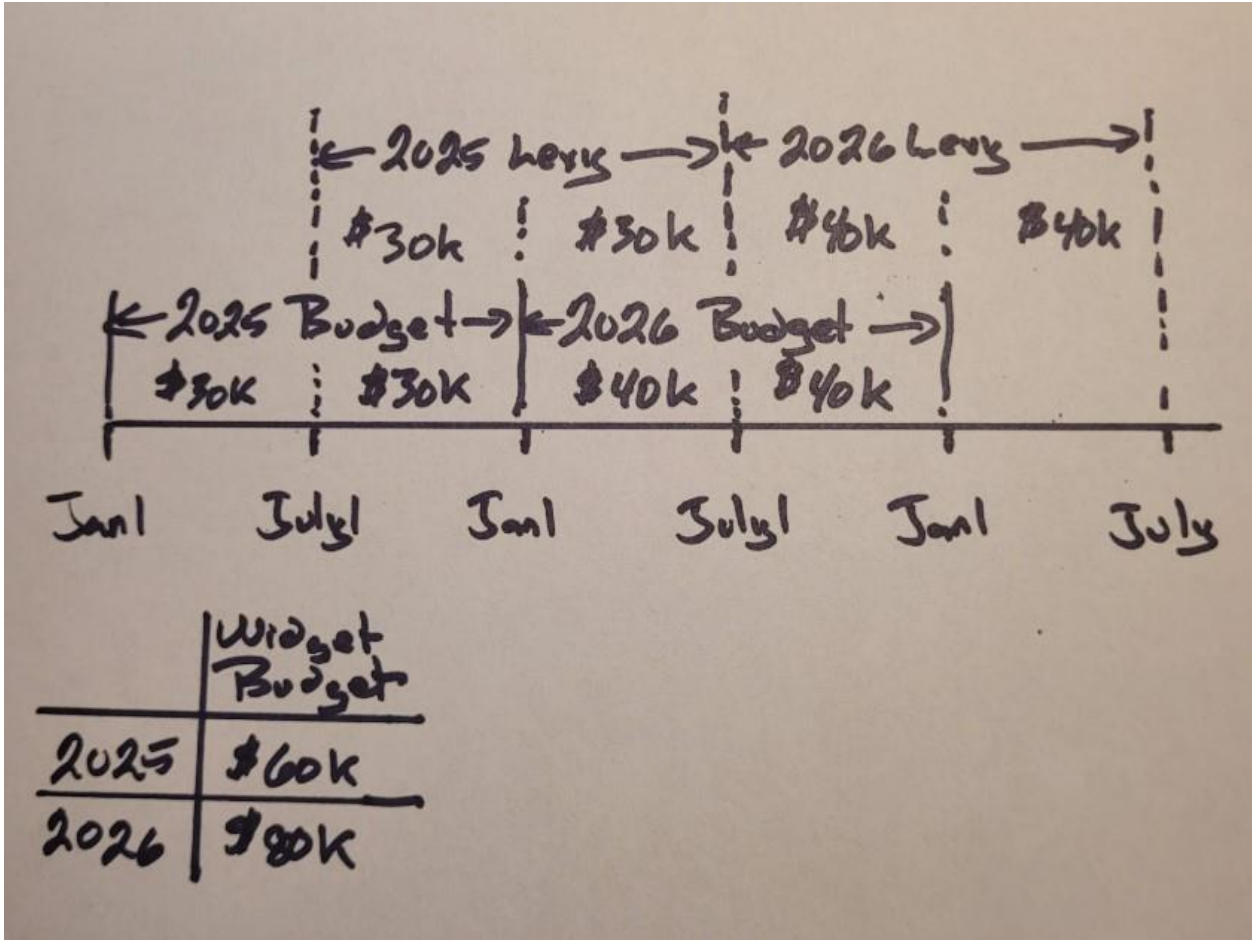


Figure 5. Widget Budget Example

Remember Figure 3, when we said that the 2026 Budget and 2026 Levy were the same. We can now see that with some numbers. The same thing for 2025.

In Figure 5 we have a Widget Budget of \$60K for 2025 and \$80K for 2026. Or... \$30K for the first half of 2025, \$30K for the second half of 2025 and \$40K for the first half of 2026, \$40K for the second half of 2026. This is basic stuff.

The thing to notice is that in the first half of 2026, the budget of \$40K is only funded by \$30K in the levy for that time period. There is a \$10K shortfall. Where does that money come from? It comes off the balance sheet, it comes from cash available for operations. Remember Figure 2? The way this is budgeted, we just took \$40K off of cash available for operations, yet only made \$30K available in July 2025. The June 30, 2026 Balance Sheet is now \$10K worse off than the June 30, 2025 Balance Sheet.

This is the fundamental problem with the GFPID Balance Sheet. We have disconnected the money coming in, from the money going out. We have shifted it by six months. As a result, any increase in the budget will result in taking half of that increase off of the balance sheet.

Someone came up with the idea that we should increase budget items on July 1st when the levy comes in and not January 1st as that causes shortfalls, like I just demonstrated. I myself bought this argument during my first budget process. I have come to realize... maybe not. Let's look at an example of that.

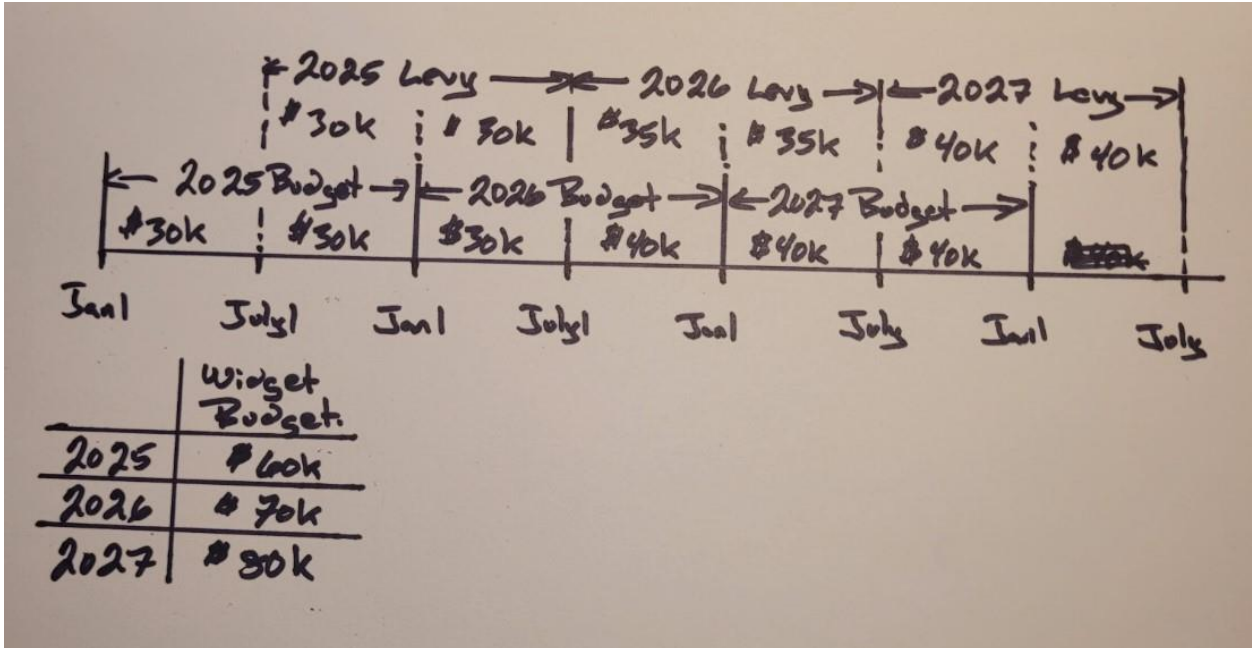


Figure 6. Budget Change July 1st

Figure 6 is the same scenario as Figure 5, except the budget is raised on July 1st when the levy comes in and not the beginning of the year, January 1st. It had been recognized that raising the budget at the beginning of the year was creating problems in June, before the levy came in. So the logic was, wait for the levy to come in before raising the budget.

In Figure 6 it can be seen that the budget went from \$60K/year to \$80K/year on July 1, 2026. Because of this, only \$70K was needed in the budget for 2025. Prior to July 2026, the levy matches the budget for each half year. But during the period of the 2026 Levy, July 1, 2026 to July 1, 2027, the levy has \$70K in it, yet the budget has \$80K in it. There is the same \$10K shortfall as in the previous example, with the difference that the problem manifests a year later, June 2027 not June 2026. Here again, this \$10K comes off the balance sheet.

The fundamental problem is, making a budget that matches the levy, and then shifting the budget back six months. Any increase in budget will not have the matching increase in levy for six months. Everytime. Where does the money come from? The balance sheet... basically it comes out of the bank account.

Right about now, the Framework B people should be getting pretty antsy, so let's deal with that next.

Framework B

I will start by explaining Framework B, then demonstrate the problem with it.

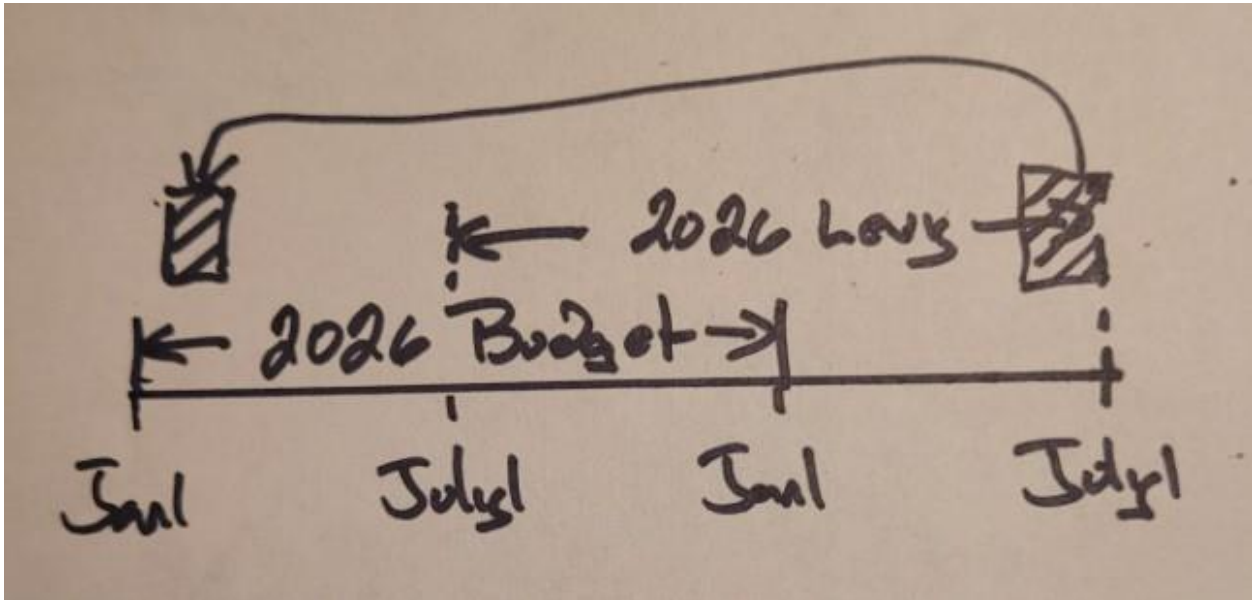


Figure 7. Framework B

It's kinda funny... I am starting out explaining Framework B with this drawing, which is drawn from my Framework A bias. I'm going to go with it anyways.

The 2026 levy came in on July 3, 2026, half way through the 2026 budget. It's a lump sum payment. Framework B believes that this money should be used to fund the 2026 budget. The only way to spend that money in January to June, is to get an advance on it. The Province has a process for this and there is a reasonable interest charge for doing this.

A pure Framework B system, would be to have the balance sheet sitting at about zero on January 1st, then get an advance on half of the operational budget for the first half of the year.

On January 1, 2025 the GFPID had about \$350K cash available for operations, with a \$1000K operational budget - or 35%. So, having 35% of one's operating budget for the first half of the year, is problematic. And was problematic, as we were unable to pay wages and invoices in May and June. Because of this, the Trustees decided to bring \$100K forward in the 2026 year, to help deal with this problem. Up until this year, the GFPID has operated 100% under the Framework A system. Now, I would argue that we are moving towards a blended Framework A/B system.

Let me be very clear, The Framework A system works, the Framework B system works and so does a blended system. It all works. The question becomes, which one should be use. Let me lay out my issue with Framework B.

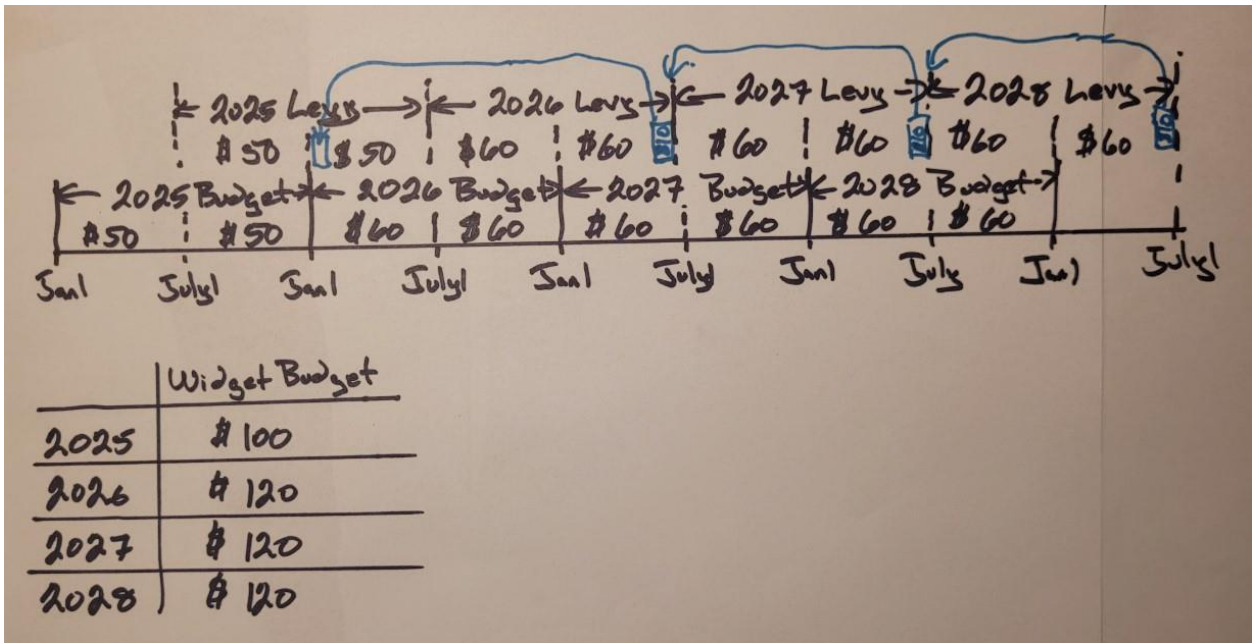


Figure 8. Framework B Problem

Figure 8 is an example laid out in Framework A. The widget budget goes up from \$100 in 2025 to \$120 in 2026, then holds at \$120 going forward. You can see how this creates a mismatch in the first half of 2026, between the 2025 levy and 2026 budget. There is a \$10 shortfall. This \$10 shortfall will come off the balance sheet and create problems in June of 2026. The Framework B solution to this, is to advance \$10 from the 2026 levy to the beginning of 2026 - as illustrated in blue. This solves this \$10 budget/levy mismatch in June of 2026. The problem is, it creates a \$10 budget/levy problem in June of 2027. To solve this issue, one would have to advance \$10 from the 2027 levy to the beginning of 2027... and on and on it goes.

My issue with Framework B, is that it creates a perpetual need for borrowing, for a one time mismatch in budgeting. I have a big problem with that, I would much rather fix the mismatch in budgeting and do no borrowing - but I'm getting ahead of myself.

The rationalization for this borrowing is that it is not that significant to the overall budget. Which is true. I say that for a one time shortfall, perpetual borrowing is very expensive. This is the political decision that needs to be made. Both frameworks work.

Current GFPID Status and Trajectory

One of my favorite sayings is this: It doesn't hurt to stop every now and again and take a look to see where you are going. Because if you don't, you just might get there. So... let's take a look at where we are and where we are going.

We know that on January 1, 2025, we had about \$350K cash available for operations. We also know our 2024, 2025 and 2026 budget and levy sizes. Because of how we shift our budgets away from our levies, we know that half of any increase will come off our balance sheet, or cash available for operations. From this, we can make a table.

(in thousands)	2024	2025		2026		2027		2028		2029	
	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
Cash available for ops	\$350	\$(150)	\$350	\$(110)	\$350	\$-	\$350	\$-	\$350	\$-	\$350
Budget Operations		\$500	\$500	\$560	\$740	\$760	\$760	\$825	\$825	\$875	\$875
Levy (Op Portion)			\$1,000		\$1,300		\$1,520		\$1,650		\$1,750
Advances on Levy				\$100		\$410		\$475		\$525	

Table 1.

I inflated the budget numbers a bit from the long term plan, because I think this is more real. Nevertheless, it is an informative table.

The first thing that jumps out at me is that the June 2025 shortfall was about \$150K. I think that operations is well practiced and accustomed to deferred spending, so this number is more theoretical than actual. It is based on half the budget being spent in the first half of the year and half in the last. Nevertheless, it is a good assumption and worth noting.

The next thing that jumps out at me is that our upcoming June 2026 shortfall will be about \$110K, even with the \$100K advance. Things shouldn't be quite as bad this year. Deferred spending will have to be a thing again.

Then I put in advances on levies, to the amount that takes our cash available for operations to zero on June 30th of each year. What caught my eye, is that the cash available for operations on December 31st stays at \$350K. But this makes sense, because at the end of the year, we are on budget - we are spending what we are bringing in. The problem is, our mid year cash increases with an increasing budget... because of the way we do this.

Solutions

In my head, complex problems such as the GFPIID Balance Sheet Problem, have solutions that are framed in a process. Firstly, there needs to be a common understanding of the problem and the solutions. Then the people in power need to make an informed decision as to the direction to take. Then from there, it is about staff to implement that direction and report progress.

Common Understanding

Before we do anything, we need to have a common understanding of the problem and solutions. This is what this paper is about. If people have a different perspective, let's work together in creating a common understanding - let's have that debate.

So far, I have only discussed the problem and done this with two frameworks. The solution becomes more complex. To clarify the solution, I will split it into two parts. Part 1 is to quit digging the hole, Part 2 is to fill in the hole that we have dug. In other words, Part 1 is to quit making the balance sheet worse, Part 2 is to fix the balance sheet problem that we have made.

For the purpose of this paper, I am going to park, Part 2. That is for future discussions, because if the decision is to keep digging the hole, there is really no use in spending energy talking about how to fill it up.

Part 1 - Quit Digging the Hole

The good news is, we can quit digging the hole with Framework A or Framework B. With Framework B, we can quit digging the hole or not, that is totally up to us. Because of this, I am going to create a Framework B1 and a Framework B2. So...

- Framework A - quit digging the hole
- Framework B1 - quit digging the hole
- Framework B2 - keep digging the hole

Framework B2

Framework B2 is the first because it is the easiest to explain. Keep doing what we are doing. Keep budgeting in such a manner that takes money off of the Q2 balance sheet and will require larger and larger advances on the levy, in order to cover operations in the first half of the year.

With our increased level of understanding we can predict what the Q2 balance sheet will look like, and therefore we can make good predictions of what advances will be needed nine months prior, when we need to make those decisions.

Supporters of this solution can say that this costs less than 1% of levy.

Non-supporter, such as myself will say this is expensive, as it requires 6 month loans, annually, for one time short falls. One is better off borrowing money for capital expenditures, because at some point, that will get paid off. With this, one time shortfalls will never get paid off.

Framework A

In writing this paper, I have come to realize that Framework B2 will automatically align the levy to the budget. As the budget increases, it will force us to advance more and more money every year, which will effectively move the levy back towards the beginning of the budget year.

The other way to do it, is the other way around, lock the budget to the levy. The levy comes in on July 1st, or shortly thereafter. We can't change that. So, when we develop a budget to figure out how much the levy should be, we leave that budget at July 1st to July 1st - we don't move it back to January 1 as we do now. To make this work, we would need to take that budget and divide it in two halves, so that in any fiscal year we would have two half budgets to work from - one from the previous levy and one from the levy that comes in on July 1st.

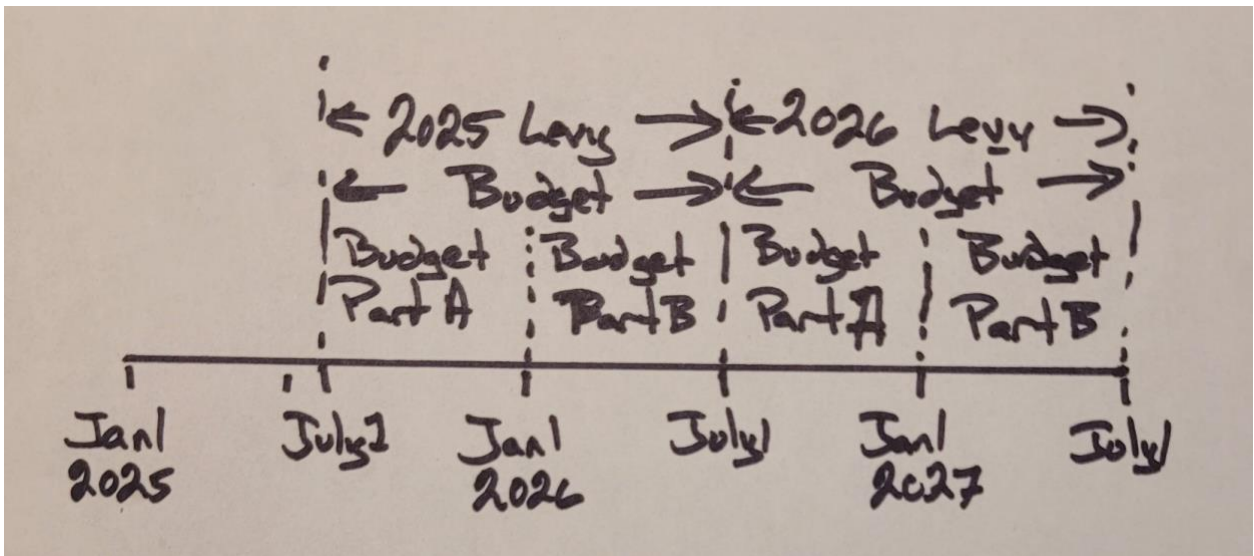


Figure 9. Framework A Solution

In Figure 9, the 2026 fiscal year budget, January 1 2026 to December 31st, 2026, would consist of Part B of the 2025 Levy Budget and Part A of the 2026 Levy Budget.

Our fundamental problem is, that after we create a budget for a levy, we shift that budget back six months and underfund half of that budget with the previous levy. If we lock the budget to the levy the shortfalls go away because the budgets are fully funded.

Framework B1

The other way to fix our structural deficit is whenever we increase a budget, we take 50% of the increased portion and allocate that for operational reserves, on a one time basis. Basically, we postpone the budget increase for six months. This allows us to shift the budget back six months, from the levy, without taking money off of the balance sheet.

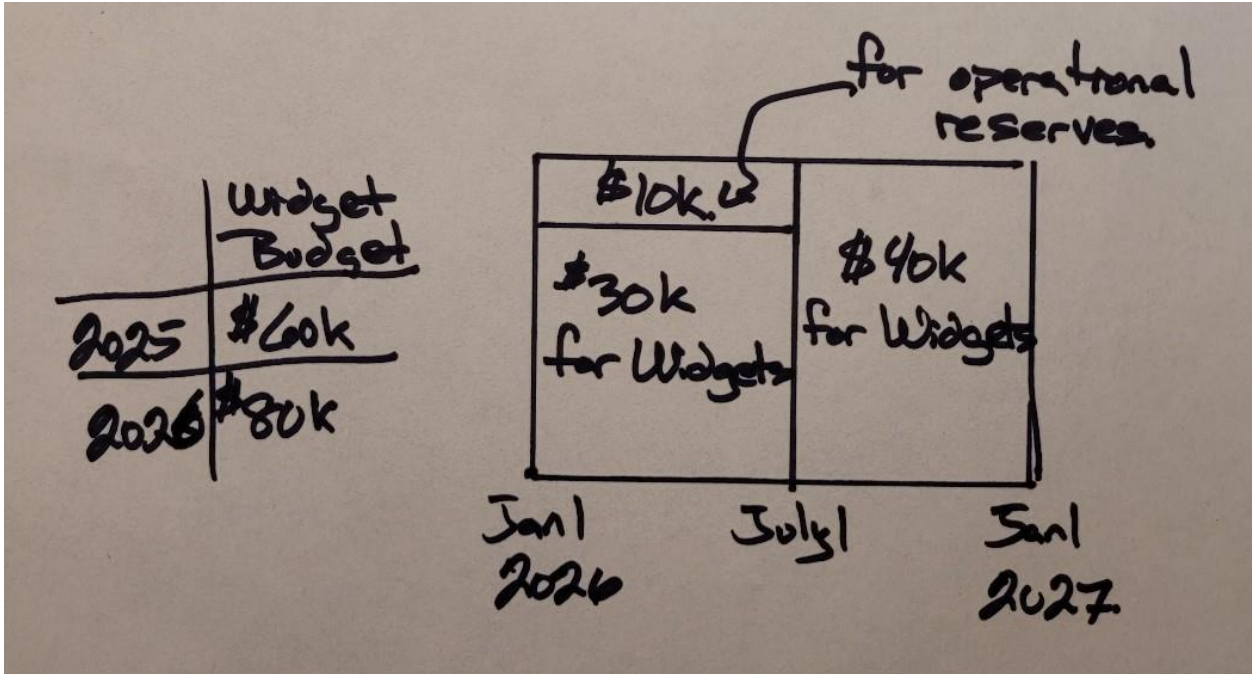


Figure 10. Framework B1 Solution

The thing to understand is that the Framework A solution and the Framework B1 solution are really the same thing, they are just framed differently. It's a different way of talking about the same solution.

Conclusion

A few months ago, this board guessed at how much money was needed to maintain adequate cash available for operations in June of 2026. It was literally a guess. From this paper it is now possible for us to calculate that number. More work needs to be done to clarify and make the assumptions within the calculation better. But regardless of that, we are now at the point of monitoring this and we need to do that going forward. From monitoring, comes the opportunity to actively manage.

The board needs to make a decision; Do we adopt an economic philosophy that this fire department incurs debt to run operations as a normal course of business? This makes sense in some people's heads, but not in mine. Democracy shall rule on this. Both ways work, one is just a more expensive way to operate than the other.

If we choose the more expensive way, which is to use debt, we keep doing what we are doing. Nothing to fix.

If we choose the less expensive way, we need to get our financial house in order. We need to quit digging the financial hole that we are digging and we will need to fill in the financial hole that we have dug. I think that both of these things are fairly easy to do.

To quit digging the financial hole, we will need to adjust the budgeting framework, to either the Framework A Solution or Framework B1 Solution. This is a political decision and it doesn't matter that much which one is picked. Both work equally as well, they just frame things a bit differently.

After that we should fill in the hole that has already been dug. Ideally, management would do that.

Suggested Motions

Suggested Motion: To recommend to the board that the GFPID has an objective of not borrowing money for operational purposes.

Suggested Motion: To recommend to the board that the GFPID adopt the Framework A Solution, from this paper, as a path forward.

Version

- Version One - November 10, 2025

Author

- David Chorneyko, GFPID Trustee