

## Glossary of Accounting Terms

The following glossary was prepared for Council and staff to promote a common understanding of general accounting and finance terms and to ensure consistency in the interpretation of financial documents.

**Accumulated Surplus/(Deficit)** is the accumulation of the municipality's annual surpluses and deficits since its inception. The accumulated surplus is made up of the amount of financial assets that exceed liabilities plus non-financial assets, which includes tangible capital assets (T.C.A.). T.C.A. will normally comprise the most significant portion of a municipality's accumulated surplus. An accumulated deficit occurs when the total liabilities exceed the financial and non-financial assets.

**Amortization** is a non-cash expense, which recognizes the loss in value of an asset due to usage, passage of time, wear and tear, technological obsolescence or other such factors over its useful life.

**Audited Financial Statements** are statements containing financial information, which disclose significant/material financial matters for the municipality and its owned or controlled organizations. Included in the City's consolidated statements are the Oshawa Public Library, Central Business District Improvement Area, and the Oshawa Public Utilities Commission.

**Bid Deposit** is a security held by the City to ensure that the bidder will provide all documentation specified in the tender and enter into a contract with the City. Where applicable, the City requires a bid deposit of 10% of the bid amount.

**Bid Solicitation** includes requests for proposals, quotations or tenders.

**Contingent Liability** is a potential liability that will become an actual liability if, and only if, certain events occur. Legal claims are an example of a contingent liability.

**Contributed Assets** are assets that have been transferred or donated to the municipality and will provide a future economic benefit to the municipality. The most common contributed assets are road and road related infrastructure that is built by the developer and assumed by the City once the subdivision is complete.

**Co-operative Purchasing** refers to the participation of two or more governments or public agencies in a bid solicitation. The City of Oshawa is a member of the Durham Region Purchasing C-operative and regularly participates in co-operative purchasing for items such as salt and stationery supplies.

**Debentures** - a long term loan used as financing for major capital projects. Debentures are typically structured for a finite term (usually between 10 and 20 years) without flexibility to retire the debenture early. Debenture debt spreads the project cost and related tax rate increase over a number of years and ensures that future taxpayers pay their share of capital projects being completed today.

**Deferred Revenue** is income received that will not be recorded as revenue until certain

transactions or events take place. A common example of deferred revenue is development charges. This revenue is not recognized until the expense for which the charge was collected has occurred.

**Development Charges** a charge paid by developers to partially pay for the cost of new capital projects required as a result of growth (e.g., new roads, parks, trails, community centres, fire stations, etc.). Development charges do not cover the entire cost of a capital project, as legislation requires municipalities to fund a portion of most projects. In addition, certain growth-related capital expenditures are exempt from development charges and must be paid entirely by the municipality.

**Employee Future Benefits (E.F.B.)** are benefits earned by active employees and expected to be provided to them when they are no longer providing active service to the City. E.F.B. are non-pension retirement benefits for extended health care and life insurance, as well as payouts for accumulated sick days.

**Expenses** are the cost of economic resources consumed in the business operations of the accounting period.

**External Auditor** is an audit professional who plans and performs an audit. The objective of an audit, among other things, is to:

- determine whether the accounting records are accurate and complete;
- determine whether the financial statements were prepared in accordance with the provisions of Generally Accepted Accounting Principles and the Public Sector Accounting Board Standards;
- assess internal control systems; and,
- determine whether the financial statements present fairly the organization's financial position, and the results of its financial operations.

**Full Accrual Basis of Accounting** recognizes the financial effects of transactions in the period(s) in which they occur irrespective of when the cash has been received or paid. For example, it requires that tangible capital assets be reported on the balance sheet (statement of financial position) at historical cost and expensed (amortized) in the annual results of operations over their estimated useful lives.

**General Levy** (sometimes referred to as the Tax Levy) is the total of all expenditures funded by property taxes.

**Generally Accepted Accounting Principles (G.A.A.P.)** are broad rules adopted by the accounting profession as guides in measuring, recording, and reporting the financial affairs and activities of a business.

**Gross** is the total amount prior to any deduction or discount.

**Internal Auditor** is an internal staff member that conducts ongoing operational and compliance reviews to:

- monitor operating results;
- verify specific financial records;

- assist with increasing efficiency and effectiveness of operations; and, detect fraud.

**Internal Control Systems** are procedures adopted by an organization to encourage adherence to prescribed managerial policies, to protect its assets from waste, fraud, and theft, and to ensure accurate and reliable accounting data.

**Internal debt or Interfund Note (I.F.N.)** is a borrowing between city funds (reserves), with or without an interest component.

**Net** is the amount remaining after all deductions from, or adjustments to, a gross figure have been made.

**Net Book Value (N.B.V.)** of a tangible capital asset is its cost, less accumulated amortization and the amount of any write-downs. The N.B.V. represents the economic value of the asset to the organization in the current fiscal period.

**Prepaid Expenses** are amounts that are paid to a vendor in advance, for a good or service that will be consumed or performed in the future. The prepayment is accounted for as an operating expense in the accounting period when the good is consumed or the service has been performed.

**Pre-qualification** is a formal procedure whereby a bidder satisfies the City that it is capable of performing the work before it is allowed to submit a tender or proposal.

**Professional and Consulting Services** includes the services provided by professionals including but not limited to architects, engineers, designers, real estate appraisers, financial consultants, lawyers.

**Public Sector Accounting Board (P.S.A.B.)** is the independent body of the Canadian Institute of Chartered Accountants (C.I.C.A.) that serves the public interest by setting standards and providing guidance for the reporting of financial and other performance information by the public sector.

**Request for Expression of Interest (R.F.E.O.I.)** - Expression of Interest (E.O.I.) is a multi-staged process. An E.O.I. is used to shortlist potential suppliers before seeking detailed bids from the shortlisted bidders. An R.F.E.O.I. is generally used when the information required from bidders is specific but the City is unsure of the capability of suppliers to provide the required goods and services.

**Request for Proposal (R.F.P.)** is a form of bid solicitation where the City is looking for a solution to a particular situation and multiple solutions may exist. Price is not the overriding consideration for award, but one of several factors, including qualitative and technical factors. R.F.P. is always a sealed bid process.

**Request for Quotation (R.F.Q.)** is a form of bid solicitation that is based on precisely defined requirements for which a clear or single solution exists and is generally for low dollar value (less than \$100,000). The contract is awarded to the lowest priced bidder that satisfies the specifications and requirements of the quotation.

**Request for Tender (R.F.T.)** is an objective, open and transparent form of bid solicitation that is utilized for obtaining competitive bids based on precisely defined requirements for which a clear or single solution exists and is generally for high dollar value (greater than \$100,000). The contract is awarded to the lowest priced bidder that satisfies the specifications and requirements of the quotation. R.F.T. is always a sealed bid process.

**Reserves/Reserve Funds** are monies set aside for specific purposes, including both operating and capital budget items. There are two main types of reserves/reserve funds:

- **Non-discretionary/Statutory/Obligatory** - municipalities are required by legislation to establish certain reserve funds (e.g. Development Charges, Federal Gas Tax).
- **Discretionary** - can be established by Council for a specific purpose (e.g. vehicle/equipment replacement, municipal elections, tax appeal reserve, winter reserve).

**Revenue** is the income of the City from all sources appropriated for the payment of public expenses. The City's main revenue sources include taxation, user fees for the sale of goods/services, interest, dividends, grants and donations.

**Single Sourcing** is the procurement of goods and/or services from a particular supplier rather than through a bid solicitation from multiple suppliers who can provide same/similar goods and/or services.

**Sole Sourcing** is the procurement of goods and/or services that are unique to a particular supplier and cannot be obtained from another supplier.

**Surety** is a security held by the City to guarantee completion of a contract and is generally in the form of a performance bond or a letter of credit.

**Tangible Capital Assets (T.C.A.)** are non-financial assets having physical substance that are acquired, constructed or developed and:

- are held for use in the production or supply of goods and services;
- have useful economic lives extending beyond an accounting period;
- are to be used on a continuing basis; and,
- are not for sale in the ordinary course of operations.

**Unsolicited Proposal** is an offer from a supplier for the provision of goods and/or services for the purpose of obtaining a contract with the City, and is not in response to a request for proposal.

**Work-in-progress** is defined as assets under construction or development that are not yet in-service. Upon completion, these assets will be recorded as an in-service asset in their proper category and will be amortized over their useful life.

**Working Capital** is the excess of current assets minus current liabilities. Positive working capital indicates an ability to meet short-term obligations.