

ACCOUNTING DICTIONARY

accumulated deficit – the total of all present and past financial activities where expenses exceeds revenue; means the government has been financing annual operations by using savings and/or borrowing.

accumulated surplus – the total of all present and past financial activities where revenue exceeds expenses. It is a representation of all financial and physical resources the government has available to provide future services and can be categorized into unrestricted surplus, restricted surplus or equity in tangible capital assets.

amortization (also known as depreciation) - process of allocating a portion of the total cost of a capital asset over its useful life.

annual surplus (also known as surplus) - revenues raised in the year were more than sufficient to cover the year's expenses which include the use of existing and implementing new assets. If revenues equal expenses then the government has maintained its net assets. *See accumulated surplus for multi-year implications. See net assets for further clarification.*

asset management – a systematic and effective process of deploying, operating, maintaining, upgrading and disposing of assets.

assets –financial and tangible property a municipality owns or has available to provide services (including cash, investments, equipment, infrastructure, etc.); has two main categories being financial assets and non-financial assets.

balanced municipal budget – revenue equals expenses (including the cost of existing and new capital assets).

Ideally a municipality should plan to have a balanced budget; a requirement of the MGA is that every municipality must be at least sufficient to pay for the estimated expenses and transfers, or have a plan to repay any financial shortfall.

budget – an estimate of expected income and expenses for a given period and includes both operating and capital components.

Chestermere's budget is created after the approval of a financial plan. One or more years within a financial plan can be adopted into a budget and for any remaining years that are not adopted, these years are accepted for information. A budget is used to as the basis for calculating the tax rate bylaw.

budget adjustments –modifications made to a budget that meet certain conditions and are presented to Council at specified timeframes during the multi-year budget cycle.

capital asset (also known as a fixed asset, non-financial asset, physical or tangible capital asset) – is a single asset that has the characteristics of a useful life

greater than one year and the cost is greater than \$5,000. Examples are equipment, infrastructure, and property.

capital budget – an estimate of expected income and expenses related to capital assets and funding sources for a specific time period.

MGA section 245 requires each council to adopt a capital budget for each calendar year. A capital budget is created once a capital financial plan has been approved by council resolution. Council can adopt the next year capital budget or multiple years in a financial plan.

capital plan – a forecast of all capital assets to be acquired and their related funding sources for a multi-year period.

MGA section 245 requires each council to adopt a capital plan (for a minimum of 5 years). A portion of the capital plan becomes a capital budget after it has been adopted by council resolution. The forecasts for the years of the capital plan which are not adopted by council are accepted for information.

carry forward – transfer of an amount to the next page, column, year, and so on.

contributed asset – also known as donated asset or a gifted asset; an asset constructed by another party (typically a developer) that is transferred to the municipality to own and maintain.

debenture – a type of long term loan for a specific asset that is not secured by collateral.

debt – combination of accumulated deficits and/or borrowing for assets (e.g. debenture).

debt limit – the maximum amount a municipality can borrow calculated by its revenue times by a factor of 1.5.

It is a requirement of the MGA that no municipality may borrow if the borrowing will cause the municipality to exceed its debt limit, unless the borrowing is approved by the Minister. The most recent audited financial statements are used to determine revenue, which must not include government transfers for capital projects nor contributed assets.

debt service limit – the maximum amount (interest and principle) a municipality can pay for debt annually, calculated by its revenue times a factor of 0.25.

It is a requirement of the MGA that no municipality may borrow if the borrowing will cause the municipality to exceed its debt service limit, unless the borrowing is approved by the Minister. The most recent audited financial statements are used to determine revenue, which must not include government transfers for capital projects nor contributed assets.

deficit – revenues raised in the year were less than sufficient to cover the year's expenses (which include the use of existing and implementing new assets). See *accumulated deficit for multi-year implications*.

departmental business plans – a report that contains specific goals and objectives for each function within a department. It is a subset of the strategic plan used to make decisions on allocating resources.

depreciation – see *'amortization.'*

donated asset – see *'contributed asset'*.

equity in tangible capital assets – the difference between the purchase price of an asset (or value of a contributed asset) less its respective amortization and less any debt related to the asset.

financial assets (also known as liquid asset)– an asset that can easily be converted to cash. Examples are cash, accounts receivable and investments.

financial framework – a document that outlines the overall financial philosophies and practices of an organization. It guides comprehensive decision making and sets the foundation for the development of financial plans and policies.

financial plan – A multi-year forecast of revenues and expenses. Components include a capital financial plan and operating financial plan. At present the City of Chestermere has a 4-year multi-year financial plan and this follows the election cycle.

financial plan adjustments – modifications made to the financial plan and are presented to Council at specified timeframes during the multi-year financial plan cycle.

fixed assets – See *'capital asset'*.

gifted asset – see *'contributed asset'*.

growth-related component – the increase in the amount of property in our community. This is related to the tax assessment and is a subset of the total value of all of the real estate property in the municipality.

income – see *'revenue'*.

key performance indicators (KPIs) (also known as performance measures) – measures of the success of a work group, program or organization's efforts by comparing data on what occurred against what was planned or intended. KPIs provide information about critical aspects of activities and can be financial and/or operational in nature.

market-related component – the change in market value of property in our community. This is related to the tax assessment and is a subset of the total value of all of the real estate property in the municipality.

mill rate (also known as tax rate) - Mil is derived from the Latin word for one thousand (1,000). In tax terms, one mill is equal to 1/1000 of a dollar. It is the same as \$1 in tax for every one thousand dollars (\$1,000) of property value assessment.

Municipal Government Act (MGA) – is Alberta's second largest piece of legislation and touches the daily lives of all Albertans by defining how their municipalities are governed, funded and developed (website www.municipalaffairs.alberta.ca).

operating budget – an estimate of revenue and expenditures for a set period of time.

MGA section 242(1) requires each council to adopt an operating budget for each calendar year. A financial plan becomes a budget after it has been adopted by council resolution. The forecasts for the years in the operating plans which are not adopted by Council are accepted for information.

net assets – is the total value of what the City owns after accounting for the difference between total financial assets and total liabilities.

net debt (also called future revenue requirements) – is the total value of what the City owes after accounting for the difference between total financial assets and total liabilities. This is an indicator of affordability of additional spending and is the total value of what the City owes to others. This provides a measure of the future revenues required to pay for past transactions and events.

non-financial assets – See ‘*capital asset*’.

operating financial plan – a forecast of all operating expenses and their related funding sources for a multi-year period.

MGA section 245 requires each council to adopt an operating financial plan (for a minimum of 3 years). A portion of the operating plan becomes an operating budget after it has been adopted by council resolution. The forecasts for the years of the operating plan which are not adopted by council are accepted for information.

performance measurements – see ‘*Key Performance Indicators*’.

physical asset – See ‘*capital asset*’.

property tax revenue (also known as tax revenue) – a source of revenue for the municipality based on the taxation of local property. The budget determines the property tax requirement to provide the services and programs for the municipality. See ‘*tax rate*’ for more detail.

property (also known as real estate) – refers to the houses, multi-family dwellings, commercial developments, industrial developments, retail development property, buildings and other land.

Public Sector Accounting Board (PSAB) – independent organization that was created to serve the public interest by establishing accounting standards for the public sector. Accounting standards specify how transactions and other events are to be recognized, measured, presented and disclosed in financial statements.

restricted surplus – excess surplus or earnings that have been set aside for a specific purpose or project.

revenue (also known as income) – funds collected by the municipality. The main sources of revenue for a municipality are sales and user fees, developer levies, grants, licenses, permits and property taxes.

service level – describes, usually in measurable terms, the service provided to a customer. For example, a level of service would set how quickly after a snow storm that streets must be cleared.

strategic plan – the overarching document used to set goals for the organization and used to make decisions on resource allocation.

surplus – see *'annual surplus'*.

tangible capital assets – See *'capital asset'*.

tax assessment (also known as tax base) – the estimated value of all of the real estate property located in the municipality. It is used to determine the amount each property will pay for property taxes.

tax base – see *'tax assessment'*.

tax rate (also known as 'mill rate') - the tax rate is the City's tax requirement divided by the tax assessment. The tax rate is set by Council through the annual Tax Rate Bylaw.

tax revenue – see *'property tax revenue'*.

unrestricted surplus – excess surplus or earnings that have not been restricted for a specific purpose.

useful life – the estimated lifespan of a depreciable fixed asset during which it can be expected to contribute to operations.

variance – the difference between a budgeted or planned revenue/expense and the actual amount that was incurred. A positive variance means the municipality has achieved a better financial outcome than expected.

Source for initial definitions: dictionary.com.