

# Supplementary Information

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## BASIS OF ACCOUNTING

### Financial Statements

The Town prepares its financial information in accordance with the generally accepted accounting principles for local governments as recommended by the Canadian Public Sector Accounting Board (PSAB) and prescribed policies issued by the Ministry of Municipal Affairs.

The basis of Accounting refers to the specific time at which revenue and expenditures are recognized in the accounts and reported in the financial statements. The Town's sources of revenue and expenses are recorded using the accrual basis of accounting. This basis recognizes revenues as they become available and measurable and expenses as they are incurred and measurable as the result of receipt of goods or services and the creation of a legal obligation to pay.

### Budget

The Town prepares budgets using the modified accrual basis, which is based on revenues being recognized in the period when they become available and measurable. Expenses are recognized in the accounting period in which the liabilities are incurred, regardless of when the receipt or payment of cash takes place. The Town does not budget for amortization or post-employment benefits expenses, which is permitted under Ontario Regulation 284/09.

To reconcile the two separate basis of reporting, Finance staff make accounting adjustments to convert the budgeted amounts from modified accrual to full accrual. Note 17 is included in the audited consolidated financial statements to reconcile the two separate approaches.

The budgets are prepared for the Town of Fort Erie operations and are not consolidated with the Fort Erie Public Library. However, the Library is consolidated for financial statement purposes.

## FUND ACCOUNTING

### Definition

A fund is a segregation of assets and related liabilities that is administered as a separate accounting entity or unit. Each fund raises or is granted its own money for its own purposes and has its own assets and debts. Each fund makes its own

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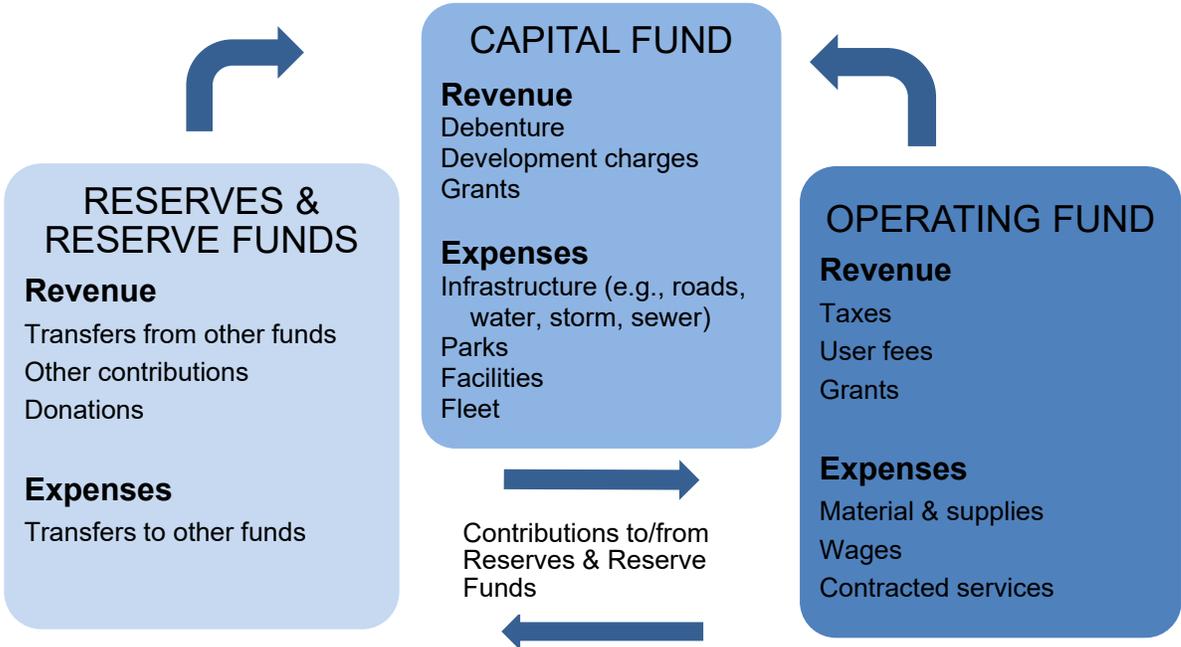
expenditures and operates its own budget. Separate fund accounting provides an increased measure of control over assets of the fund by ensuring the assets are used for the specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

## Municipal Funds

The municipality’s resources and operations are separated into various funds. Each fund is a separate fiscal and accounting entity organized by their intended purpose. They are separated to comply with legal, financial and governance requirements. In municipal financial operations, monies raised or supplied for one purpose cannot be used for another purpose. Legal restrictions and contractual agreements prevent it from being used or diverted to any other use and the Town’s external auditor audits all funds annually. Although all funds are segregated, the Town also prepares consolidated financial statements in accordance with requirements of the PSAB.

## Fund Structure

Financial information is prepared in accordance with a fund structure which consists of an Operating Fund, Capital Fund and Reserve Funds. The intent of the Town having the three funds is to separate major operations financially so they are self-sustaining. As illustrated in the diagram below, monies flow between funds through inter-fund transfers and are recorded as expenses or revenues in the affected funds.



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The following funds are used for budgeting and management reporting:

## **a) Operating Fund**

This Fund includes all municipal programs and services but excludes water & wastewater and capital. This is the largest of the funds and the cost of the activities is recovered through municipal property taxes, user fees and other revenue sources. The Operating Fund also includes a provision for contributions to Reserves and Reserve Funds. For example, in an election year, election expenses are financed by a transfer from the Election Reserve; conversely in non-election years contributions are made to the Election Reserve.

## **b) Water and Wastewater Fund**

This Fund provides for the operations of delivering safe drinking water to the community and treatment of sanitary sewage. These costs are recovered through charges to customers. Revenues within this fund must be sufficient to cover all operating and capital costs of the utility. Any operating surplus or deficit is transferred to or from the related utility reserves.

## **c) Capital Fund**

The Capital Fund is used to account for all capital financing and expenditures and includes grant funding, gas tax, development charges and long-term borrowing. The main funding source is from Reserves which receive transfers from the Operating Funds that is raised by taxation and water and wastewater rates.

## **d) Reserves and Reserve Funds**

The Reserve Fund is established to account for assets that have been segregated for a specific purpose, either voluntarily or because of legal or contractual reasons. A summary of the Town's Reserves and Reserve Funds can be found in the Reserve Fund section and reported in Note 9 of the audited consolidated financial statements.