

# **APPENDIX A**

## **FINANCIAL POLICIES AND OBJECTIVES**

Originally adopted by Board of Selectmen on November 23, 2009

Revised November 8, 2010 (Free Cash Policy Added)

# **TOWN OF NORTHBOROUGH FINANCIAL MANAGEMENT POLICIES**

## **I. OVERVIEW**

It is the policy of the Town of Northborough that financial management is conducted with the objectives of providing municipal service in an efficient, effective and consistent manner that aligns with public policy goals as set forth by the Board of Selectmen.

To help ensure the Town's financial stewardship, an established program of managing the Town's finances is essential. To this end, the Board of Selectmen promulgates policies and procedures that are financially prudent and in the Town's best economic interest.

In adherence to this policy, the Town shall pursue the following objectives:

- To set forth operational principles that minimize the cost of government to the extent consistent with services desired by the public and that minimize financial risk;
- To continue effective financial management within the Town that conforms to generally accepted accounting principles;
- To simplify, clarify and modernize the financial systems of the Town as the need occurs;
- To provide increased public confidence in public financial management;
- To protect and enhance the Town's credit rating and prevent default on any municipal debts;
- And to provide safeguards to ensure the quality and integrity of the financial systems.

In order to attain the above objectives, the Board of Selectmen adopts the following policies.

## **II. ACCOUNTING, AUDITING AND FINANCIAL REPORTING**

- A. The Town will utilize accounting practices that conform to generally accepted accounting principles (GAAP) as set forth by the Government Accounting Standards Board (GASB), including compliance with GASB Statements 34, 40 and 45.
- B. An annual audit will be performed by an independent public accounting firm.
- C. A Management Letter shall be provided by the independent public accounting firm as a companion document to the annual audit.

## **III. GENERAL FUND**

- A. Budget Goals and Objectives shall be determined annually by the Board of Selectmen in consultation with the Town Administrator. However, the annual operating budget as submitted to the Town must be balanced with the estimate of proposed expenditures for a given period less than or equal to the proposed means of financing these expenditures

(from various sources of funds or revenues). In short, for a budget to be balanced, proposed expenditures shall not exceed projected resources for the given period.

- B. The Town will carefully and routinely monitor all amounts due the Town. An aggressive policy of collection will be followed for all receivables, including property taxes. An average collection rate of at least 95% of current levy shall be maintained.
- C. Charges for services and other revenues shall be reviewed on a regular on-going basis at least every three years. Charges shall be adjusted as necessary to respond to changes in the cost of providing services. The Board of Selectmen may set specific cost recovery goals for individual departments or services as appropriate.
  - 1. Recreation Department—Recreational user charges and fees will be set to recover approximately 100% of the total direct costs associated with recreational programs.
- D. Reserves reflect a community's ability to react to unforeseen circumstances and to minimize or avoid borrowing for capital expenditures. Reserves should normally average between 5% and 10% of the Town's General Fund (operating budget) Expenditures. The Town will endeavor to continue its policy of maintaining reserves at 10% of General Fund Expenditures. Reserves are defined to include the Town's Stabilization Fund and Free Cash.

The Stabilization Fund is the Town's main reserve fund designed to provide financial stability for the Town while improving the Town's credit worthiness and flexibility. The provisions of this fund are dictated by Massachusetts General Law, Chapter 40, Section 5B. The Stabilization Fund may be appropriated for any lawful purpose. However, at no time can an appropriation placed into the fund exceed 10% of the previous year's real property tax levy, nor can the fund itself exceed 10% of the equalized value of the Town.

Free Cash reserves are the remaining, unrestricted funds from operations of the previous fiscal year; these include unexpended Free Cash from the previous year, actual receipts in excess of revenue estimates and unspent amounts in budget line-items. Once certified, monies held in this reserve may be appropriated during the current budget year and may also be used as a source of revenues for the ensuing budget year.

The Town has historically used some portion of its Free Cash to subsidize the ensuing year's annual operating budget. However, it is the Town's goal to limit the amount of Free Cash used in the operating budget to a sustainable level and to use these available funds for non-recurring one-time expenses, such as capital items.

For purposes of this policy, the following are deemed to be appropriate uses of Free Cash:

- Appropriated Reserve – an amount to provide for extraordinary or unforeseen expenditures as authorized by MGL Chapter 40, Section 6.

- Operating Budget – in order to pursue a gradual transition from using Free Cash to fund recurring operational expenses, the Town will reduce its annual appropriation by \$100,000 each year until such time as the annual appropriation from Free Cash for the operating budget is lowered to \$500,000.
- Stabilization Fund – to fund or replenish the Stabilization Fund.
- Capital Improvement Program – to fund capital projects that would otherwise incur borrowing costs associated with the issuance of debt.
- Special Use – to augment the trust funds related to fringe benefits and unfunded liabilities related to employee fringe benefits.
- Extraordinary Deficits – to fund any potential deficits that would otherwise be carried over to the following fiscal year.
- Emergency Appropriations – to allow for fiscal flexibility.

The overall level of Financial Reserves is critical to maintaining the Town's Bond Rating and ensuring sufficient funds to manage unanticipated needs. Funds shall be allocated from Reserves only after an analysis has been prepared by the Town Administrator and presented to the Board of Selectmen. The analysis shall provide sufficient evidence to establish that the remaining balance is adequate to offset potential downturns in revenue sources and provide sufficient cash balance for daily financial needs.

#### IV. CAPITAL IMPROVEMENTS

- A. The Town shall continue to prepare a six-year Capital Improvement Program (CIP) updated on an annual basis.
- B. Definitions of Capital Improvement Program/Project:
  1. Capital Improvement Program: A comprehensive list of major public improvement projects that are proposed for the Town's expenditure within the next six years. The CIP shall be reviewed annually.
  2. Capital Improvement Project: Items included within the Capital Improvement Program will involve the improvement or betterment of the physical plant of the Town of a non-recurring nature as differentiated from ordinary repairs or maintenance of a recurring nature. Projects include acquisition of land, improvement of facilities and the replacement/purchase of equipment with a useful life of at least five (5) years and a cost of \$25,000 or more.

## V. DEBT MANAGEMENT

- A. A critical measure for bond rating agencies is the ratio of debt service payments to total expenditures. The Town recognizes that maintaining debt levels within industry standards allows the Town to more easily maintain its credit standing. Bond rating agencies consider individual community needs and circumstances (including emergencies) when evaluating the fiscal health of a community. Thus, while exceeding such limits could translate into a decrease in bond rating, such a decrease is not necessarily a totally negative factor in every case in a particular community. The Town's consideration of doing so, however, should be reserved for extraordinary or unforeseeable circumstances.
- B. The Town will endeavor to manage debt so as not to exceed the following ratios, which are reflective of municipal bonding standards:
- |  |         |
|--|---------|
| 1. Gross General Fund debt service/General Fund expenditures | 15%     |
| and  |         |
| 2. Net General Fund debt service/General Fund expenditures   | 8 – 10% |
- C. Definitions of Gross/Net Debt Service:
1. General Fund Gross Debt Service: Annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town and K-8 School appropriations and debt exclusions. Excluded are Water and Sewer Utility Funds.
  2. General Fund Net Debt Service: After State reimbursement and State aid, the annual debt payments (principal and interest) for which the Town is held accountable; inclusive of assessments from Regional School Districts, Town and K-8 School appropriations and debt exclusions (i.e., Gross Debt Service less reimbursements/aid). Excluded are Water and Sewer Utility Funds.
- D. When considering the use of debt, the Town shall be guided by the following:
1. Borrowing versus Cash—The Town will endeavor to finance Capital Improvement Projects with a total cost of less than \$50,000 through cash appropriation rather than borrowing.
  2. Useful Life—When borrowing, the Town will ensure that the term of bonds issued will not exceed the useful life of the project.
  3. Capital Expenditure versus Capital Improvement Project—Capital expenditures not meeting the definition of "Capital Improvement Projects" should be financed through inclusion within operating budgets.
- E. When considering debt financing strategies, the Town shall be guided by the following:

#### Exclusions from Proposition 2-1/2 Limits

The maximum amount a community can collect in taxes in a given year is its levy limit. Proposition 2½ (Massachusetts General Laws, Chapter 59, Section 21C) restricts growth in the levy limit from one year to the next by limiting the growth to an increase of not more than 2½% over the prior fiscal year plus any increase in valuation due to new growth in the community.

There are provisions that allow a community to exceed the limits of Proposition 2½. The “debt exclusion” option is a temporary tax increase used to raise additional taxes to fund capital projects for which the community may borrow as defined in Massachusetts General Laws, Chapter 44, Sections 7 and 8. The additional amount is added to the levy limit only during the life of the debt.

A community may also temporarily exceed the levy limit by raising additional taxes for a capital improvement in order to finance the purchase with cash. Such a “capital outlay expenditure exclusion” is used for the year in which the capital item is acquired.

The Town will continue its policy to raise appropriations for large projects, such as school or municipal buildings, outside the limits of Proposition 2½, in order to retain budget capacity within the limits of Proposition 2½.

#### State, Federal and Other Sources of Funding

State, Federal and other sources of funding including grants and reimbursements, will be aggressively sought for eligible Town and School capital projects.

## **VI. ENTERPRISE FUND MANAGEMENT**

Enterprise funds (Water, Sewer and Solid Waste) should be fully self-sufficient operationally with user charges and fees set to recover all costs associated with the activities of these funds including capital expenditures. Enterprise Funds are governed by Massachusetts General Law, Ch. 44 §53F½.

## **VII. GIFTS AND GRANTS**

- A. All grants shall be managed to comply with the laws, regulations and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.
- B. All gifts and grants shall be evaluated for suitability and consistency with Town policies. They shall be formally accepted by the Board of Selectmen after review and recommendation by the Town Administrator. Gifts and grants of funds are governed by Massachusetts General Law Ch. 44 §53A. Gifts of tangible property are governed by Massachusetts General Law Ch. 44 §53A½.

## VIII. TRUST FUND MANAGEMENT

Trust Fund management shall be consistent with the legal requirements and spirit of each respective trust document and, to the maximum extent possible, realize the purpose the trusts were intended to achieve. All Trust Funds shall be invested in accordance with Section X of these policies.

## IX. INVESTMENT POLICY FOR GENERAL FUNDS, SPECIAL REVENUE FUNDS, ENTERPRISE FUNDS AND CAPITAL PROJECTS FUNDS

- A. **Scope**—Section IX of this policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. Section X will deal with trust funds and any other funds with special circumstances such as stabilization funds. Massachusetts Teachers Retirement Board and the Worcester Regional Retirement Board are responsible for the investment of the pension funds.
- B. **Objectives**—Massachusetts General Laws, Chapter 44, Section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of the Town's business.

1. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.
  - i. Credit risk is the risk of loss due to the failure of the security issuer or backer.
  - ii. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
2. Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

3. Yield is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

**C. Investment Instruments**—Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity of a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles. **The Treasurer may legally invest in the following instruments:**

1. Massachusetts State Pooled Fund: Unlimited amounts (Pool is liquid)—The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos) and U.S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries.
2. U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).
3. U.S. Agency obligations that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase).
4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. (Up to one year) which are fully collateralized through a third party agreement: Unlimited amounts.
5. Bank accounts and C.D.'s (Up to one year) insured by F.D.I.C. up to at present a \$250,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage. In some cases banking institutions carry additional insurance, Depository Insurance Fund of Massachusetts (D.I.F.M).
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be composed of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. They will be diversified as much as possible.



D. **Authorization**—The Treasurer has authority to invest municipal funds, subject to the statutes of the Commonwealth Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

E. **Restrictions**—Chapter 44, Section 55 set forth the several restrictions that the Treasurer must be aware of when making investment selections for short term operating funds.

1. A Treasurer shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
2. The Treasurer shall not make a deposit in any bank, trust company or banking company that he is associated with as an officer or employee or has been the same for any time during the three years immediately preceding the date of any such deposit.
3. All securities shall have a maturity from date of purchase of one year or less.
4. Purchases under an agreement with a trust company, national bank or banking company for repurchase at not less than original purchase price of said securities on a fixed date, for a term that shall not exceed ninety days.

## **X. INVESTMENT POLICY FOR TRUST FUNDS, STABILIZATION FUNDS AND COMMUNITY PRESERVATION ACT**

A. **Scope**—Section X of this policy applies to funds that could be invested long term and includes accounts that are designated as Trust Funds, Stabilization Funds, Conservation Fund and Community Preservation Funds. These funds include all accounts that are received as scholarships and perpetual care receipts.

All accounts will be maintained separately receiving their proportionate interest allocation and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional amounts added to such accounts will be maintained in this same manner.

B. **Authorization**—Massachusetts General Law Chapter 44, Section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the Treasurer unless otherwise provided or directed by the donor.

C. **Objectives**—Massachusetts General Laws, Chapter 44, Section 55B requires the Treasurer to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with the safety of principal while meeting the daily cash requirements for the operation of the Town's business.

1. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository.
  - i. Credit risk is the risk of loss due to the failure of the security issuer or backer.
  - ii. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
2. Liquidity is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the Treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
3. Yield is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

D. **Investment Instruments**—Massachusetts General Laws, Chapter 44 Section 54 states that money should be deposited into savings banks, trust companies incorporated under the laws of the commonwealth, banking companies incorporated under the laws of the commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under Chapter 29, Section 38A, or in a paid-up shares and accounts of and in co-operative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the Commonwealth.

Additionally the Treasurer may invest such funds in securities, other than mortgages or collateralized loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent of such funds be invested in the stock of any one bank or insurance company. **The Treasurer may invest in the following instruments:**

1. U. S. Treasuries that may be sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase).

2. U.S. Agency obligations that may be sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase).
3. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s: Unlimited amounts (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third party agreement.
4. Bank accounts and C.D.'s (With no limit to the length of maturity from date of purchase), fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.M) presently with a \$250,000 limit. All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$250,000 insurance coverage.
5. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be composed of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments may be for such items as debt service payment or regional school assessments. They will be diversified as much as possible.
6. Common and preferred stocks that are listed in the List of Legal Investments. Massachusetts General Law Chapter 44 Section 54 sets forth that Treasurers may invest in instruments that are legal for savings banks. This list of investments is included in the Commonwealth of Massachusetts List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.
7. Investment Funds that are listed in the List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.
8. List of Legal Investments—All other items not separately identified here that are listed in the List of Legal Investments, Massachusetts General Law, Chapter 167 Section 15A.

Trust Funds may be co-mingled and invested in any instruments allowed by the Commonwealth of Massachusetts List of Legal Investments issued by the Banking Commissioner each July. Each Trust Fund must be accounted for separately.

## **XI. INVESTMENT POLICY—OVERALL PROVISIONS**

- A. **Diversification**—Diversification should be interpreted in two ways: 1) in terms of maturity, and 2) in terms of instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities, as well as

concentration in a specific institution, with the exception of U.S. Treasury obligations and agencies or investments fully collateralized.

- B. **Ethics**—The Treasurer and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Town Administrator any material financial interest they may have in financial institutions that do business with the Town. They shall also disclose any large personal financial investment positions or loans that they have which could be related to the performance of the Town's investments. All municipal employees shall comply with the State Conflict of Interest Law, Massachusetts General Laws, Chapter 268A.
- C. **Standards of Care**—The standard of prudence to be used by the Treasurer shall be the “prudent person” standard set forth in Massachusetts General Laws Chapter 203C and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this policy.

The “prudent person” standard states that, “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well the probable income to be derived.”

- D. **Reporting Requirements**—On an annual basis, a report containing the following information will be prepared by the Treasurer and distributed to the Town Administrator. The report will include as a minimum requirement, the following information:
1. A listing of the individual accounts and individual securities held at the end of the reporting period.
  2. A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.
  3. A summary of the income earned on a monthly basis and on a year to date basis.
  4. The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the Town's cash position.
  5. The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

# **APPENDIX B**

## **FUND DESCRIPTIONS & BALANCES**

## Fund Descriptions

The financial operations of the Town are organized into funds and account groups, each of which is a separate fiscal and accounting entity. All revenues received or expenditures made by the Town are accounted for through one of the funds or account groups listed below.

### Governmental Funds

Most Town functions are financed through what are called Governmental Funds. These are the activities generally supported by “non-exchange” revenue, such as taxes. There are four types of governmental funds maintained by the Town: the General Fund, Special Revenue Funds, Permanent Funds, and the Capital Projects Fund.

**General Fund:** The General Fund is the major operating fund of the Town government and it encompasses a majority of Town operations, and it is defined as covering all resources that are not required to be accounted for elsewhere. The General Fund is supported by revenues from real estate & personal property taxes, state aid, excise taxes, investment income, fines & forfeitures, and fees & charges. Most of the Town’s departments including the Schools are supported in whole or in part by the General Fund.

**Special Revenue Funds:** Special Revenue Funds are used to account for revenues that are legally restricted to specific purposes, with the exception of major capital projects and permanent funds. These revenues must be accounted for separately from the General Fund for a variety of reasons, and often span multiple fiscal years. The Town’s Special Revenue Funds are grouped into five categories:

1. **Revolving Funds:** Revolving Funds allow the Town to raise revenues from a specific program and use those revenues to support the program without appropriation. Revolving Funds are established by statute or by-law and may require reauthorization each year at Town Meeting. The Town maintains revolving funds for a number of purposes including Council on Aging, Family and Youth Services Department, Fire Department, Police Department, Recreation Department, Library Lost Books, School Department Student Activities, and the School Lunch Program.
2. **Receipts Reserved for Appropriation:** The funds in this grouping are restricted to a specific use by statute and also require appropriation by Town Meeting. These funds include property insurance claims greater than \$20,000, monies from Cemetery sale of lots and graves, Premiums received on Excluded Debt, and Conservation Wetland Protection fees.
3. **School Grants:** The School Grant Funds account for specially financed education programs using revenue from grants received from the Federal or State government. These including the Kindergarten Enhancement grant, the SPED Circuit Breaker grant, and the Federal ARRA State Fiscal Stabilization Fund (SFSF) grant.

4. **Other Intergovernmental Funds:** These funds account for revenues received by the Town from the Federal or State government for specific purposes other than education. These include a variety of grants including Community Policing Grants, Chapter 90 Highway Program, State Election Grants, State Library Aid, and the Elderly Formula Grant.
5. **Other Special Revenue Funds:** These funds account for any other miscellaneous special revenues not included in the previous categories. These include private donations for specific purposes, such as grants received from private or non-profit foundations, gifts made to specific departments, and payments from developers for infrastructure improvements related to proposed projects. Also included under this heading are the Community Preservation Fund, the Stabilization Fund, and the Conservation Fund.

**Permanent Funds:** Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the government and its citizens. Many times such funds are referred to as “Trust” funds, and the acceptance of such funds generally involves acceptance by Town Meeting for each fund’s individual specifications and/or requirements. There are two accounts associated with each permanent fund, the expendable income, and the non-expendable principal.

1. **Expendable Trust Funds:** This heading accounts for the expendable income portion of the permanent funds. This heading is also used to account for funds received by the Town in a trustee capacity where both the principal and earnings of the fund may be expended on a restricted basis for the benefit of the Town or its Citizens. This includes the Scholarship Tax Check-off Fund and the Elderly/Disabled Fund.
2. **Non-expendable Trusts:** are used to account for trusts where the principal must remain intact. Generally income earned on the non-expendable trust principal may be expended in accordance with the conditions of a trust instrument or statute, and is accounted for in the previous category. An example is the Cemetery Department’s Perpetual Care Trust.

**Capital Projects Fund:** The Capital Projects Fund is used to account for monies used for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by other dedicated funds, such as the Community Preservation Act Fund or Chapter 90 Highway Funds. In addition to “projects,” the Town’s Capital Projects Fund also accounts for capital outlay for items purchased pursuant to the town’s capital plan, such as Departmental Equipment. The source of funding for this fund is primarily proceeds from the Town’s issuance of bonds, but may also be derived from private sources, grants, or transfers from other Town funds.

## **Proprietary (Enterprise) Funds**

Proprietary Funds cover the town's "business-type" activities, and are referred to as such in the financial statements. These statements comprise the Water and Sewer Enterprise Funds of the Town. All direct and indirect costs including overhead of each service are intended to be captured by user fees and/or general fund subsidies. These funds account for their own fixed assets and long term liabilities. Although the long term debt of the funds is ultimately the legal obligation of the general fund, it is budgeted and paid for by the Enterprise Fund for which the project was approved. Town Meeting has approved the use of the Enterprise Fund accounting for the Water, Sewer, and Solid Waste utilities. However for the purposes of the financial statements only the Water and Sewer fund are considered "business-type" activities.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The Town is the trustee, or fiduciary, and the government and its citizenry do not benefit directly from such funds. This means that the Town is responsible for assets in a purely custodial manner that can be used only for the trust beneficiaries and Agency Funds. Under this heading the Town maintains only Agency Funds, such funds for "special detail" for overtime labor billed to outside parties, collection of Deputy Fees payable to the Deputy Collector, firearms licenses payable to the Commonwealth, and fees derived from and expenses related to the use of school facilities by outside parties.

## **Account Groups**

The last category of fund account entities maintained by the Town is the Account Groups. For which there are two, the General Long-term Debt Account Group and the General Fixed Assets Account Group.

The first of these groups is the General Long-term Debt Account Group which accounts for the balances due on long-term debt that the Town has approved. The liabilities accounted for in this fund extend to future years, versus those that affect the current year alone shown in other funds. When borrowing is approved the liability is increased in this fund, and when debt is paid down or rescinded the liability is reduced.

The second of these groups is the General Fixed Asset Account Group. As infrastructure is developed, construction completed, and capital outlays are made, the Town's inventory of Fixed Assets is increased. The value of these assets is then depreciated on a fixed schedule annually.



## **Basis of Accounting**

By necessity the Town produces financial reports that have different bases of accounting. Since the goal of financial reporting is to provide useful information to its users, the measurement focuses of reporting must change with respect to the needs of the audience.

The day to day method of accounting used by the Town is UMAS, the Commonwealth of Massachusetts' Universal Municipal Accounting System. This accounting system is prescribed by the Commonwealth of Massachusetts Department of Revenue and is intended to demonstrate compliance with state statutes and local near-term decisions (e.g. budget). This system prescribes the use of the modified accrual basis of accounting, which is the basis used by all governmental fund types. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers that property taxes are available if they are collected within 60 days after year-end. Expenditures are recorded when the liability is incurred. Principal and interest on general long-term debt are recorded as liabilities in the fiscal years that the payments are due.

The full accrual basis of accounting is used for the Town's financial statements, which are produced based on generally accepted accounting principles (GAAP). The statements report information about the Town with a broad overview. The statements use accounting methods most similar to those used by a private-sector business and are typically used to demonstrate the long term financial position of the Town. The users of this information are often bond rating agencies and others seeking information consistent with entities in other states. The Government Accounting Standards Board (GASB) issues guidance for how GAAP based financial statements should be prepared for government entities. The accrual basis of accounting is utilized by the proprietary and agency funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

## **Budgeting**

An annual budget is adopted for the Town's General and Enterprise Funds. Although legislative approval is required for capital projects, borrowing authorizations, and other warrant articles, annual budgets are not prepared for any other fund. Note however that although there are informational budgets presented for capital spending with regard to the Capital Improvement Plan and also by the Community Preservation Committee for spending from the Community Preservation Act Fund, the related spending for such purposes is approved article by article versus the adoption of an annual consolidated budget.

The Town's annual budget is adopted on a statutory basis, specific to the Commonwealth of Massachusetts, and it differs in some respects from GAAP. The major differences between the budget and GAAP basis are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. For the budget, encumbrances are treated as expenditures in the year the commitment is made. Also, certain appropriations, known as special articles, do not lapse and are treated as budgetary expenditures in the year they are authorized as opposed to when the liability is actually incurred (GAAP).
3. The depreciation of Fixed Assets is not recognized as a current expense on a budgetary basis, except to the extent that actual maintenance costs are included in departmental budgets.

Following are three tables which are excerpted from the Town's financial statements prepared on a GAAP basis. These tables display the results of operations for the fiscal year ending June 30, 2011. There's one table for Governmental Funds and one for Proprietary Funds. Since Fiduciary funds do not involve the measurement of operations, there is no corresponding table for that grouping.

Under GASB Statement 34, and further by Statement 54, "major funds" are defined as individual funds that have reached a significant threshold with respect to total fund balance, and have dedicated revenue sources. "Major Funds" must be shown separately from the general fund. The remaining individual funds are aggregated in the "Non-major" category for the purposes of the financial statements. The third and final table displayed is the statement for the "Non-major" Governmental Funds.

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

## Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds

For the Year Ended June 30, 2011

	General Fund	Stabilization Fund	Nonmajor Governmental Funds	Total
Revenues:				
Property taxes	\$ 36,596,925	-	413,411	37,010,336
Excise taxes	2,112,213	-	-	2,112,213
Payments in lieu of taxes	104,744	-	-	104,744
Departmental charges for services	182,268	-	2,356,049	2,538,317
Licenses and permits	505,244	-	177,496	682,740
Intergovernmental	8,116,259	-	2,136,788	10,253,047
Fines and forfeits	1,130	-	182,923	184,053
Investment income	78,194	-	48,396	126,590
Other	421,284	-	1,781,473	2,202,757
Total revenues	48,118,261	-	7,096,536	55,214,797
Expenditures:				
Current:				
General government	1,988,535	-	797,261	2,785,796
Public safety	3,473,826	-	535,463	4,009,289
Education	27,439,352	-	1,861,714	29,301,066
Public works	1,554,084	-	1,132,976	2,687,060
Human services	466,840	-	130,296	597,136
Recreation and culture	779,135	-	529,216	1,308,351
Intergovernmental	469,196	-	-	469,196
Employee benefits	8,811,632	-	-	8,811,632
Other	125,879	-	-	125,879
Debt service	1,726,143	-	125,434	1,851,577
Capital outlay	105,473	-	1,714,494	1,819,967
Total expenditures	46,940,095	-	6,826,854	53,766,949
Excess (deficiency) of revenues over expenditures	1,178,166	-	269,682	1,447,848
Other financing sources (uses):				
Proceeds from issuance of bonds	-	-	8,047,862	8,047,862
Operating transfers in	329,309	-	1,108,098	1,437,407
Operating transfers out	(528,498)	-	(908,909)	(1,437,407)
Total other financing sources (uses)	(199,189)	-	8,247,051	8,047,862
Net changes in fund balances	978,977	-	8,516,733	9,495,710
Fund balance, beginning of year, as previously stated	3,800,692	3,551,789	407,316	7,759,797
Change in Accounting Principle: Inclusion of Stabilization Fund in General Fund Per GASB 54	3,551,789	(3,551,789)	-	-
Fund balance, beginning of year, as restated	7,352,481	-	407,316	7,759,797
Fund balance, end of year	\$ 8,331,458	-	8,924,049	17,255,507

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

## Statement of Revenues, Expenses and Changes in Fund Net Assets

## Proprietary Funds

For the Year Ended June 30, 2011

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 1,916,713	\$ 1,001,171	\$ 2,917,884
Special Assessments	232,824	1,103,472	1,336,296
Total operating revenues	2,149,537	2,104,643	4,254,180
Operating expenditures:			
Salaries, wages and employee benefits	343,441	227,470	570,911
Energy purchases	797,120	132,274	929,394
Other operating expenses	293,805	162,933	456,738
Depreciation	323,779	207,006	530,785
Total operating expenditures	1,758,145	729,683	2,487,828
Operating income	391,392	1,374,960	1,766,352
Nonoperating revenues (expenses):			
Interest income	752	1,920	2,672
Interest expense	(113,604)	(225,776)	(339,380)
Other	-	9,090	9,090
Total nonoperating revenues (expenses)	(112,852)	(214,766)	(327,618)
Income before transfers	278,540	1,160,194	1,438,734
Operating transfers in (out)	-	-	-
Changes in net assets	278,540	1,160,194	1,438,734
Net assets, beginning of year	6,936,768	5,897,565	12,834,333
Net assets, end of year	\$ 7,215,308	\$ 7,057,759	\$ 14,273,067

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2011

	<u>Special Revenue</u>				
	<u>School</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:					
Property taxes	\$ -	413,411	-	-	413,411
Departmental charges for services	364,684	1,962,315	-	29,050	2,356,049
Licenses and permits	-	177,496	-	-	177,496
Intergovernmental	993,848	1,142,940	-	-	2,136,788
Fines and forfeits	-	182,923	-	-	182,923
Investment income	70	38,125	-	10,201	48,396
Other	-	1,762,526	-	18,947	1,781,473
Total revenues	<u>1,358,602</u>	<u>5,679,736</u>	<u>-</u>	<u>58,198</u>	<u>7,096,536</u>
Expenditures:					
Current:					
General government	-	779,963	-	17,298	797,261
Public safety	-	535,463	-	-	535,463
Education	1,351,707	510,007	-	-	1,861,714
Public works	-	1,132,976	-	-	1,132,976
Human services	-	130,296	-	-	130,296
Recreation and culture	-	529,216	-	-	529,216
Employee benefits	-	-	-	-	-
Debt service	-	125,434	-	-	125,434
Capital outlay	-	692,519	1,021,975	-	1,714,494
Total expenditures	<u>1,351,707</u>	<u>4,435,874</u>	<u>1,021,975</u>	<u>17,298</u>	<u>6,826,854</u>
Excess (deficiency) of revenues over expenditures	6,895	1,243,862	(1,021,975)	40,900	269,682
Other financing sources (uses):					
Proceeds from issuance of bonds	-	-	8,047,862	-	8,047,862
Operating transfers in	-	301,447	806,651	-	1,108,098
Operating transfers out	-	(908,909)	-	-	(908,909)
Net changes in fund balances	6,895	636,400	7,832,538	40,900	8,516,733
Fund balance, beginning of year	<u>570,266</u>	<u>5,615,439</u>	<u>(6,453,853)</u>	<u>675,464</u>	<u>407,316</u>
Fund balance, end of year	\$ <u>577,161</u>	<u>6,251,839</u>	<u>1,378,685</u>	<u>716,364</u>	<u>8,924,049</u>

## Changes in Fund Balance

### General Fund

It is important to note that while the General Fund fund balance shown on the preceding GAAP based statements is a measure of resources that are available to the Town on a long-term basis, the full amount is not available for appropriation in its entirety on a statutory basis. Under Massachusetts General Law, the Massachusetts Department of Revenue (DOR) certifies the amount available, which is referred to as "Free Cash." This certified amount is available for appropriation by the legislative body. The amount certified by the DOR at the close of FY2011 is \$1,869,209 while the GAAP based Fund financial statements reflect an Unassigned Fund Balance of \$2,359,318.

Within the Town's Financial Policies (See Appendix A), is a reserve policy which defines reserves as being the combination of Free Cash & Stabilization Fund Balances. This reserve policy requires that the Town maintain reserves at a level of between 5 to 10% of the Town's General Fund expenditures. Under the Free Cash plan for the proposed FY2013 budget, the amount of \$500,000 will be used for the operating budget, \$150,000 will be used to fund the Appropriations Committee Reserve Fund, \$615,000 will be used to fund capital expenditures, and \$100,000 will be used to close an FY2012 Emergency Deficit Spending Authorization (to be complimented by pending Federal reimbursements). With respect to the proposed FY2013 budget, no transfers from Stabilization are contemplated, while use of Free Cash in the total amount of \$1,365,000 is proposed.

The following schedule demonstrates the Town's compliance with its fiscal policies, and that the proposed use of Free Cash for the current year will not yield a significant change in Fund Balance from the budget proposed in the prior year. The figures shown below reflect the amounts that are contemplated at the time of Town Meeting:

PROPOSED BUDGET	FY2012	FY2013
Certified Free Cash as of June 30 prior year	\$ 1,954,708	\$ 1,869,209
Proposed use for budget	\$ (1,454,000)	\$ (1,365,000)
Unappropriated Certified Free Cash	\$ 500,278	\$ 504,209
Stabilization Fund Balance as of June 30	\$ 3,551,789	\$ 3,605,888
Investment Income through December 31	\$ 23,856	\$ 25,638
Stabilization Fund Balance as of December 31	\$ 3,575,645	\$ 3,631,526
Total Reserves	\$ 4,075,923	\$ 4,135,735
Proposed Expenditure Budget	\$ 47,863,383	\$ 49,659,402
Reserves as Percentage of Budget	8.5%	8.3%

Free Cash will be recalculated for June 30, 2012 once FY2012 is closed and the Town has submitted its balance sheet to the DOR. While the amount voted for use in FY2013 will reduce the amount shown in the preceding calculation, positive results from unspent appropriations and revenues above budget in FY2012 will add to the balance. The following table shows the Town's reserves as calculated following the adoption of the budget and most recent Free Cash certifications (at close of prior fiscal year):

ADOPTED BUDGET	FY2011	FY2012
Certified Free Cash as of June 30	\$ 1,954,708	\$ 1,869,209
Stabilization Fund Balance as of June 30	\$ 3,551,789	\$ 3,605,888
Total Reserves	\$ 5,506,497	\$ 5,475,097
Adopted Budget	\$ 45,272,948	\$ 47,744,144
Reserves as Percentage of Budget	12.2%	11.5%

The two tables demonstrate the town's approach to maintain sufficient reserves through conservative fiscal policies, and shows the approach that is used to develop its free cash plan. For FY2013, the slight decrease of Free Cash certified at June 30, 2011 allows for the amounts to be appropriated in addition to the operating fund. In the case of FY2012, \$804,000 in capital expenditures were approved, and for FY2013 the amount contemplated for capital is \$615,000. This approach allows for sufficient reserves to be maintained, while at the same time reserves are used to fund one-time expenses such as capital purchases.



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# **APPENDIX C**

## **GLOSSARY OF TERMS**

## Glossary of Terms

**Abatement:** A reduction or elimination of a real or personal property tax, motor vehicle excise, a fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

**Accounting System:** The total structure of records and procedures that identify record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, account groups, and organizational components.

**Accrued Interest:** The amount of interest that has accumulated on the bond since the date of the last interest payment, and in the sale of a bond, the amount accrued up to but not including the date of delivery (settlement date). (See Interest)

**Amortization:** The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.

**Appellate Tax Board (ATB):** Appointed by the governor, the ATB has jurisdiction to decide appeals from local decisions relating to property taxes, motor vehicle excises, state owned land (SOL) valuations, exemption eligibility, property classification, and equalized valuations.

**Appropriation:** An authorization granted by a town meeting, city council or other legislative body to expend money and incur obligations for specific public purposes. An appropriation is usually limited in amount and as to the time period within which it may be expended. (See Encumbrance, Free Cash)

**Arbitrage:** As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS) Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

**Assessed Valuation:** A value assigned to real estate or other property by a government as the basis for levying taxes. In Massachusetts,

assessed valuation is based on the property's full and fair cash value as set by the Assessors. (See Full and Fair Cash Value)

**Audit:** An examination of a community's financial systems, procedures, and data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.

**Audit Report:** Prepared by an independent auditor, an audit report includes: (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations. It is almost always accompanied by a management letter.

**Available Funds:** Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

**Balance Sheet:** A statement that discloses the assets, liabilities, reserves and equities of a fund or governmental unit at a specified date.

**Betterments (Special Assessments):** Whenever a specific area of a community receives benefit from a public improvement (e.g., water, sewer, sidewalk, etc.), special property taxes may be assessed to reimburse the governmental entity for all or part of the costs it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request that the assessors apportion the betterment over 20 years. Over the life of the betterment, one year's apportionment along with one year's committed interest computed from October 1 to October 1

## Glossary of Terms

is added to the tax bill until the betterment has been paid.

**Bond:** A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate. The term of a bond is always greater than one year. (See Note)

**Bond and Interest Record:** (Bond Register) – The permanent and complete record maintained by a treasurer for each bond issue. It shows the amount of interest and principal coming due each date and all other pertinent information concerning the bond issue.

**Bond Anticipation Note (BAN):** Short-term debt instrument used to generate cash for initial project costs and with the expectation that the debt will be replaced later by permanent bonding. Typically issued for a term of less than one year, BANs may be re-issued for up to five years, provided principal repayment begins after two years (MGL Ch. 44 §17). Principal payments on school related BANs may be deferred up to seven years (increased in 2002 from five years) if the community has an approved project on the Massachusetts School Building Authority (MSBA) priority list. BANs are full faith and credit obligations.

**Bond Authorization:** The action of town meeting or a city council authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the mayor, or selectmen. (See Bond issue)

**Bonds Authorized and Unissued:** Balance of a bond authorization not yet sold. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may not be used for other purposes, but must be rescinded by town meeting or the city council to be removed from community's books.

**Bond Issue:** Generally, the sale of a certain number of bonds at one time by a governmental unit.

**Bond Rating (Municipal):** A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poors, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

**Budget:** A plan for allocating resources to support particular services, purposes and functions over a specified period of time. (See Performance Budget, Program Budget)

**Budget Message:** A statement that, among other things, offers context by summarizing the main points of a budget, explains priorities, describes underlying policies that drive funding decisions, and otherwise justifies the expenditure plan and provides a vision for the future.

**Budget Unit:** A board or department to which the municipality's legislative body appropriates funds.

**Capital Assets:** All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost. (See Fixed Assets)

**Capital Budget:** An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each

## Glossary of Terms

recommended expenditure, i.e., tax levy or rates, and identify those items that were not recommended. (See Capital Assets, Fixed Assets)

**Capital Improvements Program:** A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five-year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

**Capital Outlay Expenditure Exclusion:** A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen or city council (sometimes with the mayor's approval) and a majority vote in a community-wide referendum. The exclusion is added to the tax levy only during the year in which the project is being funded and may increase the tax levy above the levy ceiling.

**Cash:** Currency, coin, checks, postal and express money orders and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

**Cash Management:** The process of monitoring the ebb and flow of money in an out of municipal accounts to ensure cash availability to pay bills and to facilitate decisions on the need for short-term borrowing and investment of idle cash.

**Cemetery Perpetual Care:** These funds are donated by individuals for the care of grave sites. According to Ch. 114, s 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.

**Certification:** Verification of authenticity. Can refer to the action of a bank, trust company, or DOR's Bureau of Accounts (BOA) in the

issuance of State House Notes, to confirm the genuineness of the municipal signatures and seal on bond issues. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or overissue. Also refers to the certification by the Bureau of Local Assessment (BLA) that a community's assessed values represent full and fair cash value (FFCV). (See Triennial Certification)

**Certificate of Deposit (CD):** A bank deposit evidenced by a negotiable or non-negotiable instrument, which provides on its face that the amount of such deposit plus a specified interest payable to a bearer or to any specified person on a certain specified date, at the expiration of a certain specified time, or upon notice in writing.

**Cherry Sheet:** Named for the cherry colored paper on which they were originally printed, the Cherry Sheet is the official notification to cities, towns and regional school districts of the next fiscal year's state aid and assessments. The aid is in the form of distributions, which provide funds based on formulas and reimbursements that provide funds for costs incurred during a prior period for certain programs or services. Links to the Cherry Sheets are located on the DLS website at [www.mass.gov/dls](http://www.mass.gov/dls). (See Cherry Sheet Assessments, Estimated Receipts)

**Cherry Sheet Assessments:** Estimates of annual charges to cover the cost of certain state and county programs.

**Cherry Sheet Offset Items:** Local aid that may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs. Current offset items include racial equality grants, school lunch grants, and public libraries grants. (See Offset Receipts)

**Classification of Real Property:** Assessors are required to classify all real property according to use into one of four classes: residential, open space, commercial, and industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of

## Glossary of Terms

the tax burden is to be borne by each class of real property and by personal property owners. (see Classification of the Tax Rate).

**Classification of the Tax Rate:** Each year, the selectmen or city council vote whether to exercise certain tax rate options. Those options include choosing a residential factor (MGL Ch. 40 §56), and determining whether to offer an open space discount, a residential exemption (Ch. 59, §5C), and/or a small commercial exemption (Ch. 59, §5I) to property owners.

**Collective Bargaining:** The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and some or all of its employees, who are represented by a recognized labor union. regarding wages, hours and working conditions.

**Community Preservation Act (CPA):** Enacted as MGL Ch. 44B in 2000, CPA permits cities and towns accepting its provisions to establish a restricted fund from which monies can be appropriated only for a) the acquisition, creation and preservation of open space; b) the acquisition, preservation, rehabilitation, and restoration of historic resources; and c) the acquisition, creation and preservation of land for recreational use; d) the creation, preservation and support of community housing; and e) the rehabilitation and restoration of open space, land for recreational use and community housing that is acquired or created using monies from the fund. Acceptance requires town meeting or city council approval or a citizen petition, together with referendum approval by majority vote. The local program is funded by a local surcharge up to 3 percent on real property tax bills and matching dollars from the state generated from registry of deeds fees. (See DOR IGR 00-209 as amended by IGR 01-207 and IGR 02-208)

**Community Preservation Fund:** A special revenue fund established pursuant to MGL Ch. 44B to receive all monies collected to support a community preservation program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the Commonwealth, and proceeds from the sale of certain real estate.

**Compensating Balance Agreement:** An alternative to the payment of direct fees for banking services. In this case, a bank specifies a minimum balance that the municipality must maintain in non-interest bearing accounts. The bank can then lend this money (subject to a reserve requirement) and earn interest, which will at least cover the cost of services provided to the municipality. Compensating balance agreements are permitted under MGL Ch. 44 §53F and must be approved annually by town meeting or the city council.

**Conservation Fund:** A city or town may appropriate money to a conservation fund. This money may be expended by the conservation commission for lawful conservation purposes as described in MGL Ch. 40 §8C. The money may also be expended by the conservation commission for damages arising from an eminent domain taking provided that the taking was approved by a two-thirds vote of city council or town meeting.

**Consumer Price Index:** The statistical measure of changes, if any, in the overall price level of consumer goods and services. The index is often called the "cost-of-living index."

**Cost-Benefit Analysis:** A decision-making tool that allows a comparison of options based on the level of benefit derived and the cost to achieve the benefit from different alternatives.

**Debt Authorization:** Formal approval by a two thirds vote of town meeting or city council to incur debt, in accordance with procedures stated in MGL Ch. 44 §§1, 2, 3, 4a, 6-15.

**Debt Burden:** The amount of debt carried by an issuer usually expressed as a measure of value (i.e., debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden refers to debt service costs as a percentage of the total annual budget.

**Debt Exclusion:** An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By

## Glossary of Terms

approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.

**Debt Limit:** The maximum amount of debt that a municipality may authorize for qualified purposes under state law. Under MGL Ch. 44 §10, debt limits are set at 5 percent of EQV. By petition to the Municipal Finance Oversight Board, cities and towns can receive approval to increase their debt limit to 10 percent of EQV.

**Debt Service:** The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

**Encumbrance:** A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to, but not yet paid from, a specific appropriation account.

**Enterprise Funds:** An enterprise fund, authorized by MGL Ch. 44 §53F½, is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs—are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. (See DOR IGR 08-101)

**Equalized Valuations (EQVs):** The determination of the full and fair cash value of all property in the commonwealth that is subject to local taxation. EQVs have historically been

used as variables in distributing certain state aid accounts and for determining county assessments and certain other costs. The Commissioner of Revenue, in accordance with M.G.L. Ch. 58 s 10C, is charged with the responsibility of bi-annually determining an equalized valuation for each town and city in the Commonwealth.

**Estimated Receipts:** A term that typically refers to anticipated local revenues listed on page three of the Tax Recapitulation Sheet. Projections of local revenues are often based on the previous year's receipts and represent funding sources necessary to support a community's annual budget. (See Local Receipts)

**Excess and Deficiency (E&D):** Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district's liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet, which is submitted to DOR by the district's auditor, accountant, or comptroller as of June 30. The regional school committee must apply certified amounts exceeding five percent of the district's prior year operating and capital costs to reduce the assessment on member cities and towns. Important: E&D is not available for appropriation until certified by the Director of Accounts.

**Excess Levy Capacity:** The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the board of selectmen or council must be informed of excess levying capacity and evidence of such acknowledgment must be submitted to DOR when setting the tax rate.

**Exemptions:** A discharge, established by statute, from the obligation to pay all or a portion of a property tax. The exemption is available to particular categories of property or persons upon the timely submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and

## Glossary of Terms

cultural institutions. Persons who may qualify for exemptions include disabled veterans, blind individuals, surviving spouses, and seniors.

**Expenditure:** An outlay of money made by municipalities to provide the programs and services within their approved budget.

**Fiduciary Funds:** Repository of money held by a municipality in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

**Fiscal Year (FY):** Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. Since 1976, the federal government fiscal year has begun on October 1 and ended September 30.

**Fixed Assets:** Long-lived, tangible assets such as buildings, equipment and land obtained or controlled as a result of past transactions or circumstances.

**Fixed Costs:** Costs that are legally or contractually mandated such as retirement, FICA/Social Security, insurance, debt service costs or interest on loans.

**Float:** The difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

**Foundation Budget:** The spending target imposed by the Education Reform Act of 1993 for each school district as the level necessary to provide an adequate education for all students.

**Free Cash:** (Also Budgetary Fund Balance) Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax

recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts. (See Available Funds)

**Full and Fair Cash Value (FFCV):** Fair cash value has been defined by the Massachusetts Supreme Judicial Court as "fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January first of any taxable year in the hands of any owner, including the present owner." (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956))

**Full Faith and Credit:** A pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

**Fund:** An accounting entity with a self balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions, or limitations.

**Fund Accounting:** Organizing the financial records of a municipality into multiple, segregated locations for money. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues, and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the general fund and enterprise funds. Communities

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whose accounting records are organized according to the Uniform Municipal Accounting System (UMAS) use multiple funds.

**GASB 34:** A major pronouncement of the Governmental Accounting Standards Board that establishes new criteria on the form and content of governmental financial statements. GASB 34 requires a report on overall financial health, not just on individual funds. It requires more complete information on the cost of delivering value estimates on public infrastructure assets, such as bridges, road, sewers, etc. It also requires the presentation of a narrative statement the government's financial performance, trends and prospects for the future.

**GASB 45:** This is another Governmental Accounting Standards Board major pronouncement that each public entity account for and report other postemployment benefits in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

**General Fund:** The fund used to account for most financial resources and activities governed by the normal town meeting/city council appropriation process.

**General Obligation Bonds:** Bonds issued by a municipality for purposes allowed by statute that are backed by the full faith and credit of its taxing authority.

**Governing Body:** A board, committee, commission, or other executive or policymaking body including the school committee of a municipality.

**Governmental Accounting Standards Board (GASB):** The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

**Indirect Cost:** Costs of a service not reflected in the operating budget of the entity providing the service. An example of an indirect cost of providing water service would be the value of time spent by non-water department employees processing water bills. A determination of these

costs is necessary to analyze the total cost of service delivery. The matter of indirect costs arises most often in the context of enterprise funds.

**Interest:** Compensation paid or to be paid for the use of money, including amounts payable at periodic intervals or discounted at the time a loan is made. In the case of municipal bonds, interest payments accrue on a day-to-day basis, but are paid every six months.

**Interest Rate:** The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

**Investments:** Securities and real estate held for the production of income in the form of interest, dividends, rentals or lease payments. The term does not include fixed assets used in governmental operations.

**Law Enforcement Trust Fund:** A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in MGL Ch. 94C, s 47. Funds from this account may be expended by the police chief without further appropriation.

**Levy Ceiling:** A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion. (See Levy Limit)

**Levy Limit:** A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt



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exclusion, or special exclusion. (See Levy Ceiling)

**Line Item Budget:** A budget that separates spending into categories, or greater detail, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

**Local Aid:** Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

**Local Appropriation Authority:** In a town, the town meeting has the power to appropriate funds, including the authorization of debt. In a city, the city council has the power upon the recommendation of the mayor.

**Local Receipts:** Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet. (See Estimated Receipts)

**Maturity Date:** The date that the principal of a bond becomes due and payable in full.

**Massachusetts Municipal Depository Trust:** An investment program, founded in 1977 under the supervision of the State Treasurer, in which municipalities may pool excess cash for investment.

**Minimum Required Local Contribution:** The minimum that a city or town must appropriate from property taxes and other local revenues for the support of schools (Education Reform Act of 1993).

**Municipal(s):** (As used in the bond trade) "Municipal" refers to any state or subordinate governmental unit. "Municipals" (i.e., municipal bonds) include not only the bonds of all political

subdivisions, such as cities, towns, school districts, special districts, but also bonds of the state and agencies of the state.

**Municipal Revenue Growth Factor (MRGF):** An estimate of the percentage change in a municipality's revenue growth for a fiscal year. It represents the combined percentage increase in the following revenue components: automatic 2 1/2 percent increase in the levy limit, estimated new growth, the change in selected unrestricted state aid categories and the change in selected unrestricted local receipts.

**M.G.L.:** Massachusetts General Laws.

**Net School Spending (NSS):** School budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education (DOE). (See Education Reform Act of 1993) Includes both school budget and municipal budget amounts attributable to education, excluding long-term debt service, student transportation, school lunches and certain other specified school expenditures. A community's NSS funding must equal or exceed the NSS Requirement established annually by the Department of Education.

**New Growth:** The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

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**Note:** A short-term loan, typically with a maturity date of a year or less.

**Objects of Expenditures:** A classification of expenditures that is used for coding any department disbursement, such as “personal services,” “expenses,” or “capital outlay.”

**Official Statement:** A document prepared for potential investors that contains information about a prospective bond or note issue and the issuer. The official statement is typically published with the notice of sale. It is sometimes called an offering circular or prospectus.

**Offset Receipts:** A local option that allows estimated receipts of a particular department to be earmarked for use of the department and appropriated to offset its annual operating budget. If accepted, MGL Ch. 44 §53E limits the amount of offset receipts appropriated to no more than the actual receipts collected for the prior fiscal year. The Director of Accounts must approve use of a higher amount before appropriation. Actual collections greater than the amount appropriated close to the general fund at year-end. If actual collections are less, the deficit must be raised in the next year’s tax rate.

**Operating Budget:** A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Other Amounts to be Raised:** (Tax Recapitulation Sheet) Amounts not appropriated but raised through taxation. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because they must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to the city council or town meeting.

**Overlapping Debt:** A community's proportionate share of the debt incurred by an overlapping government entity, such as a regional school district, regional transit authority, etc.

**Overlay:** (Overlay Reserve or Allowance for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve need not be funded by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet.

**Overlay Deficit:** A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements, statutory exemptions, and uncollected taxes for that year. Overlay deficits must be provided for in the next fiscal year.

**Overlay Surplus:** Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within 10 days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue, i.e., it becomes a part of free cash.

**Override:** A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (See Underride.)

**Override Capacity:** The difference between a community’s levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

**Performance Budget:** A budget that stresses output both in terms of economy and efficiency.

**Principal:** The face amount of a bond, exclusive of accrued interest.

**Program:** A combination of activities to accomplish an end.

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**Program Budget:** A budget that relates expenditures to the programs they fund. The emphasis of a program budget is on output.

**Proposition 2½:** A state law enacted in 1980, Proposition 2½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

**Purchased Services:** The cost of services that are provided by a vendor.

**Refunding of Debt:** Transaction where one bond issue is redeemed and replaced by a new bond issue under conditions generally more favorable to the issuer.

**Reserve for Abatements and Exemptions:** (See Overlay)

**Reserve Fund:** An amount set aside annually within the budget of a city (not to exceed 3 percent of the tax levy for the preceding year) or town (not to exceed 5 percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for "extraordinary or unforeseen" expenditures. Other uses of the fund require budgetary transfers by town meeting. In a city, transfers from this fund may be voted by the city council upon recommendation of the mayor.

**Revaluation:** The assessors of each community are responsible for developing a reasonable and realistic program to achieve the fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the assessors' analysis and consideration of many factors, including, but not limited to, the status of the existing valuation system, the results of an in-depth sales ratio study, and the accuracy of existing property record information. Every three years, assessors must submit property values to the DOR for certification. Assessors must also maintain fair cash values in the years between certifications so that each taxpayer in the community pays his or her share of the cost of local government in

proportion to the value of his property. (See Triennial Certification)

**Revenue Anticipation Borrowing:** Cities, towns and districts may issue temporary notes in anticipation of taxes (TANs) or other revenue (RANs). The amount of this type of borrowing is limited to the total of the prior year's tax levy, the net amount collected in motor vehicle and trailer excise in the prior year and payments made by the Commonwealth in lieu of taxes in the prior year. According to MGL Ch. 44 s 4, cities, towns and districts may borrow for up to one year in anticipation of such revenue.

**Revenue Anticipation Note (RAN):** A short-term loan issued to be paid off by revenues, such as tax collections and state aid. RANs are full faith and credit obligations. (See Bond Anticipation Note)

**Revenue Bond:** A bond payable from and secured solely by specific revenues and thereby not a full faith and credit obligation.

**Revolving Fund:** Allows a community to raise revenues from a specific service and use those revenues without appropriation to support the service. For departmental revolving funds, MGL Ch. 44 §53E½ stipulates that each fund must be reauthorized each year at annual town meeting or by city council action, and that a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

**Sale of Cemetery Lots Fund:** A fund established to account for proceeds of the sale of cemetery lots. The proceeds may only be appropriated to pay for the cost of the land, its care and improvement or the enlargement of the cemetery under provisions of MGL Ch. 114 §15.

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**Sale of Real Estate Fund:** A fund established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. MGL Chapter 44 s 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

**Security:** For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

**Special Assessments:** (See Betterments)

**Special Exclusion:** For a few limited capital purposes, a community may exceed its levy limit or levy ceiling without voter approval. Presently, there are two special expenditure exclusions: 1) water and sewer project debt service costs which reduce the water and sewer rates by the same amount; and 2) a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks, or remove dangerous levels of lead paint to meet public health and safety code requirements. In the second special exclusion, homeowners repay the municipality for the cost plus interest apportioned over a period of time, not to exceed 20 years (similar to betterments).

**Stabilization Fund:** A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund. (See DOR IGR 04-201)

**Surplus Revenue:** The amount by which cash, accounts receivable, and other assets exceed liabilities and reserves.

**Tax Rate:** The amount of property tax stated in terms of a unit of the municipal tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable real and personal property.

**Tax Rate Recapitulation Sheet (Recap Sheet):** A document submitted by a city or town to the DOR in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate. The recap sheet should be submitted to the DOR by September 1 (in order to issue the first-half semiannual property tax bills before October 1) or by December 1 (in order to issue the third quarterly property tax bills before January 1).

**Tax Title (or Tax Taking):** A collection procedure that secures a city or town's lien on real property and protects the municipality's right to payment of overdue property taxes. Otherwise, the lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After properly recording the instrument of taking, the collector transfers responsibility for collecting the overdue amounts to the treasurer. After six months, the treasurer may initiate foreclosure proceedings.

**Tax Title Foreclosure:** The procedure initiated by a city or town treasurer in Land Court or through land of low value to obtain legal title to real property already in tax title and on which property taxes are over due. The treasurer must wait at least six months from the date of a tax taking to initiate Land Court foreclosure proceedings (MGL Ch. 60 §65).

**Triennial Certification:** The Commissioner of Revenue, through the Bureau of Local Assessment, is required to review local assessed values every three years and to certify that they

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represent full and fair cash value (FFCV). Refer to MGL Ch. 40 §56 and Ch. 59 §2A(c).

**Trust Fund:** In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For nonexpendable trust funds, only interest (not principal) may be expended as directed.

**Uncollected Funds:** Recently deposited checks included in an account's balance but drawn on other banks and not yet credited by the Federal Reserve Bank or local clearinghouse to the bank cashing the checks. (These funds may not be loaned or used as part of the bank's reserves and they are not available for disbursement.)

**Underride:** A vote by a community to permanently decrease the tax levy limit. As such, it is the opposite of an override. (See Override)

**Undesignated Fund Balance:** Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

**Uniform Municipal Accounting System (UMAS):** UMAS succeeds the so-called Statutory System (STAT) and is regarded as the professional standard for municipal accounting in Massachusetts. As a uniform system for local governments, it conforms to Generally Accepted Accounting Principles (GAAP), offers increased consistency in reporting and record keeping, as well as enhanced comparability of data among cities and towns.

**Unreserved Fund Balance (Surplus Revenue Account):** The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a "stockholders' equity" account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as

"accounts receivable" may be taxes receivable and uncollected. (See Free Cash)

**Valuation (100 Percent):** The legal requirement that a community's assessed value on property must reflect its market, or full and fair cash value.

**Warrant:** An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors' warrant authorizes the tax collector to collect taxes in the amount and from the persons listed, respectively.



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