

# **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, 2009. 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 "major funds" are defined as individual funds that have reached a significant threshold with respect to total fund balance. "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.

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2010

	General <u>Fund</u>	Stabilization Fund	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues:				
Property taxes	35,723,971	-	406,685	36,130,656
Excise taxes	1,879,151	-	-	1,879,151
Payments in lieu of taxes	102,676	-	-	102,676
Departmental charges for services	658,035	-	1,991,755	2,649,790
Licenses and permits	880,377	-	-	880,377
Intergovernmental	9,376,148	-	1,618,445	10,994,593
Fines and forfeits	1,435	-	156,218	157,653
Investment income	40,533	104,260	83,190	227,983
Other	339,755	-	1,590,475	1,930,230
Total revenues	49,002,081	104,260	5,846,768	54,953,109
Expenditures:				
Current:				
General government	1,908,326	-	631,122	2,539,448
Public safety	3,493,206	-	608,479	4,101,685
Education	27,182,079	-	1,440,975	28,623,054
Public works	2,063,434	-	-	2,063,434
Human services	427,817	-	105,351	533,168
Recreation and culture	809,713	-	484,410	1,294,123
Intergovernmental	492,501	-	-	492,501
Employee benefits	8,135,558	-	9,248	8,144,806
Other	166,126	-	-	166,126
Debt service	3,471,489	-	49,125	3,520,614
Capital outlay	27,633	-	4,382,920	4,410,553
Total expenditures	48,177,882	-	7,711,630	55,889,512
Excess (deficiency) of revenues over expenditures	824,199	104,260	(1,864,862)	(936,403)
Other financing sources (uses):				
Operating transfers in	349,007	-	400,000	749,007
Operating transfers out	-	-	(749,007)	(749,007)
Total other financing sources (uses)	349,007	-	(349,007)	-
Net changes in fund balances	1,173,206	104,260	(2,213,869)	(936,403)
Fund balance, beginning of year	2,627,486	3,447,529	2,621,185	8,696,200
Fund balance, end of year	3,800,692	3,551,789	407,316	7,759,797

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2010

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 1,632,491	\$ 727,995	\$ 2,360,486
Special Assessments	114,787	595,680	710,467
Total operating revenues	1,747,278	1,323,675	3,070,953
Operating expenditures:			
Salaries, wages and employee benefits	228,951	153,057	382,008
Energy purchases	826,744	148,625	975,369
Other operating expenses	183,397	125,088	308,485
Depreciation	343,841	207,006	550,847
Total operating expenditures	1,582,933	633,776	2,216,709
Operating income	164,345	689,899	854,244
Nonoperating revenues (expenses):			
Interest income	1,525	7,650	9,175
Interest expense	(120,068)	(298,918)	(418,986)
Other	-	12,465	12,465
Total nonoperating revenues (expenses)	(118,543)	(278,803)	(397,346)
Income before transfers	45,802	411,096	456,898
Operating transfers in (out)	-	-	-
Changes in net assets	45,802	411,096	456,898
Net assets, beginning of year	6,890,966	5,486,469	12,377,435
Net assets, end of year	\$ 6,936,768	\$ 5,897,565	\$ 12,834,333



Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2010

	Special Revenue		Capital		
	<u>School</u>	<u>Other</u>	<u>Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:					
Property taxes	\$ -	406,685	-	-	406,685
Departmental charges for services	369,674	1,606,781	-	15,300	1,991,755
Intergovernmental	687,897	902,966	27,582	-	1,618,445
Fines and forfeits	-	156,218	-	-	156,218
Investment income	788	62,221	-	20,181	83,190
Other	-	1,570,828	-	19,647	1,590,475
Total revenues	1,058,359	4,705,699	27,582	55,128	5,846,768
Expenditures:					
Current:					
General government	-	613,186	-	17,936	631,122
Public safety	-	608,479	-	-	608,479
Education	1,218,963	222,012	-	-	1,440,975
Public works	-	-	-	-	-
Human services	-	105,351	-	-	105,351
Recreation and culture	-	484,410	-	-	484,410
Employee benefits	-	9,248	-	-	9,248
Debt service	-	49,125	-	-	49,125
Capital outlay	-	1,315,121	3,067,799	-	4,382,920
Total expenditures	1,218,963	3,406,932	3,067,799	17,936	7,711,630
Excess (deficiency) of revenues over expenditures	(160,604)	1,298,767	(3,040,217)	37,192	(1,864,862)
Other financing sources (uses):					
Operating transfers in	-	-	400,000	-	400,000
Operating transfers out	-	(749,007)	-	-	(749,007)
Net changes in fund balances	(160,604)	549,760	(2,640,217)	37,192	(2,213,869)
Fund balance, beginning of year	730,870	5,065,679	(3,813,636)	638,272	2,621,185
Fund balance, end of year	\$ 570,266	5,615,439	(6,453,853)	675,464	407,316

## 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 for FY2010 is \$1,954,708, while the GAAP based financial statements reflect a Fund Balance of \$3,800,692.

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 FY2012 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, and \$804,000 will be used to fund capital expenditures. With respect to the proposed FY2012 budget, no transfers from Stabilization are contemplated, while use of Free Cash in the total amount of \$1,454,000 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	FY2011	FY2012
Certified Free Cash as of June 30 prior year	\$ 946,294	\$ 1,954,708
Proposed use for budget	\$ (600,000)	\$ (1,454,000)
Unappropriated Certified Free Cash	\$ 346,294	\$ 500,278
Stabilization Fund Balance as of June 30	\$ 3,447,529	\$ 3,551,789
Investment Income through December 31	\$ 38,690	\$ 23,856
Stabilization Fund Balance as of December 31	\$ 3,486,219	\$ 3,575,645
Total Reserves	\$ 3,832,513	\$ 4,075,923
Proposed Expenditure Budget	\$ 45,230,798	\$ 47,863,383
Reserves as Percentage of Budget	8.5%	8.5%

Free Cash will be recalculated for June 30, 2011 once FY2011 is closed and the Town has submitted its balance sheet to the DOR. While the amount voted for use in FY2012 will reduce the amount shown in the calculation above, positive results from unspent appropriations and revenues above budget in FY2011 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	FY2010	FY2011
Certified Free Cash as of June 30	\$ 946,294	\$ 1,954,708
Stabilization Fund Balance as of June 30	\$ 3,447,529	\$ 3,551,789
Total Reserves	\$ 4,393,823	\$ 5,506,497
Adopted Budget	\$ 44,422,515	\$ 45,272,948
Reserves as Percentage of Budget	9.9%	12.2%

The two tables demonstrate the town's approach to maintain sufficient reserves through its fiscal policies, and shows the approach that is used to develop its free cash plan. For FY2011, the increase of Free Cash certified at June 30, 2010 allows for the amounts to be appropriated in addition to the operating fund. In the case of FY2012, \$804,000 in capital expenditures are being considered. This approach allows for sufficient reserves to be maintained, while not becoming excessive, and can be used to fund one-time expenses such as capital purchases.



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