

# **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 Project Funds.

**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, 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 \$100,000, 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 include the State Kindergarten Enhancement grant, the State Special Education Revolving Fund (Circuit Breaker), and Federal Title I and Title IIA grants.

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 such as the 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. This category also includes the Community Preservation 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 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 Project Funds:** The Capital Project Funds are 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 Project Funds also account for capital outlay for items purchased pursuant to the town’s capital plan, such as Departmental Equipment. The source of funding for these funds are 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 Funds 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, 2014. 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. For reference, you may access a complete version of the Town's audited financial statements online at: [http://www.town.northborough.ma.us/Pages/NorthboroughMA\\_Accounting](http://www.town.northborough.ma.us/Pages/NorthboroughMA_Accounting) Hardcopies of the financial statements from each year are filed with the Town Clerk's office.

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 "Nonmajor" category for the purposes of the financial statements. The third and final table displayed is the statement for the "Nonmajor" Governmental Funds.

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

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

## Governmental Funds

For the Year Ended June 30, 2014

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 41,250,252	468,138	41,718,390
Excise taxes	2,756,087	-	2,756,087
Payments in lieu of taxes	111,146	-	111,146
Departmental charges for services	217,673	2,487,450	2,705,123
Licenses and permits	489,800	-	489,800
Intergovernmental	9,013,033	2,321,992	11,335,025
Fines and forfeits	2,180	165,177	167,357
Investment income	47,135	38,023	85,158
Other	145,163	468,956	614,119
Total revenues	54,032,469	5,949,736	59,982,205
Expenditures:			
Current:			
General government	2,109,684	377,807	2,487,491
Public safety	3,897,956	1,130,483	5,028,439
Education	30,572,734	2,306,052	32,878,786
Public works	1,913,297	1,538,259	3,451,556
Human services	558,922	207,373	766,295
Recreation and culture	923,427	526,142	1,449,569
Intergovernmental	326,754	-	326,754
Employee benefits	9,379,452	-	9,379,452
Other	177,119	-	177,119
Debt service	2,308,298	57,660	2,365,958
Total expenditures	52,167,643	6,143,776	58,311,419
Excess (deficiency) of revenues over expenditures	1,864,826	(194,040)	1,670,786
Other financing sources (uses):			
Operating transfers in	1,400,733	2,637,226	4,037,959
Operating transfers out	(2,441,906)	(1,596,053)	(4,037,959)
Total other financing sources (uses)	(1,041,173)	1,041,173	-
Net changes in fund balances	823,653	847,133	1,670,786
Fund balance, beginning of year	9,255,791	10,252,035	19,507,826
Fund balance, end of year	\$ 10,079,444	11,099,168	21,178,612

The notes to the financial statements are an integral part of this statement.

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

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

## Proprietary Funds

For the Year Ended June 30, 2014

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 2,502,021	1,531,158	\$ 4,033,179
Special Assessments	84,939	303,132	388,071
Total operating revenues	2,586,960	1,834,290	4,421,250
Operating expenditures:			
Salaries, wages and employee benefits	449,552	230,634	680,186
Energy purchases	1,024,847	383,267	1,408,114
Other operating expenses	52,517	314,842	367,359
Depreciation	277,775	209,337	487,112
Total operating expenditures	1,804,691	1,138,080	2,942,771
Operating income	782,269	696,210	1,478,479
Nonoperating revenues (expenses):			
Interest income	544	1,094	1,638
Interest expense	(95,963)	(178,575)	(274,538)
Other	-	1,239	1,239
Total nonoperating revenues (expenses)	(95,419)	(176,242)	(271,661)
Income before transfers	686,850	519,968	1,206,818
Operating transfers in (out)	26,000	(26,000)	-
Changes in net position	712,850	493,968	1,206,818
Net position, beginning of year	7,994,223	7,901,953	15,896,176
Net position, end of year	\$ 8,707,073	8,395,921	\$ 17,102,994
The notes to the financial statements are an integral part of this statement.			

**TOWN OF NORTHBOROUGH, MASSACHUSETTS**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2014

	<u>Special Revenue</u>				
	<u>School</u>	<u>Other</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:					
Property taxes	\$ -	468,138	-	-	468,138
Departmental charges for services	277,625	2,195,300	-	14,525	2,487,450
Licenses and permits	-	-	-	-	-
Intergovernmental	1,043,919	1,077,428	200,645	-	2,321,992
Fines and forfeits	-	165,177	-	-	165,177
Investment income	1	28,422	-	9,600	38,023
Other	-	450,450	-	18,506	468,956
Total revenues	1,321,545	4,384,915	200,645	42,631	5,949,736
Expenditures:					
Current:					
General government	-	356,332	-	21,475	377,807
Public safety	-	723,473	407,010	-	1,130,483
Education	1,439,707	366,542	499,803	-	2,306,052
Public works	-	1,239,452	298,804	3	1,538,259
Human services	-	207,373	-	-	207,373
Recreation and culture	-	526,142	-	-	526,142
Employee benefits	-	-	-	-	-
Debt service	-	57,660	-	-	57,660
Total expenditures	1,439,707	3,476,974	1,205,617	21,478	6,143,776
Excess (deficiency) of revenues over expenditures	(118,162)	907,941	(1,004,972)	21,153	(194,040)
Other financing sources (uses):					
Operating transfers in	-	389,099	2,248,127	-	2,637,226
Operating transfers out	-	(1,583,053)	-	(13,000)	(1,596,053)
Net changes in fund balances	(118,162)	(286,013)	1,243,155	8,153	847,133
Fund balance, beginning of year	858,615	5,986,222	2,650,658	756,540	10,252,035
Fund balance, end of year	\$ 740,453	5,700,209	3,893,813	764,693	11,099,168

## Changes in Fund Balance

### General Fund

It is important to note that while the General Fund's 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 FY2014 is \$3,932,028 while the GAAP based Fund financial statements reflect an Unassigned Fund Balance of \$8,825,591, which also includes the Town's Stabilization Fund Balance of \$3,686,792.

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 FY2016 budget, the amount of \$500,000 will be used for the operating budget, \$175,000 will be used to fund the Appropriations Committee Reserve Fund, \$200,000 will be transferred into Stabilization, \$2,194,000 will be used to fund capital expenditures, and \$20,000 will be used to provide funds for the Town's 250<sup>th</sup> Anniversary Celebration. With respect to the proposed FY2016 budget, no transfers from Stabilization are contemplated, while use of Free Cash in the total amount of \$3,089,000 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	FY2015	FY2016
Certified Free Cash as of June 30 prior year	\$ 2,074,920	\$ 3,932,028
Proposed* use for budget	\$ (1,543,500)	\$ (3,089,000)
Unappropriated Free Cash	\$ 531,420	\$ 843,028
Stabilization Fund Balance as of June 30	\$ 3,646,820	\$ 3,686,792
Investment Income through December 31	\$ 5,473	\$ 7,501
Proposed* transfer into Stabilization	\$ 0	\$ 200,000
Stabilization Fund Balance	\$ 3,652,293	\$ 3,894,293
Total Reserves	\$ 4,183,713	\$ 4,737,321
Proposed Expenditure Budget	\$ 53,984,459	\$ 58,108,586
Reserves as Percentage of Budget	7.7%	8.2%

*\*Proposed use of Free Cash for FY2016, \$3,089,000, includes a \$200,000 transfer to the Stabilization Fund.*

Free Cash will be recalculated for June 30, 2015 once FY2015 is closed and the Town has submitted its balance sheet to the DOR. While the amount voted for use in FY2016 will reduce the amount shown in the preceding calculation, positive results from unspent appropriations and

revenues above budget in FY2015 will add to the balance. Note that the figure for the adopted budget is determined when the Town's tax rate is set later during the current fiscal year (Tax Recapitulation). The adopted budget changes from the proposed due to a number of factors, primarily assessments that are estimated at the time of Town Meeting, and finalized when the property tax rate is set and approved by the DOR. 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	FY2014	FY2015
Certified Free Cash as of June 30	\$ 2,074,920	\$ 3,932,028
Stabilization Fund Balance as of June 30	\$ 3,646,820	\$ 3,686,792
Total Reserves	\$ 5,721,740	\$ 7,618,820
Adopted Budget	\$ 51,859,163	\$ 53,860,561
Reserves as Percentage of Budget	11.0%	14.1%

The preceding 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 FY2016, the amount of Free Cash certified at June 30, 2014 allows for amounts to be appropriated for capital in addition to the limited amount used for the operating budget. In the case of FY2015, \$893,500 in capital expenditures were approved, and for FY2016 \$2,214,000 is proposed for capital and certain other one-time expenditures (e.g. \$20,000 for the Town's 250<sup>th</sup> Anniversary Celebration). This approach allows for sufficient reserves to be maintained, while at the same time reserves can be used to fund one-time expenses such as capital purchases.

Additionally, for the purposes of long term trend analysis, the level of the Town's reserves are compared to "Operating Revenues" as an indicator in its Financial Trend Monitoring System (FTMS) rather than the expenditure budget (see Appendix C for further information). "Operating Revenues" reflect the actual cash received in the General Fund during the fiscal year, and does not include the use of Free Cash or other "one-time revenues", or accruals. The indicator compares the percentage of reserves remaining at the close of the year to actual revenue. The indicator, also seeks to reflect allocations or reservations subsequently made, to reflect spending decisions made after balances are certified. The table below shows the data excerpted for the most recently closed two years included in the analysis:

RESERVES VS. OPERATING REVENUES	FY2013	FY2014
Certified Free Cash as of June 30	\$ 2,074,920	\$ 3,932,028
Stabilization Fund Balance as of June 30	\$ 3,646,820	\$ 3,686,792
Total Reserves	\$ 5,721,740	\$ 7,618,820
Total Revenues	\$ 48,704,343	\$ 50,864,790
Reserves as % of Operating Revenues	11.7%	15.0%
Reserves Subsequently Used (Proposed*)	\$ (1,543,500)	\$ (2,889,000)
Total Adjusted Reserves	\$ 4,178,240	\$ 4,729,820
Total Revenues	\$ 48,704,343	\$ 50,864,790
Reserves as % of Operating Revenues	8.6%	9.3%

*\*Proposed use of Free Cash for FY2016, \$3,089,000, is reduced here by \$200,000 proposed for transfer to the Stabilization Fund, since Stabilization is a reserve.*



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