

TOWN OF MANSFIELD

FINANCIAL POLICIES | A COMMUNITY COMPACT INITIATIVE

NOVEMBER 2015



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

PREPARED BY:

DLS | Technical Assistance Bureau

100 Cambridge Street, Boston, MA 02114-9569

www.mass.gov/dls

Zack Blake, Director, Technical Assistance Bureau

Theodore D. Kalivas, Project Manager, Technical Assistance Bureau

Kirsten Shirer, Deputy Director, Information Technology Unit



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

Mark E. Nunnely
Commissioner of Revenue

Sean R. Cronin
Senior Deputy Commissioner

November 24, 2015

William R. Ross
Town Manager
6 Park Row
Mansfield, MA 02048

Dear Mr. Ross,

I am pleased to present the enclosed set of suggested financial policies for the Town of Mansfield. As part of the Baker-Polito Administration's commitment to cities and towns, the Community Compact Cabinet initiative strives to create clear mutual standards, expectations, and accountability for both the state and municipalities. It is our hope that these financial policies provide important guidance and consistency in Mansfield's fiscal decisions, as together we seek to build better government for our citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin
Senior Deputy Commissioner

Supporting a Commonwealth of Communities

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INTRODUCTION

At the request of the Town of Mansfield, the Technical Assistance Bureau for the Division of Local Services developed a series of financial policies for local officials. This project is the result of the [Community Compact](#)¹ initiative, whose goal is to encourage the implementation of municipal best practices that promote good governance by fostering efficiency, accountability, and transparency in local government. As a best practice, formal financial policies provide important guidance and consistency as local officials plan, direct, monitor, and protect municipal government assets and resources.

To develop Mansfield's policies, we conducted onsite interviews with local officials and gathered and examined municipal finance-related documentation. We also surveyed comparable communities and reviewed professional association guidance to measure standards and confirm recommended practices. The financial policies manual presented here represents this cumulative effort and is intended for local review and acceptance.

Based on our observations, the local officials have made significant progress over the past decade to formalize and implement various policies and practices. Recent examples of this progress include developing a five-year capital plan, implementing reserve and debt policies, and initiating a collaborative budget process. As a group, local officials appear engaged, forward-thinking, and committed to strengthening municipal financial management practices.

Background

The Town of Mansfield (pop. 23,500) is located in Bristol County in southeastern Massachusetts. Although largely residential, it is home to the Xfinity Center outdoor amphitheater and two major industrial parks, including the Cabot Business Park, which is considered the largest in the state at over 800 acres.

Mansfield provides a full array of services, including police and fire, library, senior center, public works, and municipal electric. The town also delivers pre-k through 12th grade education to about 4,000 students, while vocational training is offered through the Southeastern Regional Vocational Technical School in Easton. Last year, Mansfield's average single family tax bill of \$5,816 ranked second highest among communities in Bristol County and in the top 25 percent statewide. As a

¹ <http://www.mass.gov/governor/administration/groups/communitycompactcabinet/>

measure of relative wealth, the town's per capita income of \$39,976 places it second among the 20 communities in Bristol County and on par with the statewide average. Mansfield's per capita equalized valuation of \$142,867 is about 14 percent higher than the county average but below the statewide average of \$211,415.

In FY2015, Mansfield's total operating budget was a little over \$95m. The tax levy comprises over half the budget (56 percent), while state aid (23 percent), local receipts (17 percent), and other revenue sources (4 percent) make up the remainder. The town has also adopted the optional room and meals taxes. As for expenditures, the town spent about 53 percent of its general fund budget on education, 11 percent on public safety, 17 percent on fixed costs, 4.5 percent on debt service, 3.5 percent on general government, and 11 percent on all other. The town has about 760 full-time equivalent employees, of which three-quarters work for the local school district.

Mansfield's certified available free cash balance for FY2016 was \$3.28m, or about 3.3 percent of the total operating budget, while the combined general stabilization and capital stabilization fund balances was \$2.94m, or about 3 percent of the total operating budget. The town also recently established a trust fund to finance other post-employment benefits (OPEB) for retirees, which has a total fund balance of \$3.6m. As an informal policy, the electric department fully funds its actuarially required contribution (ARC), while the town annually contributes about \$400k towards its share. Local officials continue to analyze the rate impact contributions would have on enterprise-fund-related activities. We provide a dashboard analysis of Mansfield's recent financial trends on our website, [here](#)².

Within this context, Mansfield operates under a board of selectmen-open town meeting form of government. The five-member board of selectmen appoints the town manager to serve as the town's chief executive officer. Under this structure, the select board sets policy, which the town manager implements through his staff. The town manager appoints all major department heads, including the chiefs of police and fire, town clerk, DPW director, treasurer-collector, and finance director. The finance director, as town accountant, also reports to the select board. A five-member school committee serves as the chief policymaking body for the schools and appoints the superintendent as its chief executive officer.

Under the town manager's leadership, local officials continue to formalize and implement various municipal best practices to improve Mansfield's overall financial condition. The town's strong AA+

² <https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Dashboard.TrendAnalysis>

bond rating and its clean annual outside audit mark positive changes. Other recent improvements include:

- Developing a five-year strategic plan of town priorities
- Setting select board annual goals and objectives
- Implementing recommendations outlined in an operational review of the town's finance and administrative functions
- Delivering a Comprehensive Annual Financial Report (CAFR)
- Installing an interactive "Visual Budget" tool to track income and spending
- Appointing the town accountant to the dual role of finance director
- Carrying out a collaborative budget process

By developing formal policies, local officials are taking yet another step to strengthen Mansfield's overall financial management operations. Such policies promote fiscal stability, reinforce internal controls, and have the added benefit of boosting a community's credit rating. They also are a key component, along with a capital plan, long-range forecast, and a transparent and user-friendly budget document, in ensuring public faith in municipal management. Already, the town has written draft policies on free cash usage, stabilization funds, long-term debt, capital planning, forecasting, and budget preparation. However, it would benefit from developing formalized policies in other areas as well.

The following financial policies manual is for local review and approval. It contains requested policies on the locally suggested subject areas of targeted ending fund balance, indirect cost allocation, inter fund transfers, investments, cash turnovers, one-time revenues, monthly cash flow reporting, technology needs assessment, and refreshments. At the town's request, these policies are written in clear, plain language and limited to one page. While we reviewed the town's existing financial policies, we make no recommendations nor affirm their content. These proposed financial policies should be vetted through appropriate boards and committees and reviewed by town counsel before adoption.



TOWN OF MANSFIELD

FINANCIAL POLICIES MANUAL

ADOPTED JULY 1, 2016

BY THE

SELECT BOARD, FINANCE COMMITTEE, AND SCHOOL COMMITTEE

INTRODUCTION

The Town of Mansfield is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. These financial policies provide necessary guidance and consistency regarding local fiscal decisions and planning. They specify objectives, provide formal direction, and define authority to help ensure fiscal stewardship and sound management practice. They are a living tool and shall be reviewed and updated as necessary on an ongoing basis. The board of selectmen, as the town's chief policymaking body, will develop and maintain policies through the town manager, who is responsible for their implementation. Any change or modification is to be vetted through the town manager and school superintendent before final adoption by the select board, finance committee, and school committee. It is through these policies that the town commits itself to the following financial objectives:

- Sustaining a consistent level of service and value for residents
- Ensuring the maintenance and quality of capital assets
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting or otherwise enhancing the town's credit rating
- Promoting transparency and public disclosure

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FUND BALANCE POLICY

Rationale: To mitigate risks that can occur from unanticipated revenue fluctuations and unforeseen expenditures. The unrestricted fund balance also provides cash flow liquidity for internal borrowing and general operating purposes.

Credit rating agencies specify that prudent financial management dictates that the unrestricted fund balance should remain above 10 percent of general fund revenue. Ratings agencies use declining unrestricted fund balance levels as part of their justification in downgrading municipalities.

The Government Finance Officers Association (GFOA) recommends that municipalities maintain an unrestricted general fund balance of no less than two months of regular general fund operating revenues or expenses.

Policy: The town will strive to maintain a minimum unrestricted general fund balance equal to 10 percent of its annual operating expenditures. The town will view any declining trend in unrestricted general fund balance as a sign of fiscal stress and take any necessary action to avoid such circumstances. The school department is considered part of the town's general operations and is included in its fund balance calculation.

The general stabilization fund balance will be included in the unrestricted general fund calculation. Pursuant to town policy, a certified portion of unreserved fund balance, "free cash", may be transferred to the general stabilization fund. The town's capital stabilization fund is assigned to capital-related expenditures and not included in the calculation. In accordance with town policy, the town manager may recommend the transfer of free cash to the capital stabilization fund only after fully funding the general stabilization fund.

For the purposes of this policy only, the General Fund Unreserved Fund Balance will be defined as the sum of the General Fund Unrestricted Fund Balance and the General Stabilization Fund at the end of the fiscal year.

Procedure: The town manager and finance director will ensure compliance with the provisions of this policy, which will be reviewed as a part of the annual budget process.

References: [*Appropriate Level of Unrestricted Fund Balance in the General Fund*](#), Government Finance Officers Association Best Practice, September 2015.

[*Fund Balance Reporting and Governmental Fund Type Definitions*](#), Governmental Accounting Standards Board Statement No. 54, February 2009.

INDIRECT COST POLICY

Rationale: To develop indirect cost allocation guidelines for town water, sewer, electric, parking, and airport enterprise funds.

The Government Finance Officers Association (GFOA) encourages towns to allocate their indirect costs using a systematic and rational calculation methodology to recover expenses that one department incurs in support of another.

The Division of Local Services recommends that communities establish written policies regarding the allocation of enterprise fund indirect costs that are reviewed as part of the annual budget process.

Policy: Indirect costs will be calculated and applied to the town's water, sewer, parking, and airport enterprise funds. As a general rule, indirect costs will be calculated by taking into account all related general fund expenses that support enterprise fund activities including employee benefits (e.g. retirement, unemployment, Medicare, health insurance, OPEB, workers compensation), administrative support (town manager, finance director, treasurer-collector), and any other shared service expenses.

Procedure: The finance director will calculate indirect costs using the most recent fiscal year's appropriations and based on one or more of the following methodologies: actual, transactional, estimated support, and proportional. For each enterprise-related activity, the finance director will maintain separate written instruction detailing the calculation methodology, which will be reviewed and submitted as part of the annual operating budget process. The finance director will track and record operating transfers in accordance with the town's inter fund transfer policy. Indirect costs will contain only costs that cannot be directly billed or assigned to the Enterprise Fund in any other way.

References: [M.G.L. c. 44, §53F½](#)

[Taking Advantage of Indirect Cost Allocations](#), Government Finance Officers Association Best Practice, February 2014.

[Pricing Internal Services](#), Government Finance Officers Association Best Practice, February 2013

[Measuring the Full Cost of Government Service](#), Government Finance Officers Association Best Practice, January 2002.

[Costing Municipal Services: Workbook and Case Study](#), Division of Local Services, March 2005

INTER FUND TRANSFERS POLICY

Rationale: To reimburse the general fund or any other funds for services and expenditures incurred on behalf of the town's water, sewer, electric, parking, or airport enterprise funds.

The Division of Local Services recommends that the cost of any service provided by a municipal department to another municipal department operating as an enterprise fund under M.G.L. c. 44 § 53F½ should be accounted for through an inter fund transaction between the general fund and enterprise fund.

Policy: Annually, the town manager will determine all enterprise fund indirect costs after consultation with the DPW director and/or the Mansfield Airport Commission. The town manager will then publicize the indirect cost amounts, formulas, and methodology. All enterprise fund indirect costs incurred by other departments will be reimbursed by the appropriate enterprise fund.

Procedure: The town manager will publish enterprise fund indirect cost agreements as part of Mansfield's annual operating budget and its Comprehensive Annual Financial Report (CAFR). The finance director will track and record operating transfers on at least a monthly basis to accurately reflect the general fund and enterprise fund financial position. When appropriate, the town accountant will directly charge the enterprise fund for certain expenses, such as payroll, benefits, and other insurances, that are clearly identifiable through the warrant process.

References: [M.G.L. c. 44, § 53F½](#)

[Enterprise Funds](#), Division of Local Services, April 2008.

INVESTMENT POLICY

Rationale: To establish guidelines and responsibilities in accordance with state law for managing and investing town funds.

The Governmental Accounting Standards Board (GASB) recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risk.

Policy: The treasurer-collector will invest town funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity, and yield.

Procedure: The treasurer-collector is responsible for investing town funds and will make all decisions regarding their management in consultation with the finance director and others as necessary. The treasurer-collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The treasurer-collector will assess investment activity and keep the town manager and finance director apprised of any major changes by providing a report of investment activity annually or more often as needed. The report will include a list of individual accounts, securities held, maturities, and a summary of income earned year to date, along with a brief summary of general market and economic conditions and any other factors affecting the town's investments.

References: [Town Charter, Section 7 – 11 Town Treasurer/Collector](#)

[Town Bylaws, Section VIII](#)

[M.G.L. c. 44, §54](#)

[M.G.L. c. 44, §55](#)

[M.G.L. c. 44, §55A](#)

[M.G.L. c. 44, §55B](#)

[Deposit and Investment Risk Disclosures](#), Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

[Creating an Investment Policy](#), Government Finance Officers Association Best Practice, October 2010.

CASH TURNOVER POLICY

Rationale: To establish sound turnover controls for receipts collected by town departments.

The Massachusetts Collectors and Treasurers Association recommends that a summary report of all taxes, interest, charges, and fees collected and paid be submitted to the treasurer at least once a week. The original summary should be provided to the treasurer, with a second copy to the town accountant, and the third retained by the department. The treasurer should verify the amounts listed on the turnover form and sign receipted copies.

Policy: Departments will turn over all receipts to the treasurer-collector's office in a timely manner using the prescribed turnover procedure.

Procedure: Each department must:

- Maintain a manual or electronic receipts log
- Provide a prenumbered, two-part receipt for each transaction
- Hold all receipts in a locked, secure area until turnover
- Turn over all receipts weekly or when collections exceed \$1,000
- Transmit an electronic Schedule of Receipts report to the treasurer-collector's office signed by the department head or designee in triplicate, along with all collected receipts
- Retain a treasurer-collector signed copy of the turnover for their records and transmit a third signed copy to the finance director
- Reconcile their monthly receipts report from the finance director to their receipts log

The treasurer-collector's office will:

- Sign off that the total amount indicated on the departmental turnover sheet reconciles with the total cash and checks presented
- Enter all receipts reported in the town's receipts software application
- Enter all cash receipts for a specific date into the cashbook as of the date of the deposit
- Reconcile monthly all bank accounts to the cashbook and the cashbook to the general ledger

References: [M.G.L. c. 41, §35](#) [M.G.L. c. 41, §41](#) [M.G.L. c. 41, §57](#)

[Treasurer's Manual](#), Massachusetts Collectors Treasurers Association, 2009.

[Collector's Manual](#), Massachusetts Collectors Treasurers Association, 2008.

ONE-TIME REVENUES POLICY

Rationale: To ensure the use of one-time revenues for nonrecurring purposes.

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize service disruptions due to the non recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan.

Policy: The town will generally avoid using one-time revenues to fund ongoing or recurring operating expenditures. Reasonable exceptions include economic downturn or unanticipated fiscal stress. In such cases, the town manager in consultation with the finance director and with approval by the select board and finance committee can recommend the use of one-time revenues for town meeting appropriation. Such use will trigger the town manager and finance director to develop an action plan to avoid continued reliance on one-time revenues.

Procedure: The finance director will analyze and inform the town manager of the receipt of any sizable or extraordinary one-time revenues. These funds will be used in accordance with the town's free cash policy as a funding source during the annual budget process to meet stated reserve goals or to finance documented capital improvement needs. One-time revenues can include free cash, bond premiums, sale of town assets (land and equipment), legal settlements, insurance proceeds, and gifts.

References: [M.G.L. c. 44, §63](#) [M.G.L. c. 44, §63A](#) [M.G.L. c. 44, §53](#)
[M.G.L. c. 44, §53A](#) [M.G.L. c. 53A½](#) [M.G.L. c. 44, §20](#)

[*Bond Premiums and Debt Exclusions*](#), Division of Local Services Bulletin 2013-01B

MONTHLY CASH FLOW REPORTING POLICY

Rationale: To determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessary coincide with expense patterns, which often results in cash surpluses or shortfalls during certain periods of the year.

Policy: The treasurer-collector will report the town's current cash flow position to the finance director on a monthly reporting cycle using a mutually agreed upon format. The finance director will update the town manager of the town's cash flow position on a quarterly basis.

Procedure: The treasurer-collector will maintain a monthly cash flow forecast identifying all major, historical, revenue and expenditure types and their expected timing throughout the fiscal year. As the year unfolds, forecast estimates will be adjusted to reflect actual monthly activity.

References: [*Cash Flow Forecast in Treasury Operations*](#), Government Finance Officers Association Best Practice, February 2011.

REFRESHMENTS POLICY

Rationale: To limit refreshment purchases only to those for a clear municipal business purpose.

It is good municipal practice to carefully manage refreshment purchases in an era of scarce resources and ever tightening budgets. On occasion, it is in the town's best interest to provide refreshments as a necessary business practice. Refreshments are subject to public scrutiny and must be reasonable and sufficiently documented.

Policy: The town will authorize payment for light refreshments, including coffee, bottled water, juice, soda, and food items, such as fruit, chips, pastries, cookies and cake, provided during official municipal business meetings. A meeting involving only municipal employees generally does not qualify. Alcohol and tobacco purchases are strictly forbidden. Appropriated funds by town meeting cannot be used for refreshment purchases unless no other funding sources exist (grant, gift, trust, etc.)

Procedure: Departments must seek prior written approval from the town manager or superintendent of schools for all refreshment purchases over \$50. Preapproval for all refreshment purchase is encouraged. Preapprovals must be sent to the town manager or superintendent of schools no later than five business days prior to the meeting or event. Approval for reasonable expenses will occur only after submitting appropriate documentation, including request form, itemized receipt, and meeting or event agenda including date, time and participants. The completed reimbursement forms must be submitted no later than 10 business days from the date of the meeting or event. The town manager or superintendent of schools reserves the right to reject any purchases.

References: [M.G.L. c. 41, §56](#) [M.G.L. c. 40, §5](#) [M.G.L. c. 71, §34](#) [M.G.L. c. 44, §58](#)

TECHNOLOGY NEEDS ASSESSMENT POLICY

Rationale: To determine the current status of the town’s technology infrastructure, how it is used, and what future needs exist. Gathered information feeds into a comprehensive technology plan that aligns identified priorities and encourages synergies. In doing so, the town can optimize technology capabilities by keeping assets up to date and functioning, while enhancing productivity and service delivery.

Policy: The town will annually evaluate its technology needs to more effectively organize and leverage existing hardware, software, and personnel resources.

Procedure: The MIS department will take the following steps as part of Mansfield’s annual technology needs assessment:

- Maintain an inventory of existing technology infrastructure in town departments, including the schools
- Assess each department’s current and future technology-related needs by identifying challenges, emerging issues, and potential approaches
- Review and consult with the town manager and school superintendent on organizing technology systems and personnel
- Evaluate and recommend areas for training and process improvement
- Develop and maintain a five-year strategic plan, including projected costs and recommended funding sources in consultation with the Capital Improvements Committee

References: [Information Technology Unit](#), Division of Local Services

[Office of Municipal and School Technology](#), MassIT

[Office of Digital Learning](#), Massachusetts Department of Elementary & Secondary Education

MUNICIPAL FINANCE GLOSSARY

Advance Refunding of Debt – This occurs when new debt is issued to replace or redeem old debt before the maturity or call date of the old debt. Under these circumstances, the proceeds of the new debt must be placed in escrow and used to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date.

Agency Fund – This is one of four types of fiduciary funds. It is used to report resources in a purely custodial capacity by a governmental unit. Agency funds generally involve only the receipt, temporary investment, and periodic transfer of money to fulfill legal obligations to individuals, private organizations, or other governments.

Amortization – The gradual repayment of an obligation over time and in accordance with a pre-determined payment schedule.

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.

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.

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 Management Letter – An independent auditor's written communication to government officials, separate from the community's audit. It generally identifies areas of deficiency, if any, and presents recommendations for improvements in accounting procedures, internal controls and other matters.

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).

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.

Bond Premium – The difference between the market price of a bond and its face value (when the market price is higher). A premium will occur when the bond's stated interest rate is set higher than the true interest cost (the market rate).

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 Poor's, 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.

Business-Type Activities – One of two classes of activities reported in the GASB 34 government-wide financial statements. These activities are financed in whole or in part by fees charged to users for goods or services. Some examples are enterprise (MGL Chapter 44 §53F½), special revenue (MGL Ch. 44 §69B) water, and municipal electric funds.

Capital Budget – An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements.

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.

Capital Projects Fund – Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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.

Cash Receipts – Any money received by a municipality or its departments whether by cash, check or electronic transfer.

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

Chapter 70 School Aid – Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed through the Cherry Sheet to help establish educational equity among municipal and regional school districts.

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 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 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.

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.

Enterprise Fund – 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 retained earnings generated by the operation of the enterprise rather than closing it out to the general fund at year-end.

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.

Excess Levy Capacity – The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year.

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.

Financial Advisor – An individual or institution that assists municipalities in the issuance of tax exempt bonds and notes. The public finance department of a commercial bank or a non-bank advisor usually provides this service.

Financial Statement – A presentation of the assets and liabilities of a community as of a particular date and most often prepared after the close of the fiscal year.

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.

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.

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.

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

Generally Accepted Accounting Principles (GAAP) – Uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

Government Finance Officers Association (GFOA) – A nationwide association of public finance professionals.

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

Governmental Funds – Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

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.

Inside Debt – Municipal debt incurred for purposes enumerated in MGL Ch. 44, §7, and measured against the community's debt limit as set under Ch. 10. Consequently, the borrowing is inside the debt limit and referred to as inside debt. (See Outside Debt)

Inter-fund Transfers – An accounting transaction that moves funds from one fund to another fund.

Internal Service Fund – A municipal accounting fund used to accumulate the cost of central services such as data processing, printing, postage, motor pool. Costs or charges to an internal service fund are then allocated to other departments or funds within the government unit.

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.

Judgment – An amount to be paid or collected by a governmental unit as a result of a court decision, including a condemnation award in payment for private property taken for public use.

Levy – The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2½ provisions.

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 exclusion, or special exclusion. (See Levy Ceiling)

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 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)

Massachusetts Municipal Association (MMA) – A statewide organization for bringing together municipal officials to develop and advocate uniform policies and share information about providing municipal services.

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

Material Weakness – A term used in connection with financial auditing. This is a significant deficiency in a community's internal financial control. It is a reportable condition (internal control weakness) of such magnitude that it could potentially result in material misstatements of financial condition.

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 2½ 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 (Education Reform Act of 1993).

Net Assets Unrestricted (formerly Retained Earnings) – An equity account reflecting the accumulated earnings of an enterprise fund that may be used to fund capital improvements, to reimburse the general fund for prior year subsidies, to reduce user charges and to provide for enterprise revenue deficits (operating loss).

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 Elementary and Secondary Education (DESE) (Education Reform Act of 1993).

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.

Non-Recurring Revenue Source – A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year. (See Recurring Revenue Source)

One-time (Nonrecurring) Revenue – Unrestricted, undesignated revenue streams that occur on a one time basis as opposed to a continuous basis each fiscal year.

OPEB (Other Postemployment Benefits) – Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends. The most common type of these postemployment benefits is a pension. Postemployment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as OPEB.

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.

Outside Debt – Municipal borrowing for purposes enumerated in MGL Ch. 44, §8. Debt incurred that is not measured against the community's debt limit per Ch. 10. Consequently, the borrowing is outside the debt limit and referred to as outside debt.

Overlay – 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.

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.

Payments in Lieu of Taxes – An agreement between a municipality and an entity not subject to taxation, such as charitable or educational organizations, in which the payer agrees to make a voluntary payment to the municipality. By law, a city or town must make such a payment to any other community in which it owns land used for public purposes.

Pension (and other employee benefit) Trust Funds – A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit (OPEB) plans, or other employee benefit plans.

PERAC – The Public Employee Retirement Administration oversees and directs the state retirement system and administers benefits for members.

Permanent Funds – A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government for its citizenry. An example is a cemetery perpetual care fund.

Private-Purpose Trust Funds – A fiduciary trust fund type used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefits individuals, private organizations, or other governments. An example is a scholarship fund.

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.

Proprietary Funds – Funds that account for government’s business-type activities (e.g., activities that receive a significant portion of their funding through user charges). The fund types included in proprietary funds are the enterprise fund and the internal service fund.

Receipts Reserved for Appropriation – Proceeds that are earmarked by law and placed in separate accounts for appropriation for particular purposes. For example, parking meter proceeds may be appropriated to offset certain expenses for parking meters and the regulation of parking and other traffic activities.

Recurring Revenue Source – A source of money used to support municipal expenditures, which by its nature can be relied upon, at some level, in future years. (See Non-recurring Revenue Source)

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 Fund – An amount set aside annually within the budget 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.

Retained Earnings – (See Net Assets Unrestricted)

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 §4, cities, towns and districts may borrow for up to one year in anticipation of such revenue.

Revenue Deficit – The amount by which actual revenues at year-end fall short of projected revenues and are insufficient to fund the amount appropriated. In such a case and unless otherwise funded, the revenue deficit must be raised in the following year's tax rate.

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 re-authorized 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.

Roll-back Taxes – Back taxes that become due when land which is valued, assessed and taxed under MGL Ch. 61, 61A or 61B, no longer qualifies as actively devoted to purposes specified in each chapter.

Schedule A – A statement of revenues, expenditures and other financing sources, uses, changes in fund balance and certain balance sheet account information prepared annually by the accountant or auditor at the end of the fiscal year. This report is based on the fund account numbers and classifications contained in the UMAS manual.

Single Audit Act – For any community that expends \$750,000 or more per year in federal grant awards, the Single Audit Act establishes audit guidelines that reduce to only one the number of annual audits to be completed to satisfy the requirements of the various federal agencies from which grants have been received.

Special Revenue Fund – Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

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.

Tax Rate Recapitulation 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.

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 non-expendable trust funds, only interest (not principal) may be expended as directed.

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.

Unfunded OPEB Liability – This is the difference between the value assigned to the benefits (other than retirement) already earned by a municipality's employees and the assets the local government will have on hand to meet these obligations. While there is no requirement in Massachusetts to fund this liability, GASB 45 requires that the dollar value of the unfunded OPEB liability is determined every two years.

Unfunded Pension Liability – Unfunded pension liability is the difference between the value assigned to the retirement benefits already earned by a municipality's employees and the assets the local retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability is redetermined every three years and is driven by assumptions about interest rates at which a retirement system's assets will grow and the rate of future costs of living increases to pensioners.

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.