



Town of Natick

FY 2014 Preliminary Budget

Appendix C: Glossary & Basis of Budgeting & Accounting

Glossary	C.3
Basis of Budgeting & Accounting	C.10



Town of Natick

FY 2014 Preliminary Budget

This page left intentionally blank.

Glossary & Basis of Budgeting & Accounting

ABATEMENT - Abatement is a reduction of a tax liability. The Board of Assessors grants abatements for real estate and personal property taxes in cases where an individual's assessed valuation is determined to be in excess of fair market value.

ACCRUAL BASIS FOR ACCOUNTING – A method of accounting that recognizes revenue when earned, rather than when collected, and recognizes expenses when incurred, rather than when paid.

APPROPRIATIONS - A legal authorization to expend municipal funds. Massachusetts municipal finance laws require that all general-purpose expenditures be authorized by a majority vote of Town Meeting.

There are two basic types of appropriations - operating appropriations, and special article appropriations. Operating appropriations last for one fiscal year only, and any unobligated balance is closed at the end of the fiscal year. Fire Department Salaries is an example of an operating appropriation. Special Article appropriations are generally voted for a specific project, such as the completion of a capital improvement or the purchase of a piece of capital equipment. Special article appropriations are closed upon completion of the project for which the funds were voted. Appropriations for all **Municipal** departments, boards, and committees are voted in two broad categories - salaries and expenses. Funds voted for salaries may not be expended for expenses and funds voted for expenses may not be expended for salaries, without a transfer approved by Town Meeting. There are no restrictions on **School** appropriations.

APPROPRIATED BUDGET – As used in fund summaries and department summaries within the budget document, represents the current year budget as originally adopted by Town Meeting. It does not include prior year encumbrances or re-appropriation.

ARTICLE - An article or item on the Town Warrant.

ASSESSED VALUATION - The valuation of real estate or other property determined by the Town Assessor for tax levying purposes. The Commonwealth certifies the values and methodology in determining those values every three years.

ASSETS – Property, plant and equipment owned by the Town.

AUDIT – A comprehensive examination as to the manner in which the government's resources were actually utilized concluding in a written report of its findings. An accounting audit is intended to ascertain whether financial statements fairly present the financial position and results of operations of the Town. The Town is required to conduct an audit annually.

BOND - A written promise to pay a specified sum of money, called the face value or principal amount, at a specified dates in the future, called the maturity date(s), together with periodic interest at a specified rate. The difference between notes, usually one year or two years in length and a bond is that the latter runs for a longer period of time. State statute and the Board of Selectmen establish the length of a bond repayment.

BOND ANTICIPATION NOTE (BAN) – A temporary note issued for no more than one or two years. This is commonly used to defer the initial pay down of debt or to accommodate reimbursement for borrowed notes from a private source or other governmental entity.

BUDGET - The budget is the Town's financial plan for a given fiscal period. The annual budget includes an estimate of proposed expenditures, as well as a forecast of estimated revenues and other financing sources.

The Natick Town Charter specifies that the Town Administrator is responsible for presenting a recommended annual budget to the Finance Committee. The Finance Committee reviews the Town Administrator's Recommended Budget in detail and forwards its recommendations to Town Meeting. Town Meeting adopts the budget by voting a series of appropriations, which may not; in the absence of an over-ride of Proposition 2 1/2 exceed the estimated total amount of revenues and other financing sources for the fiscal period.

BUDGET MESSAGE (Town Administrator's Transmittal Letter) – The opening section of the budget that provides the Board of Selectmen, Town Meeting Members, and the general public with a general summary of the most important aspects of the budget, changes from the current and previous fiscal years, and the recommendations of the Town Administrator.

CAPITAL EXPENDITURE - A major, non-recurring expenditure involving land acquisition, construction or major rehabilitation of a facility, or purchase of equipment costing \$10,000 or more with a useful life of five years or more.

CAPITAL IMPROVEMENT PROGRAM (CIP) - A financial planning and management tool which: identifies public facility and equipment requirements; places these requirements in order of priority; and schedules them for funding and implementation.

CHAPTER 90 - Massachusetts General Laws Chapter 90, Section 34 authorizes the Commonwealth to allocate funds to municipalities through the Transportation Bond Issue for highway construction, preservation and improvement projects that create or extend the life of capital facilities. Routine maintenance operations such as pothole filling and snow and ice removal are not covered. The formula for determining the Chapter 90 level of funding is based on a municipality's miles of public ways, population and level of employment. Municipalities receive Chapter 90 funds on pre-approved projects on a reimbursement basis.

CHERRY SHEET - The State allocates a portion of generated revenue to municipalities each year for education and general governmental expenditures. The amount of state aid each community will receive is itemized in a financial statement printed on cherry colored paper (thus the name). The amount of reimbursement is a function of the State budget. Towns usually receive notification in late summer, subsequent to the beginning of the fiscal year.

CLASSIFICATION - Massachusetts municipal finance law requires that all real estate and personal property be appraised at "full and fair cash valuation" for purposes of assessing property taxes. Once the Commissioner of the Massachusetts Department of Revenue certifies that properties are appraised at "full and fair cash valuation" (once every three years), the Board of Selectmen may

impose a tax classification plan, whereby a portion of the residential tax burden may be shifted to the commercial/industrial class of taxpayers. The law limits the amount of tax burden which can be shifted to the commercial/industrial class to not more than 150% of the proportionate share of the class. In other words, if the commercial/industrial class of taxpayers is normally responsible for 25% of the total tax burden, their maximum burden under the classification law is 37.5% (25 x 1.50).

COMPETITIVE BIDDING PROCESS – the process following State law requiring that for purchases of \$25,000 or more a Town must advertise, solicit and publicly open sealed bids from prospective vendors. After a review period, the Town Manager then awards a contract to the successful bidder.

DEBT EXCLUSION - The amount of taxes assessed in excess of the Proposition 2-1/2 levy limit for the payment of debt service costs attributable to a vote of the electorate. Two-thirds of the Selectmen and a majority of citizens voting must approve the exclusion. These funds are raised to retire the debt service for the project. They are not added to the tax levy limit for the following fiscal year.

DEBT SERVICE - Payment of interest and principal on an obligation resulting from the issuance of bonds.

DEPARTMENT – A division of the Town that has overall management responsibility for an operation or group of related operations within a functional area.

DEPRECIATION – 1) Expiration in the service life of capital assets attributable to wear and tear, deterioration, and inadequacy of obsolescence. 2) That portion of the cost of a capital asset that is charged as an expense during a particular period. Depreciation is based on historic costs not replacement value.

ENCUMBRANCE – To encumber funds means to set aside or commit funds for a future expenditure. Encumbrances include obligations in the form of purchase orders, contracts or salary commitments, which are chargeable to an appropriation and for which a part of the appropriation is reserved.

ENTERPRISE FUNDS - Enterprise Funds are used to account for operations which are financed and operated in a manner similar to business operations and where the costs of providing goods or services are financed in whole or in part by user charges (charges for services). Services accounted for in Enterprise Funds are tangible and can be measured for determining a charge for services. In Massachusetts, the most common types of government enterprises include utility or utility-type services for water treatment and delivery, sewerage collection and treatment, and electricity generation and distribution. Less common but prevalent operations include hospitals, airports, parking, swimming pools, and golf courses.

Individual services must ordinarily be accounted for in separate Enterprise Funds. Segregation is essential for determining the total cost of services and the extent to which user charges cover that cost. Although a community may decide to recover only a portion of its costs from user charges, it is essential from a management point of view that it understands what its total costs are. Such costs include amounts for repayment of long-term debt and related interest and estimates for depreciation.

EXPENDITURE – Decrease in net financial resources for the purpose of acquiring and providing goods and services.

EXPENSES – Outflows or other using up of assets or incurring of liabilities during a period from delivering or producing goods, rendering services or carrying out other activities that constitute the entity's ongoing major or central operations. Expenses consist of the following objects of expenditure: Utilities, Supplies and Materials, Contractual Services, and Equipment.

FINES & FORFEITURES - Revenue collected from court fines, penalty charges for overdue taxes along with non-criminal fines are included in this category.

FISCAL YEAR (FY) - The Town of Natick operates on a July 1st through June 30th fiscal year.

FREE CASH - The amount certified annually by the Dept of Revenue that represents the unreserved fund balance less all outstanding tax receivables. This balance is created when actual revenues exceed those estimated and/or expenditures are less than appropriations for any given fiscal year. These funds may be appropriated by Town Meeting as a resource for the next fiscal year's operations or any other purpose authorized by state statute. The Massachusetts Department of Revenue certifies free cash each July 1st. Free Cash represents the savings account of the Town. Certified Free Cash is available for appropriation by Town Meeting for any lawful purpose.

FUND BALANCE - The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a "stockholders' equity" account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as "accounts receivable" may be taxes receivable and uncollected. (See Free Cash)

FUNDING SOURCE – The specifically identified funds allocated to meet budget requirements/expenses.

GENERAL FUND - Revenues derived from the tax levy, state aid, local receipts and available funds are considered General Fund revenues. The General Fund is distinguished from Enterprise Funds and Special Revenue Funds.

GFOA – Government Finance Officers Association of the United States and Canada. The G.F.O.A. is a professional organization of governmental finance officers.

GRANT – A contribution by one government unit or outside agency to another governmental unit. The contribution is usually made for a specific purpose but is sometimes for general purposes.

INVESTMENT INCOME - The Town earns interest on cash held in savings accounts and invested in short term securities. The investment goal is to ensure that all funds are invested. The term of these investments is short-term and risk adverse. The Treasurer is very restricted as to the instruments in which investments can be made. The amount of investment income is a function of the amount of funds invested and the interest rate.

LEVY LIMIT - The maximum amount of money, which the Town can raise from the property tax levy, without an override of proposition 2 1/2. Please refer to the explanation of Proposition 2 1/2 for a description of how the levy limit is calculated.

LIABILITY – Debt or other legal obligation which must be paid, renewed or refunded at some future date, but does not include encumbrances.

LOCAL RECEIPTS - A category of revenue sources including school department charges for services, investment income, fines and forfeitures, building permits and excise taxes. These revenues are not considered part of the Proposition 2 ½ Tax Levy.

MODIFIED ACCRUAL BASIS FOR ACCOUNTING – A method of accounting that recognizes revenue when it is actually received and recognizes expenditures when a commitment is made.

MOTOR VEHICLE EXCISE - All Massachusetts vehicle owners who have their vehicle(s) registered in the State of Massachusetts pay an annual motor vehicle excise tax to the city or town in which they reside. The Registry of Motor Vehicles creates a listing of all vehicles registered in Natick and the book value assigned to each vehicle. The Town uses this information to bill all owners an annual tax equal to 2 ½ percent or \$25 for each \$1,000 of the vehicle's value.

MWRA – Massachusetts Water Resources Authority

NEW GROWTH - In addition to a standard 2 1/2% annual increase in the property tax levy, Proposition 2 1/2 allows the levy to be increased further by the sum of certain qualifying new construction valuation, multiplied by the prior year tax rate. Qualifying new construction valuation is known as "New Growth". In general, in order to qualify as "New Growth" the new construction valuation must be either a newly constructed house or an addition to an existing house, which adds at least 50% to the preconstruction value (residential properties). For commercial/industrial properties, "New Growth" consists of both newly built buildings, and additions, which add at least \$100,000 to the prior value of the improved property. It permanently becomes part of the tax levy.

OBLIGATION - A commitment to pay a particular sum of money (e.g. as required by contract or a bond).

OPERATING BUDGET – The portion of the budget that pertains to daily operations, which provide basic services for the fiscal year. The operating budget contains appropriations for such expenditures as personnel, supplies, utilities, materials, travel, and fuel and the proposed means of financing them.

OPERATING EXPENDITURE - An ongoing or recurring cost of performing a function or providing a service. Operating expenditures include personal services, supplies and materials, utilities, contractual services, minor equipment, and debt service.

OVERLAY - The amount raised in the tax levy for funding abatements granted by the Board of Assessors due to overvaluation.

OVERRIDE - An action taken by the voters of the town to exceed the limit placed on tax revenue growth by the State tax limitation law known as Proposition 2 ½. The tax levy limit can be exceeded only if a majority of residents voting approve an override. This sum is then added to the base levy for the next fiscal year and this becomes a permanent addition to the tax levy limit.

PROPOSITION 2 ½ - A tax limitation measure passed by Massachusetts voters in 1980 which limits the growth of the total property tax levy to 2.5% per year. In other words, the total revenue allowed to be raised through real estate and personal property taxes cannot increase by more than 2.5% from one fiscal year to the next unless the citizens of the town approve a debt exclusion or an operating override. New construction values are in addition to this limit. Two provisions within Proposition 2 ½ allow the citizens of a community by popular vote to authorize the Town to raise taxes above the tax levy limit: an operating override or a debt exclusion.

As a consequence of this proposition, the Property Tax currently accounts for 2/3 of the Town's total revenue budget. Proposition 2 1/2, is a statutory limit on the annual rate of growth in the property tax levy of the Town. In the absence of a majority vote of approval by the Natick electorate (an override), the total amount of revenue which may be generated from the property tax is limited to: 2 1/2 more than the prior year levy limit, plus the sum of all qualifying new construction valuation multiplied by the prior year tax rate.

RESERVE FUND - An amount set aside annually within the budget of a city or town to provide a funding source for "extraordinary and unforeseen" expenditures. In a town, the Finance (or Appropriation) Committee can authorize transfers from this fund. The Reserve Fund is under the control of the Finance Committee.

RETAINED EARNINGS – The equity account reflecting the accumulated earnings of the enterprise funds.

RESOURCES - Total dollar amounts available for appropriation including estimated revenues, fund transfers, and beginning fund balances.

REVALUATION - Massachusetts municipal finance law requires that the Massachusetts Department of Revenue formally certify that property tax assessments represent the "full and fair cash valuation" of properties. The process of determining the "full and fair cash valuation" of taxable property is known as Revaluation.

REVENUE - Budgetary resources. The various revenues the Town receives are listed in the Revenue Section of Town Administrator's Summary.

REVOLVING FUND – As authorized under M.G.L. Ch. 53 E ½, departmental revolving funds allow communities to raise revenues from a specific service and use those revenues without appropriation to support the service. Each revolving 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.

SCHOOL BUILDING ASSISTANCE PROGRAM (SBAB) – A program started by the Commonwealth of Massachusetts for the purpose of assisting municipalities in the reconstruction and renewal of its public schools.

SEWER & WATER CHARGES - The Town operates a Water and Sewer Enterprise Fund to manage these municipal operations. Users of sewer and water services provided by the Town pay charges depending upon usage. Revenue received from charges for sewer and water services is used to fully support the costs of utility operations, such as Massachusetts Water Resources Authority (MWRA) assessments, debt service obligations, personnel costs, and capital projects. Charges for services are based on an inclining block rate structure corresponding to usage. Charges rise as usage increases. The Town pays the MWRA assessments to dispose of Town sewage.

STABILIZATION FUND – Massachusetts General Law Ch.40, Sec. 5B, allows a municipality to appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding fiscal year; the aggregate amount in the fund shall not exceed ten percent of the equalized valuation of the municipality. The treasurer shall be custodian of the fund and may invest the proceeds legally; any interest earned shall remain with the fund. Money from the Stabilization Fund may be appropriated for any lawful purpose by two-thirds vote of Town Meeting.

Natick has three Stabilization Funds as of January 1, 2012: the General Stabilization Fund, the Capital Stabilization Fund and the Operational Stabilization Fund.

TAX LEVY - The total amount to be raised through real estate and personal property taxes. Natick property owners pay taxes to the Town based on the assessed value of their real and/or personal property. Each year the Board of Selectmen conducts a tax classification hearing to determine a tax rate. The Town Assessor makes adjustments to real estate values in order to properly reflect fair market value. In addition to real estate, businesses may also pay a personal property tax (set at the commercial rate) based on the value of their professional equipment, furniture and fixtures. The amount of taxes a property owner pays is determined by multiplying the applicable tax rate by the valuation. For example, if the tax rate is \$10 and a property's assessed value is \$100,000, the property owner will pay \$10 times \$100,000/1,000, or \$1,000. Tax levy revenues are the largest source of funding for the Town. These revenues support most school, police, fire, public works, library, and general governmental services to the community.

TAX LEVY LIMIT - The maximum amount that can be raised within Proposition 2 ½.

TAX RATE - The amount of tax levied for each \$1,000 of assessed valuation.

USER FEES - Fees paid for direct receipt of a public service by the user or beneficiary of the service.

Basis of Accounting & Budgeting – Terminology

The following descriptions detail how the Town of Natick performs its accounting and budgeting.

- **Basis of Accounting:** General fund accounting is done on a modified accrual basis meaning that revenues are recognized when they become measurable or available (cash basis), while expenditures are accounted for in the accounting period incurred (accrual basis).
- **Basis of Budgeting:** Budgeting for all enterprise funds is done on a GAAP (Generally Accepted Accounting Principles) or full accrual basis. This means that expenditures and revenues are accounted for in the accounting period incurred.