

SECTION 10 – Glossary

GLOSSARY OF TERMS

Abatement. A complete or partial cancellation of a tax levy imposed by a governmental unit. Administered by the local board of assessors.

Accounting Period. A period at the end of which, and for which, financial statements are prepared. Also known as a fiscal period.

Accounting System. A system of financial record keeping that records, classifies and reports information on the financial status and operation of an organization.

Activity. A specific and distinguishable line of work performed by one or more organization components of a governmental unit for the purpose of accomplishing a function for which the governmental unit is responsible.

Adopted Budget. The resulting budget that has been approved by the City Council.

Allocation. The distribution of available monies, personnel, buildings, and equipment among various City departments, divisions or cost centers.

Annual Budget. An estimate of expenditures for specific purposes during the fiscal year (July 1-June 30) and the proposed means (estimated revenues) for financing those activities.

Appropriation. An authorization granted by the City Council to incur liabilities for purposes specified in the appropriation act.

Arbitrage. Investing funds borrowed at a lower interest cost in investments providing a higher rate of return.

Assessed Valuation. A valuation set upon real or personal property by the local board of assessors as a basis for levying taxes.

Audit. An examination of documents, records, reports, system of internal control, accounting and financial procedures to ensure that financial records are fairly presented and in compliance with all legal requirements for handling of public funds, including state and federal laws and the City charter.

Balanced Budget. A budget in which receipts are greater than (or equal to) expenditures. A requirement for all Massachusetts cities and towns.

Bond Anticipation Notes (BANs). Notes issued in anticipation of later issuance of bonds, usually payable from the proceeds of the sale of the bonds or renewal notes.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a given time period and the proposed means of financing them. The term usually indicates a financial plan for a single fiscal year.

Budget Calendar. A schedule of certain steps to be followed in the budgeting process and the dates by which each step must be complete.

Budget Document. The instrument used by the Mayor to present a comprehensive financial program to the appropriating body.

Budget Message. A general discussion of the submitted budget presented in writing by the Mayor to the legislative body as part of the budget document.

Capital Budget. A plan of proposed outlays for acquiring long-term assets and the means of financing those acquisitions during the current fiscal period.

Capital Improvement Program (CIP). A plan for capital expenditure to be incurred each year over a fixed period of years to meet capital needs arising from the long term work program. It sets forth each project and specifies the full resources estimated to be available to finance the projected expenditures.

Charges for Service. (Also called User Charges or Fees) The charges levied on the users of particular goods or services provided by local government requiring individuals to pay for the private benefits they receive. Such charges reduce the reliance on property tax funding.

Cherry Sheet. A form showing all state and county charges and reimbursements to the City as certified by the state director of accounts. Years ago this document was printed on cherry colored paper, hence the name.

Cost Center. The lowest hierarchical level of allocating monies. Often referred to as a program, project or operation.

Debt Limits. The general debt limit of a City consists of normal debt limit, which is 2 ½ percent of the valuation of taxable property and a double debt limit which is 5 % of that valuation. Cities and towns may authorize debt up to the normal limit without state approval. It should be noted that there are certain categories of debt which are exempt from these limits.

Debt Service. Payment of interest and repayment of principal to holders of a government's debt instruments.

Deficit or Budget Deficit. The excess of budget expenditures over receipts. City and State laws require a balance budget.

Department. A principal, functional and administrative entity created by statute and the Mayor to carry out specified public services.

Encumbrance. An account used to record the estimated amount of purchase orders, contract, or salary commitments chargeable to an appropriation. The account is credited when goods or services are received and the actual expenditure of the appropriation is known.

Enterprise Fund. A fund established to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the full costs of providing the goods or services be financed primarily through charges and fees thus removing the expenses from the tax rate. Governmentally owned utilities and hospitals are ordinarily accounted for by enterprise funds.

Exemptions. A statutory reduction in the assessed valuation of taxable property accorded to certain taxpayers, such as senior citizens, widows, and war veterans.

Expenditures. The amount of money, cash or checks, actually paid or obligated for payment from the treasury when liabilities are incurred pursuant to authority given in an appropriation.

Financial Accountability. The obligation of government to justify the raising of public resources and what those resources were expended for.

Financial Condition. The probability that a government will meet its financial obligations as they become due and its service obligations to constituencies, both currently and in the future.

Financing Plan. The estimate of revenues and their sources that will pay for the service programs outlined in the annual budget.

Fiscal Period. Any period at the end of which a governmental unit determines its financial position and the results of its operations.

Fiscal Year. The 12-month financial period used by all Massachusetts municipalities which begins July 1, and ends June 30, of the following calendar year. The year is represented by the date on which it ends. Example: July 1, 2006 to June 30, 2007 would be FY 07.

Fixed Asset. Assets of a long-term character that are intended to continue to be held or used, such as land, buildings, machinery, furniture, and other equipment.

Full and Fair Market Valuation. The requirement, by State Law, that all real and personal property be assessed at 100% of market value for taxation purposes. "Proposition 2 ½" laws set the City's tax levy limit at 2 ½ % of the full market (assessed) value of all taxable property.

Fund. A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities, and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Fund Balance. The portion of Fund Equity available for appropriation.

Fund Equity. The excess of fund assets and resources over fund liabilities. A portion of the equity of a governmental fund may be reserved or designated; the remainder is referred to as Fund Balance.

General Fund. A fund used to account for all transactions of a governmental unit that are not accounted for in another fund. The General Fund is used to account for the ordinary operations of a governmental unit that are financed from taxes and other general revenues.

Government Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) was organized in 1984 as an operating entity of the Financial Accounting Foundation (FAF) to establish standards of financial accounting and reporting for state and local governmental entities. Its

standards guide the preparation of external financial reports of those entities. The Foundation's Trustees are responsible for selecting the members of the GASB and its Advisory Council, funding their activities and exercising general oversight-with the exception of the GASB's resolution of technical issues. The GASB's function is important because external financial reporting can demonstrate financial accountability to the public and is the basis for investment, credit and many legislative and regulatory decisions. The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. More information, including all statements, can be found at www.gasb.org.

Grant. A contribution of assets by one governmental unit to another unit. Typically, these contributions are made to local governments from the state and federal government. The contribution is usually made to aid in the support of a specified function (for example, education), but it is sometimes also for general purposes, or for the acquisition or construction of fixed assets.

Interfund Transactions. Payments from one administrative budget fund to another or from one trust fund to another, which result in the recording of a receipt and an expenditure.

Intrafund Transactions. Financial transactions between activities within the same fund. An example would be a budget transfer.

License and Permit Fees. The charges related to regulatory activities and privileges granted by government in connection with regulations.

Line-item Budget. A format of budgeting which organizes costs by object of expenditure such as supplies, equipment, maintenance or salaries.

Modified Accrual Basis. Under the modified accrual basis of accounting, required for use by governmental funds, revenue are recognized in the period in which they become available and measurable, and expenditures are recognized at the time a liability is incurred pursuant to appropriation authority.

Non-expendable Trust Fund. A fund, the principal, and sometimes also the earnings, of which may not be expended.

Non-Tax Revenue. All revenue coming from non-tax sources including licenses and permits, intergovernmental revenue, charges for service, fines and forfeits and various other miscellaneous revenue.

Operating Budget. A budget that applies to all outlays other than capital outlays. See Budget.

Overlay. The amount raised by the assessors in excess of appropriation and other charges for the purpose of creating a fund to cover abatements and exemptions.

Performance Indicator. Variables measuring the degree of goal and objective fulfillment achieved by programs.

Performance Standard. A statement of the conditions that will exist when a job is well done.

Policy. A definite course of action adopted after a review of information and directed at the realization of goals.

Priority. A value that ranks goals and objectives in order of importance relative to one another.

Procedure. A method used in carrying out a policy or plan of action.

Program. Collections of work related activities initiated to accomplish a desired end.

Program Budget. A budget format which organizes expenditures and revenues around the type of activity or service provided and specifies the extent or scope of service to be provided, stated whenever possible in precise units of measure.

Proposition 2 ½. A law which became effective on December 4, 1980. The two main components of the tax law relating to property taxes are: 1) the tax levy cannot exceed 2 ½ % of the full and fair cash value, and 2) for cities and towns at or below the above limit, the tax levy cannot exceed the maximum tax levy allowed for the prior by more than 2 ½ % (except in cases of property added to the tax rolls and for valuation increases of at least 50% other than as part of a general revaluation).

Purchase Order. A document issued to authorize a vendor or vendors to deliver specified merchandise or render a specified service for a stated estimated price. Outstanding purchase orders are called encumbrances .

Rating Agencies. This term usually refers to Moody's Investors Service and Standard and Poor's Corporation. These services are the two major agencies which issue credit ratings on municipal bonds.

Registered Bonds. Bonds registered on the books of the issuer as to ownership; the transfer of ownership must also be recorded on the books of the issuer. Recent changes in federal tax laws mandate that all municipal bonds be registered if their tax exempt status is to be retained.

Reserves. An account used to indicate that portion of fund equity which is legally restricted for a specific purpose or not available for appropriation and subsequent spending.

Reserve for Contingencies. A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted for.

Retained Earnings. The accumulated earnings of an Enterprise or Internal Service Fund that have been retained in the fund and are not reserved for any specific purpose.

Revenue. Additions to the City's financial assets (such as taxes and grants) other than from interfund transfers and debt issue proceeds.

Revolving Fund. A fund established to finance a continuing cycle of operations in which receipts are available for expenditure without further action by the City Council.

Service Level. The extent or scope of the City's service to be provided in a given budget year.

Whenever possible, service levels should be stated in precise units of measure.

Special Revenue Fund (SRF). A fund used to account for revenues from specific revenue sources that by law are designed to finance particular functions or activities of government.

Submitted Budget. The proposed budget that has been approved by the Mayor and forwarded to the City Council for their approval. The City Council must act upon the submitted budget within prescribed guidelines and limitations according to statute and the City charter.

Supplemental Appropriations. Appropriations requested by the Mayor and approved by the City Council after an initial appropriation to cover expenditures beyond original estimates.

Tax Anticipation Notes (TANs). Notes issued in anticipation of collection of taxes, usually retireable only from tax collections, and only from the proceeds of the tax levy whose collection they anticipate.

Tax Levy. The amount of taxes, special assessments, or service charges imposed by a governmental unit.

Tax Rate. The amount of tax stated in terms of a unit of the tax base. Prior to a 1978 amendment to the Massachusetts Constitution, a single tax rate applied to all of the taxable real and personal property in a City or town. The 1978 amendment allowed the legislature to create three classes of taxable property: 1) residential real property, 2) open space land, and 3) all other (commercial, industrial, and personal property). Within limits, cities and towns are given the option of determining the share of the levy to be borne by the different classes of property. The share borne by residential real property must be at least 65% of the full rate. The share of commercial, industrial, and personal property must not exceed 150% of the full rate. Property may not be classified until the State Department of Revenue has certified that all property has been assessed at its full value.

Unit Cost. A term used in cost accounting to denote the cost of producing a unit of product or rendering a unit of service, for example, the cost of treating and purifying a thousand gallons of sewage.

Valuation (100%). Requirement that the assessed valuation must be the same as the market value for all properties.

Warrant. An order drawn by a municipal officer directing the treasurer of the municipality to pay a specified amount to the bearer, either after the current or some future date.

Warrant Payable. The amount of warrants outstanding and unpaid.