

**MMAAA**

Massachusetts Municipal Auditors'  
& Accountants' Association, Inc.

**Auditors' and  
Accountants'  
Manual**

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## **Introduction**

The Massachusetts Municipal Auditors' & Accountants' Association is pleased to present this new edition of the Massachusetts Municipal Auditors' and Accountants' Manual which is presented to assist municipal Accounting Officers across Massachusetts in performing their important roles in the financial operation of their governmental entities.

The purpose of this Manual is to assist new Accounting Officers in understanding their role in the municipal finance process and to assist them in their basic functions. The Manual will provide an overview of the statutory and other expected responsibilities of municipal Accounting Officers, the Uniform Massachusetts Accounting System (UMAS), Generally Accepted Accounting Principles (GAAP), and best practices related to local municipal finance.

This Manual should be used in conjunction with the UMAS Manual which focuses on specific accounting transactions and should be supplemented with information provided through MMAAA schools and conferences.

The information provided in this manual is a broad overview of Massachusetts Municipal Financial Accounting and Auditing systems and requirements based on the most current information available. Laws, regulations, and technology continue to change and evolve. We strongly encourage users of this manual to continue to educate themselves on current changes.

Unless specific reference is required, this Manual refers to all Accountants, Auditors, Comptrollers, Controllers, etc. as Accounting Officers.

## **MMAAA Mentor Program**

Membership has its privileges; among many, our mentorship program.

This program is a volunteer program and is designed to give a new municipal accountant/auditor the opportunity to discuss questions, best practices, and gain advice from a more experienced accountant/auditor serving as a “mentor”.

Every effort is made to match a mentor with a mentee with the following priorities in mind:

1. Geographic location
2. Accounting software used
3. Years of experience
4. Similar fund structure (Enterprise Funds, CPA, etc.)
5. Compatibility

This program is not meant to circumvent or replace advice from the Department of Revenue (DOR), town counsel, bond counsel, or an auditor. It is meant to provide an additional outlet of support to the mentee for accounting and finance related questions. There are no requirements about frequency of meetings, mode of communication or response time. The mentor and mentee can establish a working relationship that works best for them.

If you are interested in the mentorship program, either as a mentor or mentee, please contact the Association for further instructions.

### *Policies:*

- Pairing – The matching of newer accountants (Mentees) to more experienced accountants (Mentors) should be made with the following priorities:
  1. Geographic location
  2. Accounting software used
  3. Years of experience
  4. Mentor should have similar or larger fund structure (Enterprise Funds, etc.) to adequately respond to needs of Mentee.
  5. Compatibility
- The Mentor Program serves as an outlet for best practices and advice. It is not

meant as a replacement for advice from, town counsel, bond counsel, DOR or your auditor.

- Mentors will discuss finance and accounting related questions with the mentee to the best of their ability. The immediate need for a response to a pressing question should go through DOR or the mentee's auditor.
- Mentors are not paid consultants and shall not be held responsible for errors or omissions in financial reporting or auditing that the mentee performs.
- The mentor is serving as a volunteer for the program. Please be mindful of his/her time and allow enough time for the mentor to respond.
- Mentors who opt to visit a mentee on site will have no expectation of being reimbursed for travel.
- Mentors are not to be used as private tutors in preparation for the exam.
- Mentors will avoid any impropriety, or appearance of impropriety, in their relationship with the mentee and the program.
- Mentors are responsible to reach out to the mentee assigned. There are no requirements about frequency of meetings; however, it is advised that mentors and mentees communicate a few times in the beginning to establish a good foundation.
- Feedback should be made to the mentorship committee if there are any issues in compatibility, need, or anything else that may require a new match.

## **Municipal Modernization**

In 2016, Massachusetts implemented “An Act to Modernize Municipal Finance and Government” (“Act”), Chapter 218 of the Acts of 2016, which can be found at:

<https://malegislature.gov/Laws/SessionLaws/Acts/2016/Chapter218>.

A comprehensive summary of the law prepared by the Department of Revenue Division of Local Services is available at:

<http://www.mass.gov/dor/docs/dls/city-town/2016/16ctown-aug18.pdf>

The new law is aimed at granting more local control and encouraging fiscal efficiency wherever possible.

The new law focuses on four specific goals. The first goal is to eliminate and update obsolete laws such as allowing police officers to issue moving violation tickets electronically. The second goal is to promote local independence, such as eliminating unnecessary caps on municipal stabilization, reserve, and revolving funds. This will allow municipalities to save funds without state limits on the amount they can save. The third goal is to make every municipal interaction with the state as streamlined as possible, so the law eliminates unnecessary DLS approval processes and extends the certification review of local assessing practices from three years to five years. The fourth goal of the legislation is to provide municipalities with greater flexibility to do their jobs on a day-to-day basis. For example, the threshold required for a city or town to go through the formal competitive bidding process has been increased, enabling smaller projects to get done quicker and allowing the Operational Services Division (OSD) to reinstitute statewide contracts for tradesperson services.

Although this Act made initial sweeping legislative changes, there is an intent to implement future legislative changes that will continue to improve efficiencies and to delete obsolete requirements. Users of this Manual should continue to monitor future legislative changes.

## Chapter 1 - The Structure of Governments

### History

The concept of the town as a local unit of government reached the New England colonies with the Pilgrims and the Puritans. The meetings in these settlements developed to what is referred to as town meeting. By 1780, there were 220 towns in Massachusetts. Five years later, the legislature officially confirmed each town boundary. It was not until 1821, that the Constitution was amended to permit the General Court to establish municipal governments in any town with a population of 12,000 or more. The following year, the Town of Boston, population 40,000, became a city.

In 1893 the Supreme Judicial Court, in *Larcom v Olan*, distinguished towns from cities as follows:

*“The marked and characteristic distinction between a town organization and that of a city is that in a town all qualified inhabitants meet, deliberate, act and vote in their natural and personal capacities in the exercise of their corporate powers, whereas under a city government, this is done by representation.”*

A complete listing of cities and towns along with their dates of settlement and incorporation can be found on the [Massachusetts Secretary of State's website](#).

Today we have a total of 351 Cities and Towns in Massachusetts. There are 57 municipalities practicing a city form of government and 294 municipalities practicing a town form of government. Although the structure of city and town governments in Massachusetts may appear the same on the surface, many are affected by charter and by-law provisions as well as by local customs that may distinguish one from another. Some communities with a city form of government still refer to themselves as a town and the duties of a particular position may vary from community to community. Also, several towns operate with a representative town meeting form of government. It is imperative to understand the unique characteristics of your municipality.

### Home Rule Amendment

In 1966, the Home Rule Amendment to the Massachusetts Constitution created a limited home rule mechanism explicitly granting certain powers to cities and towns.

In Accordance with the Home Rule Amendment:

- Municipalities may adopt charters without needing state approval.
- Municipalities may not regulate elections, collect taxes, borrow money, define civil laws or regulations, define felonies or set imprisonment as a punishment for any offense, or dispose of park land; except as provided by the legislature.
- Whether or not it has adopted a charter, a municipality may exercise any power that the legislature has the power to delegate to it, except in cases where the legislature has already acted, explicitly or implicitly. (Given the large number of matters on which the state legislature has acted, this means the actual powers of municipalities are quite limited, and sometimes uncertain until tested in court.)

The legislature is prohibited from passing any special laws that affect fewer than two municipalities, except in any of the following circumstances:

- Approval of a Home Rule Petition from the municipal government.
- By two-thirds supermajority and the consent of the Governor.
- Establishing metropolitan or regional agencies with borders different than existing municipalities.
- Creation, dissolution, and merger of municipalities, and adjustment of boundaries

Many municipalities seek approval for special legislation giving them powers which may not be available to them under the blanket grant of Home Rule, due to potentially conflicting state law.

### Structure of Town Government

While most towns possess a Board of Selectmen and a Town Meeting, the difference in the organizational structure of towns varies widely. A patchwork of state laws exist that enable towns to create various official positions and bodies to carry out governmental functions. In recent years, the need for towns to function in a highly complex setting under intense fiscal constraints has resulted in a decrease in the role of part-time elected or appointed bodies and an increase in full-time professional administrators and department managers.

Despite the variations in organizational structure throughout town government, there are three essential organizational forms:

- *decentralized*, with limited authority delegated by the Board of Selectmen to professional staff, or in some cases, an Executive Secretary;
- *moderately* centralized, with legal authority delegated by the Board of Selectmen

to a Town Administrator or Executive Secretary; and

- *highly* centralized, with legal authority vested in a Town Manager or Town Administrator.

### *Town Charters*

Since the adoption of the Home Rule Amendment to the Massachusetts Constitution in 1966, towns have exercised their right to self-government in formulating their administrative structure. This has allowed towns to adopt their own formal Charter, which is a local government's Constitution, or an informal Charter otherwise known as a Legal Base. Each structural package governs how a given town operates.

A Charter may set forth a municipality's type of legislative body, determine which officials are elected and appointed, alter the distribution of powers and responsibilities among local offices and establish procedures for the operation of town government. Town Charters that provide for a different allocation of duties and responsibilities are deemed consistent with "the provisions of any law relating to the structure of city and town government" as written in [G.L. c. 43B, § 20](#). A Legal Base provides the same outline of a town's government, but does so through a compilation of administrative bylaws, special acts and accepted State statutes.

### *Board of Selectmen ([G.L. c. 41, § 20 et. seq.](#))*

The executive officers of a town are the members of the Board of Selectmen. Usually, there are three Selectmen, but there may be five or seven. In small towns, Selectmen may supervise almost all town work. In large towns, the Board is primarily concerned with administrative policies, especially in communities with a Town Manager.

Key responsibilities of the Board of Selectmen include:

- appoint and supervise town employees; they may delegate this authority;
- establish the amounts of the bond for town officers required to be bonded;
- sign warrants for appropriations to be expended by the Treasurer;
- sign all bonds and notes for the borrowing of money;
- place questions on a town ballot;
- manage all town property not specifically under another's control
- with the approval of the finance committee (FinCom) may "transfer within the last 2 months of any fiscal year, or during the first 15 days of the new fiscal year to apply to the previous fiscal year, any amount appropriated, other than for the use of a municipal light department or a school department, to any other appropriation ([Chapter 44, § 33B](#)); and

- serve as a licensing board.

#### *Town Meeting ([G.L. c. 39, § 9 et. seq.](#))*

The Town Meeting is the legislative body of the town. A Town Meeting must be called by a warrant, a document which states the time, the place and the business to be taken up at the meeting. The warrant is normally issued by the Selectmen. Each town must hold one annual meeting each year in February, March, April, May or June. Town Meeting may be delayed by vote of the Selectmen but must be completed on or before June 30. That portion of the Town Meeting providing for the election or certification of officers and ballot questions may not be delayed. It may also hold as many Special Town Meetings as necessary to consider and conduct all town business.

Town Meetings may be either “open” or “representative.” In an Open Town Meeting, all registered voters may take part in Town Meeting process. In a Representative Town Meeting, voters elect representatives to vote for them.

Town Meetings are responsibilities to:

- appropriate funds;
- enact bylaws;
- decide upon town officers and their salaries;
- accept local option statutes unless another mode of acceptance is specified by law;
- authorize the Board of Selectmen to sell town land;
- place a question on a ballot as to whether the Board of Selectmen may act as certain department heads as written in the law; and
- establish certain boards.

#### *Town Manager/Administrator/Executive Secretary/Administrative Assistant*

Although the Board of Selectmen maintain their role as town policymakers, the complexities of everyday town government have made it necessary for boards to hire professional managers. These managers serve at the pleasure of the Board of Selectmen and their responsibilities vary from town to town.

Usually, the position of Town Manager or Town Administrator has the most authority created by the town’s home rule Charter or by special legislative act, acting as the town’s Chief Executive and Administrative Officer ensuring overall fiscal and managerial responsibilities. An Executive Secretary to the Board of Selectmen performs duties as delegated or as requested by the Board and the Secretary may act on the Board’s

behalf. An Administrative Assistant to the Board of Selectmen usually acts in an advisory role, but their responsibilities depend upon how the position was created, i.e. Charter, special act or vote of Town Meeting.

### Structure of City Government

In 1915, the Legislature enacted four standard forms of city government with a fifth and sixth added in 1938 and 1959 respectively. These Plans may be generally described as follows:

Plan A - a strong Mayor as Chief Executive Officer, a City Council of nine members voted at-large every two years and a separately elected School Committee to administer schools;

Plan B - a weak Mayor separately elected at-large every two years, a City Council of eleven to fifteen members with some elected from city wards and others elected at large every two years, and a separately elected School Committee to administer schools;

Plan C - a five-member City Council elected at large for two-year terms who serve as Chief Administrative Officers for city departments and a separately elected School Committee to administer schools with a Mayor serving as ex officio Chairperson;

Plan D - a Council of seven to nine members, elected from wards, that selects a Mayor from among them who is the ceremonial head of city government and presides as Chairperson of the Council and of the separately elected School Committee. The Council selects a Manager who is the city's Chief Executive Officer.

Plan E - a Council of seven to nine members elected at large that selects a Mayor from among themselves who is the ceremonial head of city government and presides as Chairperson of the Council and of the separately elected School Committee. The Council selects a Manager who is the city's Chief Executive Officer.

Plan F - a partisan strong Mayor with local elections involving political parties. A City Council consists of seven to fifteen members along with a School Committee and Mayor elected from a slate chosen at party primaries.

Generally, the laws regarding City Charters can be found in G.L. c. 43. The responsibilities and powers of officials vary depending upon the specific form of government adopted and its particular Charter provisions.

## *Mayor*

The Chief Executive Officer in cities is the Mayor. As noted by Plans A through F above, there are wide differences in the responsibilities and duties of Mayors depending on the form of city government. Some are full-time administrators with extensive powers, while others are ceremonial heads having little more authority than any other City Councilor. The Mayor is oftentimes elected every two years and is responsible for the daily operation of city government and usually serves as the Chairman of the School Committee.

Key responsibilities of the Mayor include:

- oversee and manage city department heads and agencies;
- ensure that the city charter, state laws, local ordinances and other orders for the government of the City are enforced;
- prepare and manage the city's budget;
- recommend to the City Council matters of public policy; and
- appoint city officials, department heads, and members of boards and committees (except for any offices or personnel who serve under the City Council or School Department) with approval of the City Council.

## *City Council*

The City Council or Board of Aldermen is the legislative branch of the city government, though their actions frequently require the concurrence of the Mayor in order to take effect. The Council is the appropriating body of the city, but can ordinarily act only to accept, reduce or reject outright recommended appropriations submitted by the Mayor.

Key responsibilities of the City Council include:

- act on its own initiative if the Mayor does not submit the annual budget to the Council after 170 days after the annual organization of the city government;
- enact municipal ordinances; and
- accept or revoke local option legislation which may require the Mayor's approval either under provisions of the General Laws or by terms of the city Charter.

## *City Manager/Administrator*

Similar to a Town Manager for towns, a City Manager serves as the professional manager for a city. The Manager directs and manages the operations of the city and

facilitates problem solving at all levels of the organization under general direction of the Mayor and City Council. The Manager serves as a liaison between city staff, the Mayor and the City Council and performs financial and managerial analyses, and strategic and long-term planning for the Mayor and City Council as requested.

### *“The City Known as the Town of”*

Most Massachusetts cities are governed by a Mayor and a City Council or Board of Aldermen. However, Massachusetts today also has cities which are governed by a Council and a Manager or a Mayor and a Council and are technically referred to as the “city known as the town of.”

*The term "town" was retained in many cases because a suburban community did not desire to be known as a "city" with the urban issues the name implies, but wished to adopt the city form of government. How a municipality refers to itself has been said to be a decision that is up to the community. The Massachusetts Supreme Judicial Court has ruled that what a municipality calls itself doesn't matter: "It is the substance of the thing done, and not the name given to it, which controls". Opinion of the Justices to the Senate, 229 Mass. 600 (Mass. 1918). The "City known as the Town of" reference was intended in communities adopting it to assert its right to exercise the authority of a city in governance, municipal finance and procurement. In the early days of the spread of the council-based municipal government to towns, it served to eliminate confusion as to a town's ability to do a particular thing. - Wikipedia*

### Other Municipal Officials and Their Primary Functions

#### Assessors ([G.L. c. 41, § 24 et. seq.](#))

The General Laws provide for one, three, five, seven, or nine Assessors to serve in each city and for one, three, or five to serve in each town. Assessors may be elected or appointed depending upon the local Charter or bylaw.

Their term in office continues for one or more years. Assessors cannot serve as a Tax Collector or Deputy Tax Collector. Their primary function is to assign value and use classification to real and personal property using a full and fair cash value standard and to calculate the local property tax to be paid by each taxpayer. Assessors then commit a tax list and warrant to the Collector, abate over-assessed taxes and exempt taxes for persons or property as allowed by law.

#### Town Auditor ([G.L. c. 41, § 48 et. seq.](#))

The Town Auditor's position preceded that of the Town Accountant's. Once the Town Accountant's Act was passed in 1910, any town that accepted the Act could have abolished the position of Town Auditor.

The Town Auditor's responsibilities include to:

- examine the books and accounts of officers and committees that receive or expend money, and examine all original bills and vouchers on which money has been or may be paid from its treasury;
- examine books, accounts, bills and vouchers as often as once a month and examine the same at least once in each year, and annually report in writing the examination results;
- verify the cash balance of each of such officers and committees at least once each year by actual count of the cash and by reconciliation of bank balances, and report findings under oath in an annual report.

A Town Auditor does not have the authority of the Town Accountant to disapprove payment of bills.

When the incumbent's term of office expires, if no other provision of law or Charter is made, Annual Town Meeting shall elect by ballot one or more Auditors for a term of one or more years except where the office has been abolished and replaced by a Town Accountant.

The Town Auditor's position may become appointed upon a vote of the town.

If there is a vacancy in a town with more than one Auditor, the remaining Auditors may appoint a person to aid them. If there is no remaining Auditor, the Selectmen shall appoint an Auditor to serve until another is qualified.

If there is a vacancy in a town with only one Auditor, or if the officer is disabled, absent or unable to perform the duties of office, the Selectmen may appoint a temporary officer until another is duly elected or appointed or until the disabled or absent officer resumes the duties of office. The appointee must be sworn in within 10 days after appointment or the Selectmen must rescind the appointment and appoint another.

*Town Accountant ([G.L. c. 41, § 55 et. seq.](#))*

If a town has adopted G.L. c. 41, § 55, a Town Accountant may be appointed by the Board of Selectmen and shall hold office for three years and until a successor is

qualified, or may be appointed for not more than five years and until a successor is qualified. The office may be subject to civil service rules and the officer shall be sworn to the faithful performance of duties.

The Town Accountant shall perform the duties of the Town Auditor and shall hold no other town office which involves the receipt and disbursement of monies, except the office of Town Clerk. The Town Clerk may be appointed Town Accountant provided the Clerk holds no other office involving the receipt and disbursement of money.

If there is a vacancy in a town with only one Town Accountant, or if the officer is disabled, absent, or unable to perform the duties of office, the Selectmen may appoint a temporary officer until another is duly elected or appointed or until the disabled or absent officer resumes the duties of office. The appointee must be sworn in within 10 days after appointment or the Selectmen must rescind the appointment and appoint another.

*Assistant Auditor/Accountant ([G.L. c. 41, § 49A](#))*

The Auditor or Accountant with the approval of the Mayor or Selectmen may appoint an assistant. After being sworn in, the assistant may perform the duties of the office if absent unless someone has been appointed temporarily.

*City Auditor - ([G.L. c. 41, § 48 et. seq, c. 43, §18.](#))*

In cities which accepted chapter 373 of the Acts of 1905, the Auditor shall hold office for three years from the election or appointment date and until a successor is qualified, unless sooner removed; provided, however, the appointing authority may, by written contract, appoint an auditor for a term not to exceed five years. A person chosen to fill a vacancy shall hold the office until the end of a predecessor's unexpired term.

If the office of City Auditor is vacant, or if the officer, because of disability or absence, is unable to perform the duties of office, the Mayor shall appoint a temporary officer to perform the duties until another has been elected or appointed or until the disabled or incapacitated officer resumes the duties of office. No temporary appointment may be longer than 60 days and if the appointee fails to be sworn in within 10 days after appointment, the Mayor shall rescind the appointment and appoint another.

The Auditor shall keep and have charge of the city's accounts and from time to time audits the books and accounts of all city departments, commissions, boards and offices and shall have other powers and perform such other duties as the City Council may prescribe, in addition to duties prescribed by law.

[G.L. c. 43, §§ 81, 89, 95](#) and [103](#) recognize that although there are separate responsibilities for a City Council, City Manager and School Committee, the City Auditor's responsibilities are those conferred and imposed upon the position by law.

*Finance Director* ([G.L. c. 43C, § 11](#))

As an optional form of municipal administration, a community may establish a consolidated department of municipal finance by accepting the provisions of law. Such a consolidated department may include the offices of Assessors, Collector, Accountant, Auditor or Comptroller, and Treasurer.

The consolidated municipal finance department must have an appointed Finance Director serving ex officio as the Accountant, Auditor, Comptroller, Treasurer, Collector or Treasurer/Collector of the community, but cannot serve ex officio as both the Accounting Officer and Collector and/or Treasurer at the same time. The bylaw or ordinance must specify the scope and structure of the department. All other personnel necessary to staff the department must be appointed by the Finance Director, subject to approval by the Selectman or Mayor, unless some other provision is made in the municipal Charter.

Key responsibilities of the Finance Director include:

- coordinate, supervise and direct the financial activities of the entity;
- develop revenue projections;
- formulate the annual budget, including the capital improvement plan;
- have a substantive role in the budget process;
- oversee the completion of the annual Tax Rate Recap, the process for certification of free cash; and
- oversee the day-to-day management of the entity's financial activities.

*Collector* ([G.L. c. 41, § 38A et. seq.](#); [G.L. c. 60, § 1 et. seq.](#))

The Tax Collector is an elected or appointed official to whom all taxes, excises, betterments, special assessments and certain surcharges are committed for collection. The Tax Collector's scope of authority is limited to the collection of the above-mentioned items but may be broadened to collect all accounts due the city or town if G.L. c. 41, § 38A has been accepted. Once accepted, the Tax Collector becomes a city or town Collector and collects all accounts due the municipality.

The Collector must obtain a performance bond in an amount set by the Selectmen in towns and the Chief Executive Officer in cities and not less than the minimum amount

established by the Commissioner of Revenue. A new Collector must also obtain a re-committal bond to cover any outstanding taxes recommitted.

The Collector's primary function is to collect committed amounts as allowed by law. The General Laws detail the manner in which the Collector is to enforce payment.

*Treasurer* ([G.L. c. 41, § 35 et. seq.](#))

The Treasurer is an elected or appointed official whose primary functions involve receiving all money belonging to the city or town, disbursing payroll, accounting for payroll deductions and investing any portion not necessary to cover current obligations in a manner allowed by law. The Treasurer must account for monies received by maintaining and reconciling a cash book detailing receipts, disbursements and cash balances.

The Treasurer must obtain a performance bond in an amount set by the Selectmen in towns and the Chief Executive Officer in cities and not less than the amount established by the Commissioner of Revenue.

The Treasurer is also responsible for issuing municipal debt when properly authorized, is the only one authorized to pay out public money and is custodian and administrator of certain funds and financial documents.

*City and Town Clerks* ([G.L. c. 41, § 12 et. seq.](#))

A city or town Clerk possesses as an essential function the maintenance of the official records of the municipality. Because Clerks receive money for such functions as issuing licenses and certifying copies of official documents, they must obtain an annual performance bond, in an amount set by the Selectmen in towns and the Mayor and Aldermen in cities, but not less than the minimum amount established by the Commissioner of Revenue.

Key responsibilities of the Clerk include:

- record town meeting votes;
- certify appropriations identifying funding sources if specified for use in setting the tax rate;
- administer oaths of office;
- keep an index of those instruments entered in the Clerk's office that are required by law to be recorded (e.g., records of births and deaths, business names); and

- furnish a copy of debt voted by the municipality to the Director of Accounts within 48 hours after the vote becomes effective.

### *Other Municipal Department Heads*

A department head's ultimate role or mission is to strive to provide the community with the highest level of service possible from the available resources of the municipal budget. Usually, department heads prepare their own individual budgets. These budgets must be created within the broad framework and guidelines of the Charter and the rules or procedures established by the Finance Committee, Selectmen, and/or Manager. Department heads should participate actively in the budget review process. Following budget approval, department heads have direct legal obligations to spend within the allocated amount of their respective budgets.

Department heads also should play a major role in their respective municipality's capital planning process by identifying the capital needs of their particular departments. In addition, they should carefully provide for proper care and maintenance of capital items under their control, endeavoring to extend the useful life of those items as much as possible.

### *Other Consolidated Departments*

In another optional form of municipal administration, [G.L. c. 43C](#) permits a municipality to establish two other consolidated departments: one consolidating persons and departments involved in community development activities, and the other consolidating those performing municipal inspections.

### *Finance Committee ([G.L. c. 39, § 16](#))*

Every town with an Equalized Valuation exceeding \$1,000,000 must, and any other town may legislate the mandatory election or appointment of a Finance Committee (also called an Advisory, Appropriation, or Prudential Committee). The terms of committee members may not exceed three years, although the size and composition of its membership may vary.

In all cases, the Finance Committee has the responsibility to consider all municipal questions for the purpose of making a report to Town Meeting. Furthermore, unless a provision of a town's bylaw gives the responsibility to the Selectmen, the Finance Committee must present a budget at the Annual Town Meeting. The Committee should review estimates provided by the various municipal departments and formulate them into spending recommendations for inclusion in the Town Meeting warrant.

Furthermore, the Finance Committee has the power to approve transfers from the Reserve Fund, a contingency fund usually appropriated as part of the annual budget, to departmental budgets for extraordinary or unforeseen occurrences.

In a city, the Finance Committee's responsibilities rest with either the full City Council or a subcommittee thereof.

### *School Committee ([G.L. c. 71](#))*

An independently elected School Committee is responsible for the administration and budget of the city or town's education system. This includes the appointment of a Superintendent of Schools who in turn appoints other employees of the school system. With the passage of the Education Reform Act in 1993, the role of the School Committee has largely become one of policymaking, with greater authority given over to the Superintendent.

The powers of the School Committee in a city, town and regional school district as indicated in [G.L. c. 71, § 37](#) include to:

- select and to terminate the Superintendent;
- review and approve budgets for public education in the district; and
- establish educational goals and policies for the schools in the district consistent with the requirements of law and statewide goals and standards established by the Board of Elementary and Secondary Education.

### Other Governments

#### *Districts*

Districts in Massachusetts consist of two basic types: those that levy taxes and other charges directly upon individual citizens and taxpayers (e.g. fire and water districts), and those that assess charges and costs upon cities and towns either directly (e.g. regional school districts) or through the Cherry Sheet (e.g. certain regional transit authorities). Districts which assess costs upon cities and towns virtually always involve more than one municipality; tax levying districts are usually contained within one municipality but may overlap other municipalities.

Tax-levying districts ordinarily rely upon the Assessors and Collectors of the municipality or municipalities in which they are located to assess and collect district taxes and other charges. Both tax-levying and assessment districts generally have their own Treasurer to handle and manage district funds.

The executive body of a taxing district is oftentimes referred to as the Prudential Committee or Board of Commissioners. The legislative body of a taxing district is the District Meeting.

### *County Government*

County governments are almost as old as the Commonwealth, but for hundreds of years were essentially State administrative districts whose powers and budgets were determined by the Legislature. Historically, Massachusetts had 14 operating counties.

The executive authority of 12 of the 14 counties vested with a Board of County Commissioners. In Nantucket County, the Board of Selectmen for the Town of Nantucket served as the Board of County Commissioners and in Suffolk County, the duties of the Board of Commissioners fell mainly upon the Boston Mayor and City Council and less so upon the Revere and Chelsea City Councils as well as the Winthrop Board of Selectmen.

Generally, and for many years, counties were in control of the District Court System, District Attorneys, Medical Examiners, Registers of Deeds, Sheriffs, Jails, County Hospitals and Agricultural High Schools. Funding was by way of a county tax assessed to member cities and towns.

From 1978 to the present, several significant events occurred that changed the course of county government in Massachusetts:

- The Court Reorganization Act of 1978 transferred all judicial expenses and employees over to the State.
- Prop 2½ limited the county tax and with increased county corrections costs, significant infusions of State assistance were required in several counties to continue their operation.
- In 1982, complete budget approval authority was given to County Advisory Boards composed of Mayors, Managers and Boards of Selectmen from each municipality within the County.
- Chapter 193 of 1989 increased the deeds excise tax which provided additional county funding and established a County Government Finance Review Board (C.G.F.R.B.) responsible for approving all county budgets received from the County Advisory Boards.

- In mid-1990s, Franklin County requested to be abolished in favor of a Franklin Regional Council of Governments, which continues to exist today.
- In 1996, Middlesex County defaulted on \$4.7 million in hospital debt. Chapter 48 of 1997 abolished the County and included a State appropriation to pay all County liabilities.
- From 1997 to 2000, six additional Counties (Berkshire, Essex, Franklin, Hampden, Hampshire, Worcester) were abolished, operation of their Sheriffs' Offices, County Jails, Houses of Correction, Registries of Deeds and Courthouses were transferred to the State and their revenues were redirected to the State's General Fund. The State assumed their valid debts and obligations; a budget of over \$46 million was managed by the Bureau of Accounts to discharge these liabilities.
- In 2009, legislation transferred the Sheriffs' offices of the seven remaining counties to the State effective January 1, 2010 and abolished the C.G.F.R.B.

The remaining county governments still in operation are Barnstable, Bristol, Dukes, Nantucket, Norfolk and Plymouth.

#### *Regional Council of Governments*

After the dissolution of their county government, willing communities voluntarily formed Council of Governments or COGs. The purpose of COGs generally is to establish regional cooperation in areas such as proposed legislation, group insurance and power purchasing, community development, transportation planning and other technical assistance that the former counties were unable to perform. Member communities are represented in the COG by an elected Councilor or Councilors. Currently, Massachusetts has three such COGs (Northern Middlesex, Franklin and Hampshire).

## **Chapter 2 - The Role of the Accounting Officer**

This chapter will present the role of the Accounting Officer referencing the Massachusetts General Law and section. Each part will begin with a listing of responsibilities in order of General Law and section followed by further details by function.

Charter and by-law provisions may impose additional duties upon the Accounting Officer, provided they are not inconsistent with the General Laws. Customary practice may dictate that the Accounting Officer perform duties which by law are those of another city or town officer.

The Accounting Officer must understand the responsibilities of the office are and use discretion in handling customary practices. Legal reports and notifications can help to improve internal controls, transparency and understanding. Any such reports should be reviewed in their entirety to understand the law's full impact.

This Manual will not explain how to accomplish every function. The Accountants' schools and conferences are available to provide further education on the specific tasks required.

### Major Responsibilities

The following is a listing of major responsibilities in order of Massachusetts General Law and section.

Chapter	Section	Content
41	51	Notification to Whom Money is Due
41	52	Approval of Bills
41	53	Auditing of Public Trusts
41	54	Payment of Public Funds to the Treasurer
41	54A	Notification to Assessors of Receipts
41	56	Warrants for Payment of Bills
41	57	Books of Account and Financial Records
41	58	Duties, Notice of Condition of Appropriations; Record of
41	59	Annual Estimates; Furnishing to Town Accountant
41	60	Table of Estimated Appropriations
41	61	Annual Report
44	16	Notification of Debt Not Provided For, to Assessors
44	17	Notification of Temporary Loan Payments Not Provided For, to Assessors
44	31	Liabilities in Excess of Appropriations Forbidden: Exceptions
44	31A	City Budget Estimates
44	31C	Construction Contracts: Certification as to Availability of Funds
44	31D	Snow and Ice Removal: Emergency Expenditure: Reporting of
44	43	Accounting Reports; Returns: Forms
44	64	Bills of a Prior Fiscal Year
59	23	Tax Rate Calculation
59	23	Free Cash and Free Cash Update
59	23A	Notification of Certification of Tax Rates
71	47	Student Activity Funds

The following responsibilities are the same as those shown above, however they are detailed by the following functions:

- Approval of Bills;
- Maintaining Books of Account and Financial Records;
- Notifications; and
- Reports.

*Approval of Bills:*

*City Auditors and Boards of Selectmen – [G.L. c. 41, § 52](#)*

When applicable to the city or town, the City Auditor in cities and the Board of Selectmen in towns:

- examine the requisite oaths and approvals for the payment of bills and payrolls;
- inspect departmental accounts and approve their payment by the Treasurer;
- withhold payment if it is considered fraudulent, unlawful or excessive;
- file with the Treasurer a statement outlining the reason(s) for the withholding;
- and

- draw a warrant upon the treasury for payment, if all is in order, and process.

The board of selectmen may designate any 1 of its members for the purpose of approving bills or payrolls; provided that the member shall make available to the board, at the first meeting following such action, a record of such actions.

#### *Town Accountant – [G.L. c. 41, § 56](#)*

In 1910, the Massachusetts General Court passed Chapter 624, also known as the “Town Accountant Act” which created a Town Accountant’s position with powers of the Town Auditor plus the responsibility of examining bills and payrolls, which was the Board of Selectmen’s responsibility up until then pursuant to G.L. c. 41, § 52. If the entity adopted this Act, the position of Town Auditor could have been rescinded.

The following outlines the process for final bill and payroll approval by the Town Accountant. This section also applies to cities, where appropriate.

#### *Transmittal to Accountant*

All boards, committees, heads of departments and officers authorized to expend money approve and transmit to the Town Accountant, after their examination, as often as once each month (this may occur weekly or biweekly) all bills, drafts, orders and payrolls chargeable to their respective appropriations provided that:

- charges are correct;
- goods, materials or services charged for were ordered;
- goods and materials were delivered; and
- services were rendered to or for the town.

#### *Drawing of a Warrant for Payment*

The Town Accountant examines all bills, drafts, orders and payrolls, and, if found correct, approves and draws a warrant upon the treasury for the payment and approval by the Board of Selectmen.

The Treasurer cannot pay from the treasury except upon such warrant approved by the Board of Selectmen. If there is a failure to elect or a vacancy occurs in the office of Selectman, the remaining Selectman or Selectmen, together with the Town Clerk, may approve such warrant.

### *Accountant's Refusal to Pay*

The Town Accountant may withhold payment, in whole or in part, any claim deemed fraudulent, unlawful or excessive, and must then file a written statement with the Treasurer of the reasons for the withholding. The Treasurer shall not pay any claim or bill so disallowed by the Town Accountant.

The Division of Local Services has defined the term “excessive” as in excess of the appropriation or in excess of any other locally imposed limitation of expenditure.

### *Liabilities in Excess of Appropriations – [G.L. c. 44, § 31](#)*

Cities, towns or districts may incur a liability in excess of appropriation for major disasters including, but not limited to, flood, drought, fire, hurricane, earthquake, storm or other catastrophe, whether natural or otherwise, which poses an immediate threat to the health or safety of persons or property, and then only by a vote in a city of two-thirds of the members of the City Council, and in a town by a majority vote of all the Selectmen. The Governor must declare a state of emergency with respect to the disaster or it must be approved by the City Council or Selectmen must declare a local emergency before authorizing departments to incur liability in excess of appropriation.

This section also allows for payments of final judgments, awards or payments ordered or approved by a state or federal court of adjudicatory agency, upon certification by the city solicitor or town council that no appeal can or will be taken and as required by municipal charter, ordinance or by-law. Such amounts must be reported to the assessors, who will include the amounts in the determination of the next tax rate, unless the city or town has otherwise made provisions therefore.

The Bureau of Accounts has specific [procedures](#) regarding emergency payments which address:

- requesting authority for payment from the Director of Accounts;
- accounting for emergency payments;
- reporting emergency payments; and
- providing for emergency payments.

Accounting entries may also be found in chapter 9 of the UMAS Manual.

### *Snow and Ice Removal – [G.L. c. 44, § 31D](#)*

Cities and towns may expend funds for snow and ice removal in excess of appropriation without approval by the local appropriating authority (e.g. City Council, Town Meeting)

and include the excess amount without appropriation in the next fiscal year's tax rate, if not otherwise provided for, if:

- such expenditures are approved by the Town Manager and the Finance or Advisory Committee in a town having a Town Manager, by the Selectmen and the Finance or Advisory Committee in any other town, by the City Manager and the City Council in a city having a City Manager or by the Mayor and City Council in any other city;
- that the appropriation for such purposes in said fiscal year equaled or exceeded the appropriation for said purposes in the prior fiscal year; and
- expenditures made under authority of this section are certified by the Accounting Officer to the Board of Assessors and are included in the next annual tax rate.

The Division of Local Services has advised that deficit spending for snow and ice removal is authorized for only those expenditures directly related to the removal of snow and ice that are variable and unpredictable from year to year depending on the severity of the winter. Typical expenditures include overtime costs for DPW plowing crews, the cost of extra sand and chemicals to be spread on the roads, and the cost of hiring plows and drivers during storms. Deficit spending is not authorized for expenditures for regular, recurring DPW activities or salaries that are predictable and do not vary with the weather in any given winter. Entities must budget for these regular activities separately.

*Bills of a Prior Fiscal Year – [G.L. c. 44, § 64](#)*

Cities, towns and special purpose districts defined in [G.L. c. 44, § 1](#) with unpaid bills for a previous fiscal year due to insufficiency of appropriation may, at an Annual Meeting by a four-fifths vote, or at a Special Meeting by a nine-tenths vote, of the voters present and voting at a meeting duly called, and, in a city that accepts this section, by a two-thirds vote of the City Council, appropriate money to pay such bills.

To approve payment for these bills, certificates must be signed and filed with the Selectmen or the City Auditor, stating under the penalties of perjury that the goods, materials or services for which bills have been submitted were ordered by an official or employee of the town or city and that such goods and materials were delivered and actually received by the town or city or that such services were rendered to or for the town or city, as the case may be.

Bills of a previous fiscal year due to any other town, district, city, county, the Commonwealth or for legally incurred debt and interest may be approved by a majority vote.

*Maintaining Books of Account and Financial Records:*

*Books of Account and Financial Records – [G.L. c. 41, § 57](#)*

The Town Accountant shall keep a complete set of books including a general journal, general ledger and subsidiary ledgers, wherein shall be entered:

- the amount of each specific appropriation;
- the amounts and purposes of expenditures made therefrom;
- the receipts from each source of income;
- the amount of each assessment levied; and
- the abatements made.

The accounts shall be kept, so far as practicable, in conformity with the Uniform Massachusetts Accounting System (UMAS) and in conformity with any systems, classifications, forms and designations prescribed pursuant to regulations of the Board of Elementary and Secondary Education for use by School Committees.

Procedures for maintaining and accounting for these financial records are addressed throughout this Manual including *Municipal Accounting Basics and System Records* and *Massachusetts Local Government Accounting*. The financial reporting products created with the records in the accounting system are also addressed in this Manual including *Municipal Reporting, The Balance Sheet and Schedule A*.

*Contracts and Surety Bonds – [G.L. c. 41, § 57](#)*

The Town Accountant shall:

- have custody of all contracts of the town; and
- keep a register of the sureties on all bonds of indemnity given to the town.

*A Detailed Record of Town Debt – [G.L. c. 41, § 57](#)*

The Town Accountant shall keep a detailed record of the town debt, showing:

- the purpose for which it was incurred;
- when incurred;
- when payment is due;

- the rate of interest; and
- the provisions made for payment of the debt.

The Accounting Officer is responsible for co-signing the Statement of Indebtedness with the Treasurer reporting the entity's debt to the Director of Accounts (see *Borrowing, The Accounting Officer's Role in Borrowing*, this Manual).

*Audit of Public Trusts – [G.L. c. 41, § 53](#)*

With respect to public trusts, city and town Auditors shall:

- at least once every year or more often as deemed necessary audit the accounts of trustees of any property given in trust for the benefit of the town or its inhabitants;
- examine and estimate the funds, securities and evidences of property held by the trustees;
- annually include in their annual report the results of their findings. If fraud or any irregularity is discovered, the Auditor shall report it to the Mayor and Treasurer or to the Selectmen and Treasurer.
- verify the cash balance of each trust at least once each year by actual count of cash and reconciliation of bank balances; and
- include in an annual report the cash reconciliation findings, unless the trustee is a bank, banking association or trust company.

Town Auditors need not verify the cash balance by actual count of the cash if the trustee is a bank, banking association or trust company. The trustees shall give free access to their accounts, funds, securities and evidences of property to the Auditor or shall be fined by law.

*Student Activity Accounts – [G.L. c. 71, § 47](#)*

The School Committee of a city, town or district may authorize a School Principal to receive money in connection with the conduct of certain student activities and to deposit such money, with the municipal or Regional School District Treasurer, into an interest bearing bank account (agency account), for student activities. The School Committee may also establish a checking account controlled by the School Principal for expenditure of certain student activity funds.

The Principal shall adhere to such administrative procedures as the municipal or Regional School District Treasurer or Accountant may prescribe.

The School Committee shall vote to set the maximum balance that may be on deposit in the checking account and the principal designated to control the account shall give bond to the municipality to secure the principal's faithful performance of his or her duties in connection with the account. All funds received from student activity programs must be deposited into the agency account. To the extent that funds are available in the agency account, the Treasurer shall reimburse the checking account to restore the limit set by the School Committee.

There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon [guidelines](#) issued by the Department of Elementary and Secondary Education (DESE). It is recommended that at least once every three years the audit should be conducted by an independent audit firm. In the interim years, if an independent firm is not engaged, the procedures can be conducted internally by an individual not involved with the daily operations of the funds.

When the audit is completed internally, the Town Accountant should review all audit work papers and audit programs and establish a retention policy for a minimum of three years.

Detailed guidance for accounting for student activities is available from the Massachusetts Association of School Business Officials (MASBO) and through the [guidelines](#) provided by DESE.

*Notifications:*

*Notification to Whom Money is Due – [G.L. c. 41, § 51](#)*

An Auditor may notify a person to whom money is due from the town.

*Statement of Payment Amount, "Turnovers", or the "9/10" – [G.L. c. 41, § 54](#)*

An officer of the Commonwealth, county, city or town who makes payment of public money to the Treasurer of a city or town must also furnish the Auditor or Town Accountant a written statement of the amount, date and purpose thereof.

*Notification to Assessors of Receipts – [G.L. c. 41, § 54A](#)*

By August 1, the City Auditor, Town Accountant, or Treasurer if there is no Auditor or Accountant, shall notify the Assessors of the preceding fiscal year's total receipts by source, except receipts from taxes, loans and trust funds.

The Assessors apply estimated receipts based upon those receipts from the preceding fiscal year to reduce the gross amount to be raised by taxation in determining the tax levy. Assessors normally rely upon figures from the Accounting Officer to determine the amount of estimated receipts to be used.

*Notice of Condition of Appropriations – [G.L. c. 41, § 58](#)*

Whenever any appropriation has been expended or in the judgment of the Town Accountant, it appears that the liabilities incurred against any appropriation may be in excess of the unexpended balance, the Accountant shall immediately notify the Selectmen, board, committee, department head or officer authorized to make expenditures therefrom, and no claim against such appropriation shall be allowed nor any further liability incurred until the town makes provision for its payment. The Town Accountant shall, at regular intervals and as often at least as once each month, send to the selectmen and to each board, committee, head of department or officer having the disbursement of an appropriation a statement of the amount of orders approved and warrants drawn on behalf of said board, department or officer during the preceding month, and a statement of the balance of such appropriation remaining subject to draft. Each head of a department, board or committee authorized to expend money shall furnish the Town Accountant, at the close of the financial year, a list of bills remaining unpaid, showing to whom and for what due, and their amounts; and the town accountant shall incorporate the same in his annual report covering the financial transactions of the town.

As a reminder from G.L. c. 44, § 31, communities are prohibited from spending in excess of appropriations. It is the Accounting Officer's responsibility to enforce this prohibition.

*Furnishing Annual Estimates to the Accountant – [G.L. c. 41, § 59](#)*

Selectmen, department heads, boards, committees and other officers authorized by law to expend money shall submit to the Town Accountant (or if there is no Accountant, to the Appropriation, Advisory or Finance Committee or to the Selectmen) detailed estimates (salaries and expenses) of their expenditure and revenue budgets for the following fiscal year at least ninety days before the start of the Annual Town Meeting or ten days before the end of the calendar year, whichever is later. The estimates shall include explanatory statements as to changes from the current fiscal year as well as estimates for capital outlays or permanent improvements.

The Treasurer shall also include a separate statement regarding payment of debt service for the ensuing fiscal year.

*Table of Estimated Appropriations – [G.L. c. 41, § 60](#)*

Immediately upon the close of the calendar year, the Town Accountant shall prepare statements detailing:

- the preceding fiscal year's appropriations and expenditures,
- appropriations for the current fiscal year;
- expenditures for the first six months of the fiscal year;
- the amounts estimated to be expended during the second six months of the fiscal year; and
- estimates for the next fiscal year.

The Town Accountant shall then forthwith furnish a copy of this table to the Selectmen or other appointed committee considering the proposed appropriations.

The Selectmen and/or other appointed committee shall make appropriation recommendations, explanations and suggestions to the community and shall print and distribute this document at or before Town Meeting. The town Clerk shall then transmit a copy to the Director of Accounts.

Although this section states that the Town Clerk shall transmit a copy thereof and of all town reports to the Director of Accounts, the Bureau of Accounts advises that a copy of this report be available only upon request of the Director of Accounts.

*Notification of Debt Not Provided For to Assessors – [G.L. c. 44, § 16](#)*

The Auditor, the Town Accountant in towns having such an officer, the Treasurer in all other towns, or the Prudential Committee, if any, otherwise the Commissioners in a district, shall, not later than May first of each year, notify the Assessors in writing of the amount of debt falling due during the next fiscal year, and the Assessors shall add the amount to the next Tax Rate Recap if not otherwise provided for.

*Notification of Temporary Loan Payments Not Provided For to Assessors – [G.L. c. 44, § 17](#)*

Temporary loan payments shall be reported by the Auditor or Accountant of the city or town or other officer having similar duties, or by the Treasurer if there be no such

officer, to the Assessors, who shall include the amount so reported in the determination of the next annual tax rate, unless other provision for payment has been made.

Payments by a regional school district or regional refuse disposal district are included in the next annual district operating and maintenance budget, unless the Regional District Committee has otherwise made provision therefor.

*City Budget Estimates – [G.L. c. 44, § 31A](#)*

Every officer in a city except in Boston having charge of a department must provide the City Auditor or officer having similar duties and the Mayor between November 1st and December 1st with detailed estimates for the following fiscal year's budget, including:

- capital needs;
- amount expended for similar purposes during the preceding fiscal year and during the first four months of the then current fiscal year;
- an estimate of the amounts required to be expended for such purposes during the last eight months of the then current fiscal year; and
- an explanation of any differences between the amount of any estimate for the next fiscal year and the amount expended or estimated to be required.

This information must include the number of permanent or temporary employees as outlined in the section.

At the close of the calendar year, the City Auditor, or officer having similar duties, furnishes the Mayor with a written report of:

- the money received from estimated receipts applicable to the payment of expenditures of the first six months of the then current fiscal year;
- an estimate of such receipts for the last six months of such year; and
- an estimate of such receipts for the next fiscal year.

*Construction Contracts, Certificate as to Availability of Funds – [G.L. c. 44, § 31C](#)*

The Auditor or Accountant must certify the availability of an appropriation for any contracts for construction, reconstruction, alteration, remodeling, repair or demolition of

any public building or public work in excess of \$2,000, prior to the contract becoming effective.

The Division of Local Services has advised that once Town Meeting has authorized debt to fund a construction contract, the Accounting Officer can certify the contract without waiting for the Treasurer to borrow the funds. The Accounting Officer cannot certify the sufficiency of funds for a construction contract based partly on the anticipated receipt of a private grant or gift.

*Reports:*

*Reports from the Accountant – [G.L. c. 41, § 58](#)*

The Town Accountant shall, at regular intervals and as often at least as once each month, send to the Selectmen and to each board, committee, head of department or officer having the disbursement of an appropriation a statement of the amount of orders approved and warrants drawn on behalf of said board, department or officer during the preceding month, and a statement of the balance of such appropriation remaining subject to draft.

*Reports to the Accountant – [G.L. c. 41, § 58](#)*

At the close of each fiscal year, each head of a department, board or committee authorized to expend money shall furnish the Town Accountant a list of bills remaining unpaid, showing to whom and for what due, and their amounts, and the Town Accountant shall incorporate the same in the Annual Report.

*Annual Report – [G.L. c. 41, § 61](#)*

The Town Accountant shall make an annual report arranged in classifications prescribed by the Director of Accounts containing:

- a statement of receipts and expenditures made for the prior fiscal year;
- receipts and expenditures of funds managed by trustees;
- specific appropriations and expenditures therefrom; and
- the purpose for which the money was spent.

This report shall include a statement of any change in the amount of debt during the year and a list of indebtedness incurred and unpaid at the end of the fiscal year.

The classifications of revenues and expenditures should be those reported in the UMAS Manual.

*Schedule A – [G.L. 44, § 43](#) (see Schedule A, this Manual)*

The Accounting Officer must complete and submit to the Bureau of Accounts on the Gateway system the Annual City and Town Financial Report, Schedule A. This Schedule is due on November 30 and may be uploaded into Gateway by using a Microsoft Excel spreadsheet provided by the Bureau.

Failure to submit the form timely may result in the withholding of State aid.

If a city or town fails within sixty days after a request has been made by the Director to furnish the information authorized to be collected under the provisions of this section, the Director may obtain such information through the use of his agents and assistants and the cost assessed to the city or town.

*Tax Rate Calculation (see Tax Rate Recap, this Manual – [G.L. c. 59, § 23](#))*

This section of law describes how the tax levy is to be determined. It gives the responsibility to the Assessors, however, much of their information (such as other amounts to be raised, actual prior fiscal year receipts, a review of appropriations, and completion of certain supporting forms) is determined by the Accounting Officer.

The Accounting Officer must notify the Assessors of amounts known which have not been otherwise provided for in the current tax rate such as:

- debt and interest;
- final court judgments;
- overlay deficits; and
- offset receipts deficits.

The Accounting Officer must also:

- provide the Assessors with General Fund receipts received during the prior fiscal year from which to estimate receipts for the current fiscal year;
- review the Clerk's entries on page 4 of the Tax Rate Recap; and
- provide a free cash update amount if needed as indicated below.

*Free Cash and Free Cash Update (see Calculation of Free Cash, this Manual) –*  
[G.L. c. 59, § 23](#)

The rules for determining free cash free cash (available funds) are promulgated by the Director of Accounts in accordance with established accounting practices of the Bureau of Accounts. Free cash cannot be appropriated until certified and cannot be appropriated to an amount greater than the amount certified.

The Bureau of Accounts allows for one free cash update during the fiscal year which must again be first certified by the Director of Accounts prior to appropriation by the city, town or districts' legislative body. Collections attributable to prior years, principally collection of property taxes, received up to March 31, may be included in an update of the free cash amount previously certified. The entity's Accounting Officer shall certify as soon as may be to the Board of Assessors amounts of the following collected between July 1 and March 31 of the same fiscal year:

- the total of the proceeds from the sale of tax title possessions;
- receipts from tax title redemptions;
- the total real and personal taxes of prior fiscal years; and
- other amounts approved by the Director of Accounts.

The free cash update is then reported by the Town Accountant to the Board of Selectmen and by the City Auditor to the Mayor or City Manager, City Council or Board of Aldermen.

A free cash update is not required but is necessary if there is a need to appropriate free cash in excess of the amount already certified as of July 1.

*Notification of Certification of Tax Rates (See Tax Rate Recap, this Manual) –*  
[G.L. c. 59, § 23A](#)

The Assessors shall notify the Auditor, Town Accountant or similar officials as soon as the tax rates are determined and certified by the Director of Accounts.

## Other Responsibilities

The following is a listing of other responsibilities in order by Massachusetts General Law and section.

Chapter	Section	Content
10	58	Cultural Council Report
31	71	Civil Service Roster
31	73	Civil Service Violation
32	20(4b)	Retirement System Board Management
32	20(4c)	Retirement System Board Management Option
32	20(4d)	Retirement System Board Compensation
32	20(4d 1/2)	Retirement System Board Compensation Option
32	89B	Annuity Payments to Dependents of Certain Police and Fire Fighters
40	5A	City Reserve Fund
40	6	Town Reserve Fund
40	22G	Funds Received from Handicapped Parking Violations
41	15A	Certification of Votes and Sources of Funding by Clerk
41	17	Contracts
44	6A	Borrowing in Anticipation of State Aid
44	8(15)	Borrowing for Sewers Outside Debt Limit
44	53D	Recreation Revolving Fund
44	53E	Offset Receipts
44	53E 1/2	Departmental Revolving Fund
44	53E 3/4	Energy Revolving Loan Fund Receipts
44	53F 1/2	Enterprise Funds
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111	28	Board of Health, Estimate of Appropriation
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164	56	Management of Plant
164	56C	Contracts of Commission, filing with city or town Auditor, preservation; public inspection penalty

The following responsibilities are the same as those shown above, but are detailed by the following functions:

- Reports;
- Maintenance of Records;
- Special Funds;
- Notifications; and
- Retirement System.

*Reports:*

*Cultural Council Revolving Fund and Report – [G.L. c. 10, § 58](#)*

This section authorizes a local cultural council revolving fund subject to certain rules and regulations. The council may establish a subcommittee of no less than two members and may delegate its authority to approve all payrolls, bills, requests for payment or accounts prior to submission to the Accountant, Auditor or other official performing similar functions.

An annual report of the revolving fund must be submitted by City Auditor or Town Accountant to the Mayor, City Council, City Manager, Board of Selectmen, Town Manager, Bureau of Accounts and Cultural Council.

A copy of this report must be available upon request of the Director of Accounts.

*Board of Health, Estimate of Appropriation – [G.L. c. 111, § 28](#)*

Annually in January, a city Board of Health shall make a full and comprehensive report to the City Council of its acts during the preceding year and of the sanitary condition of the city. It shall also, if the City Council or the standing committee on finance thereof so requires, send to the City Auditor a detailed estimate of the appropriation required by its department for the next fiscal year.

*Maintenance of Records:*

*Civil Service Roster – [G.L. c. 31, § 71](#)*

The Personnel Administrator of the Human Resources Division within the Executive Office for Administration and Finance files a roster of persons legally employed, temporarily or permanently, in a civil service position in a city or town with the Treasurer or other officer responsible for paying the salary or compensation of persons in the service of such city or town and with the Auditor or other officer of such city or town who

is responsible for authorizing the drawing, signing or issuing of warrants for such payments.

The Auditor or other Accounting Officer of each such city or town shall not authorize the drawing, signing or issuing of a warrant for such payment until the legality of the employment or appointment of such person is duly established.

*Civil Service, Violation – [G.L. c. 31, § 73](#)*

The Civil Service Commission or the Administrator shall file a written notice of a civil service law or rules violation with the Treasurer, Auditor or other officer whose duty it is to pay the salary or compensation of such person or to authorize the drawing, signing or issuing of any warrant for such payment.

The payment of any salary or compensation to such person shall cease at the expiration of one week after the filing of such written notice with such Treasurer, Auditor or other officer. No such Treasurer, Auditor or other officer shall pay any salary or compensation to such person, or draw, sign or issue, or authorize the drawing, signing or issuing of any warrant for such payment, until the legality of the appointment or employment is duly established.

*Annuity Payments to Dependents of Certain Police and Fire Fighters – [G.L. c. 32, § 89B](#)*

Provided local acceptance, the City Auditor, Town Accountant or officer having similar duties must keep certain information on file and shall annually require certain information from individuals prior to any annuity payment to dependents of police officers or fire fighters killed or dies from injuries in performance of duty.

*Certification of Votes and Sources of Funding by Clerk – [G.L. c. 41, § 15A](#)*

City, town and district Clerks must certify appropriation votes and their source of funding as soon as they become effective in cities to the Treasurer, Assessors and Auditor or similar officer, in a town to the Assessors and the Town Accountant, if any, otherwise to the Treasurer, and in a district to the Assessors and the Accounting Officer, if any, otherwise to the Treasurer.

*Contracts – [G.L. c. 41, § 17](#)*

Every officer of a city who makes or executes a contract on behalf of the city furnishes a copy thereof to the City Clerk and the City Auditor within one week after its execution and the Clerk shall keep the contract or copies in books arranged as provided by this section and made open to public inspection during business hours.

All allowances under and additions to such contracts, or copies thereof, shall be filed with the City Clerk and the City Auditor, together with a sworn statement of the officer making such allowances or additions that the same are correct and in accordance with the contract. The law penalizes the Clerk or other city officer for failure to comply with this section by a fine of not less than \$10 or more than \$100.

*Books of the Collector Open For Inspection by Mayor, Aldermen, Selectmen or their Designee – [G.L. c. 60, § 8](#)*

All books kept by the Collector are considered property of the town and shall be at reasonable times open to examination by the Auditor of the town or other agent thereof.

The Collector on demand by the Mayor, Aldermen or Selectmen exhibit to them or their designee at any time during business hours, the books, accounts and vouchers relating to taxes committed to the Collector for collection and to the Collector's receipts and payments on account of taxes, and they, or the persons designated by them, shall have full opportunity to examine said books, accounts and vouchers, and to make copies and extracts therefrom.

*Liability of Lessors of Motor Vehicles for Parking Violations – [G.L. c. 90, § 20E](#)*

For the purpose of determining compliance with payment of the surcharge, the City or Town Auditor, Treasurer or designee shall have the authority to examine the books, records and pertinent documents of any person or entity engaged in the taxicab business, or the business of leasing or renting motor vehicles.

*Exchange of Indebtedness – [G.L. c. 107, § 4](#)*

If a city, town or district exchanges indebtedness issued pursuant to this section, the new indebtedness in cities by the Treasurer and countersigned by the City Auditor or Comptroller and the Mayor, or their successors in office, in towns shall be signed by the Treasurer and countersigned by a majority of the Selectmen. In districts, such new bonds, notes or certificates shall be signed by the Treasurer and countersigned by the Prudential Committee or other body exercising similar powers.

*Municipal Light Plant Contracts – [G.L. c. 164, § 56C](#)*

Every Municipal Light Commission or Manager thereof, who makes or executes a contract on behalf of a municipal lighting plant, where the amount involved is five thousand dollars or more, shall furnish said contract or a copy thereof to the city or town Auditor within one week after its execution. Said city or town Auditor shall:

- keep such contract or copy on file, open to public inspection during business hours;
- keep them in a separate book arranged according to the subject of the contract, or in other convenient form; and
- index the subject matter of the contracts and the names of the contractors shall be made semi-annually and shall also be open to public inspection in some convenient form.

All allowances under and additions to such contracts, or copies thereof, shall be filed with the city or town Auditor, together with a sworn statement of the officer making such allowances or additions that the same are correct and in accordance with the contract.

A city or town Auditor, Municipal Light Commissioner or Manager willfully failing to comply with this section shall be punished by a fine of not less than ten or more than one hundred dollars.

*Special Funds:*

*City Reserve Fund – [G.L. c. 40, § 5A](#)*

For extraordinary or unforeseen expenditures, prior to certification of the tax rate, a city may appropriate to a reserve fund an amount not exceeding 5% of the prior fiscal year's tax levy.

Transfers voted by the City Council upon the Mayor's recommendation are recorded into the line-item so voted by the City Auditor or officer having similar duties, rather than directly drafted against the reserve fund.

*Town Reserve Fund – [G.L. c. 40, § 6](#)*

For extraordinary or unforeseen expenditures, prior to the certification of the tax rate, a town at an annual or special town meeting may appropriate or transfer up to 5% of the previous fiscal year's tax levy into a reserve fund.

Transfers voted by the Finance or Appropriation Committee in towns having such a committee or otherwise by the Selectmen and the Town Accountant in towns having such an official, and in other towns the Auditor or Board of Auditors, are recorded into the line-item so voted, rather than directly draft against the reserve fund.

*Funds Received from Handicapped Parking Violations – [G.L. c. 40, § 22G](#)*

Provided local acceptance of [G.L. c. 40, § 8J](#), this section authorizes allocation of all funds received from fines assessed for violations of handicap parking in the city or town to the Commission on Disabilities to be used solely to benefit persons with disabilities.

The City or Town Accountant submits an annual report of this account to the Mayor and City Council or the Town Manager and Board of Selectmen as well as to the Bureau of Accounts.

A copy of this report must be available upon request of the Director of Accounts.

*Borrowing for Construction of Sewers Outside Debt Limit – [G.L. c. 44, § 8\(15\)](#)*

Cities or towns incurring debt outside the debt limit for the construction of sewers, sewerage systems and sewage treatment and disposal facilities or for the lump sum payment of the cost of tie-in to such services in a contiguous city or town must have either:

- an enterprise or special revenue fund for sewer services certified so by the Auditor or Accountant or other officer having similar duties to the Treasurer that rates and charges have been set at a sufficient level to cover the estimated operating expenses and debt service related to the fund; or
- the debt approved by a majority of the members of the Municipal Finance Oversight Board.

Apart from special legislation, there is currently no provision for a sewer special revenue account. Only a sewer enterprise account is currently allowed by general law.

*Recreation Revolving Fund – [G.L. c. 44, 53D](#)*

If locally accepted, this law authorizes a self-supported recreation and park services revolving fund.

The City Auditor or Town Accountant must submit an annual report of this fund to the Mayor, City Council, City Manager, Board of Selectmen or Town Manager for their review as well as to the Bureau of Accounts.

This fund has certain restrictions and other important provisions such as the fund cannot have an unrestricted balance at the end of a fiscal year in excess of \$10,000 and that a by-law or ordinance may require the provisions of this law to be subject to annual authorization by the Town Meeting or City Council.

A copy of this report must be available upon request of the Director of Accounts.

*Offset Receipts – [G.L. c. 44, 53E](#)*

If locally accepted, this law allows the use of a departmental receipt to offset a departmental appropriation.

Departmental receipts estimated for the next fiscal year to be in excess of the current fiscal year's receipts must be approved by the Director of Accounts prior to appropriation and must be shown on Schedule A-1 submitted with the Tax Rate Recap.

The Auditor or Accountant or other officer having similar duties, or by the Treasurer if there be no such officer, must report any deficit resulting from the provisions of this law to the Assessors for purposes of the next tax rate unless other provision has already been made.

An annual report by each agency, board, department or office must be prepared for review by the Mayor, City Council, City Manager, Board of Selectmen or Town Manager as well as for the Bureau of Accounts.

This fund has certain restrictions and other important provisions such as any balance remaining at the end of a fiscal year must close to the General Fund.

The annual report required by the law need only be available to the Director of Accounts if requested.

*Departmental Revolving Fund – [G.L. c. 44, 53E½](#)*

A City Council or Annual Town Meeting may authorize the use of revolving funds for certain departmental receipts received in connection with programs supported by the revolving fund. Revolving funds must be established by by-law or ordinance prior to the beginning of the fiscal year in which the fund shall begin. On or before July 1<sup>st</sup> each

year, the City or Town must vote on the limit on the total amount that may be expended from each revolving fund established.

Expenditures may be made without further appropriation, but liabilities may not be incurred in excess of the balance in the fund or in excess of the authorized limits.

No revolving fund may be established under this section for receipts of a municipal water or sewer department, a municipal hospital or a cable television access service or facility, or for receipts reserved by law, or as authorized by law, for expenditure for a particular purpose.

No revolving fund expenditures shall be made for the purpose of paying any wages or salaries for full time employees unless the revolving fund is also charged for the costs of fringe benefits associated with the wages or salaries. This prohibition does not apply to wages r salaries paid to full or part-time employees who are employed as drivers providing transportation for public school students.

This fund has certain restrictions and other important provisions and authorizations must be reported on Schedule A-3 submitted with the Tax Rate Recap.

*Energy Revolving Loan Fund Receipts – [G.L. c. 44, 53E¾](#)*

If locally accepted, this law authorizes:

- a separate account to provide local energy loan programs,
- creates a special revenue fund for the borrowed monies; and
- provides for the loans to be treated as betterments and repaid over 20 years as part of the property owners' annual property tax bills. The loans are secured by municipal liens, which have priority over mortgages and other liens.

This fund has certain provisions such as the designation of a Fund Administrator and details certain responsibilities of the City or Town Treasurer.

*Enterprise Funds – [G.L. c. 44, 53F½](#) (see *UMAS chapter 12, [IGR 08-101](#), and *Municipal Accounting, this Manual*)**

An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are

segregated into a fund with financial statements separate from all other governmental activities.

Advantages of an enterprise fund include that it:

- identifies a total service cost;
- provides useful management information; and
- retains investment income and surplus.

This fund has certain restrictions and other important provisions and authorizations must be reported on Schedule A-2 submitted with the Tax Rate Recap and signed by the Accounting Officer.

*Revolving Fund for Outside Consultants – [G.L. c. 44, § 53G](#), [IGR 03-208](#)*

Zoning boards of appeal (or other special permit granting authorities designated by zoning by-laws or ordinances), planning boards, boards of health, and Conservation Commissions may impose reasonable fees for the employment of outside consultants to be deposited in a special account kept separate by the city or town Treasurer from other monies.

This special account has certain expenditure and return of excess provisions indicated in the law.

The City or Town Accountant must:

- submit an annual report of the fund in a town to the Town Administrator or Town Manager and to the Selectmen and in a city to the Mayor or City Manager and to the City Council;
- publish the report in the city or town Annual Report; and
- annually submit a copy of said Report to the Director of the Bureau of Accounts.

The financial activity with respect to this fund must be reported to the Director of Accounts as part of Schedule A.

*Accounts of Gas and Electric Plant Subject to Inspection by City Auditor or Selectmen – [G.L. c. 164, § 56](#)*

All accounts rendered to or kept in the gas or electric plant of any city shall be subject to the inspection of the City Auditor or officer having similar duties, and in towns they shall be subject to the inspection of the Selectmen.

The Auditor or officer having similar duties in cities, and the Selectmen in towns, shall approve the payment of all bills or payrolls of such plants before they are paid by the Treasurer, and may disallow and refuse to approve for payment, in whole or in part, any claim as fraudulent, unlawful or excessive; and in that case the auditor or officer having similar duties, or the Selectmen, shall file with the city or town Treasurer a written statement of the reasons for the refusal; and the Treasurer shall not pay any claim or bill so disallowed.

This section shall not abridge the powers conferred on Town Accountants by sections fifty-five to sixty-one, inclusive, of chapter forty-one.

## **Notifications**

### *Borrowing in Anticipation of State Aid – [G.L. c. 44, § 6A](#)*

When borrowing in anticipation of a State grant the purpose for which may be borrowed over a term of 5 years or longer and for which reimbursement has already been agreed to by the State, the Auditor, Accountant, or if no such officer the Treasurer, must certify in writing that the city, town or district remains entitled to receive a reimbursement at least to an amount equal to the refunding loan. The proceeds are applied to discharge the loan without appropriation.

If the entity is no longer entitled to reimbursement, the loan can no longer be refunded, must be paid, and the payment reported by the Auditor, Accountant or Treasurer to the Assessors who shall add the amount to the next Tax Rate Recap, if not otherwise provided for.

### *Certain Rebates to the Federal Government – [G.L. c. 44, § 53H](#)*

A city, town, special purpose district, regional refuse disposal district and regional school district issuing bonds or notes may rebate to the federal government without appropriation any amount deemed necessary by officers authorized to issue bonds and notes to have interest paid on the bonds and notes excluded in whole or in part from gross income for federal income tax purposes.

The payment is reported by the Auditor or Accountant of the city or town or other officer having similar duties or by the Treasurer, if there is no such officer, to the Assessors,

who shall include the amount so reported in the determination of the next annual tax rate, unless the city, town or district has otherwise made provisions therefor.

The amount of such payment made by a regional school district or regional refuse disposal district shall be included in the next annual district operation and maintenance budget, unless the regional district committee has otherwise made provisions therefor.

The purpose of this section is to allow payment to the federal government for an arbitrage penalty imposed upon the city, town or district.

#### *Qualified Bonds – [G.L. c. 44A, § 10](#)*

The Qualified Bond Act, G.L. chapter 44A, allows cities, towns and regional school districts to issue general obligation bonds with the State intercepting and paying the debt service directly from the governmental entity's State aid to the paying agent for the qualified bonds.

To apply for qualified bond status, the local governmental entity must:

- submit an application for approval by the Municipal Finance Oversight Board (see *Borrowing, MFOB, this Manual*); and
- still appropriate or otherwise raise by taxation the principal and interest amounts maturing and becoming due on qualified bonds for a particular fiscal year.

The state Treasurer certifies to the City Auditor or Town Accountant, or officer having similar duties in a city or town, or to the Treasurer of the regional school district, as the case may be, and the amounts withheld are credited to the appropriation for the current fiscal year. The withheld State aid is not a reduction to the amount of State aid reported on the annual Cherry Sheet.

#### *Notification of Abatements Granted by Assessors – [G.L. c.59, § 23B](#)*

The Assessors shall notify as often as once a month the Auditor, Accountant if any otherwise the Treasurer, of the amounts of abatements.

#### *Notification of Abatements Granted by Other Entities – [G.L. c. 59, § 70A](#)*

Whenever abatements of any tax, assessment, rate or charge or any interest thereon or costs relative thereto are granted, notice by the entity granting the abatement must notify the Collector and Auditor, Accountant or similar official.

*Articles and Materials Produced by Prisoners – [G.L. c. 127, § 57](#)*

In January, the Commissioner of Correction shall send to the Auditor and Treasurer of each city and town a list of articles and materials that can be produced by prisoners for use in the city or town. The Purchasing Agent of the city or town or where there is no such agent, the officer in charge of the office where the articles or materials are needed, makes requisition to the Commissioner. The law includes other details regarding the Commissioner's process.

***Retirement System***

*Board Management – [G.L. c. 32, § 20\(4b\)](#)*

The retirement system of a city or town shall be managed by a Retirement Board consisting of 5 members, the City Auditor or Town Accountant or other officer having similar powers and duties shall be a member ex officio.

*Board Management Option – [G.L. c. 32, § 20\(4c\)](#)*

As a local option to sub-paragraph (4b) with proper approvals as indicated in this section, the Retirement Board shall consist of 5 members. In this case, however, the City Auditor or Town Accountant is not a member ex officio.

*Board Compensation – [G.L. c. 32, § 20\(4d\)](#)*

Nothing in this paragraph shall prevent any City Auditor, Town Accountant or other officer having similar powers and duties, or any other person who serves in the active administration of the system in lieu of the City Auditor, Town Accountant or other officer having similar powers and duties, from being compensated for services rendered in the active administration of the system; provided, that the compensation for such services shall be not less than \$200 nor more than \$1,500 per annum, and shall be payable from the expense fund of the system.

*Board Compensation Option – [G.L. c. 32, § 20\(4d 1/2\)](#)*

As a local option to subparagraph (4d), in accepting this paragraph, nothing shall prevent the City Auditor, Town Accountant or other officer having similar powers and duties or any other person who serves in the active administration of the system in lieu of the City Auditor, Town Accountant or other officer having similar powers and duties being compensated for services rendered in the active administration of the system; provided, that the compensation for such services shall be not less than \$200 nor more than \$3,000 per annum, and shall be payable from the expense fund of the system.

## Municipal Expenditures: Proper Public Purposes

When reviewing and approving expenditures, Accounting Officers must be aware of the types of expenditures that are allowed and those that are prohibited under the law. The authority for cities and towns to spend money arises under [Section 5 of M.G.L. Ch. 40](#):

“A town may at any town meeting appropriate money for the exercise of any of its corporate powers; provided, however, that a town shall not appropriate or expend money for any purpose, on any terms, or under any conditions inconsistent with any applicable provision of any general or special law.”

The following article is often referred to when deciding which expenditures should be considered allowable.

*Municipal Expenditures: Proper Public Purposes  
by Mary Mitchell, Esq. (retired) – Municipal Finance Law Bureau  
(from DLS’ City and Town November 19, 2015 – detailed footnotes are in  
the article. The article was originally published in the February 2006  
edition of City and Town and is frequently consulted and referenced in  
legal seminars sponsored by DLS)*

*Increasingly over the past few years, DLS legal and accounting staffs are asked if certain expenditures made by cities and towns are allowable. Many of these issues arise as the municipal accounting officer reviews departmental bills for payment. This article discusses the rules regarding the expenditure of public funds and makes recommendations for ensuring proper payment.*

### *Authority to Spend*

*The authority for cities and towns to spend money arises under [Section 5 of M.G.L. Ch. 40](#). That section provides that:*

*[a] town may at any town meeting appropriate money for the exercise of any of its corporate powers; provided, however, that a town shall not appropriate or expend money for any purpose, on any terms, or under any conditions inconsistent with any applicable provisions of any general or special law.*

*Cities and towns are free to exercise any power or function, except those denied to them by their own charters or reserved to the state, that the Legislature has the power to confer on them, as long as the exercise of*

*these powers is not inconsistent with the Constitution or laws enacted by the Legislature. In general, the properties and purposes for which cities and towns are authorized to spend are not specified, but rather include any necessary expenditures arising from the exercise of their powers or functions.*

#### *Public Purpose Limitation*

*Cities and towns can spend only for public purposes. Public funds cannot be used for private purposes. Thus, cities and towns have the right to spend money for any purpose where the public good will be served, but not where the expenditure of money is directly for the private benefit of certain individuals. The principle is expressed in the Massachusetts constitution and in numerous cases.*

*In some situations, however, the expenditure of public funds advances both public and private interests. In those situations, if the dominant motive for the expenditure is the public one, incidental private benefits will not invalidate the expenditure. If, however, the dominant motive is to promote a private purpose, the expenditure will be invalid even if incidentally some public purpose also is served.*

#### *Prohibitions Against Certain Expenditures*

*In addition to the general prohibitions against spending money for any purpose or under any conditions inconsistent with any general or special law, there are two other prohibitions on municipal spending:*

##### *1.) Anti-Aid Amendment*

*The first is a prohibition against the giving of money or property by a city or town to or in aid of any individual, association or corporation embarking upon any private enterprise. This prohibition is referred to as the Anti-Aid Amendment. It provides in pertinent part:*

*“No grant, appropriation or use of public money or property or loan of credit shall be made or authorized by the Commonwealth or any political subdivision thereof for the purpose of founding, maintaining or aiding any infirmary, hospital, institution, primary or secondary school, or charitable or religious undertaking which is not publically owned and under the exclusive control, order and supervision of public officers or public agents authorized by the Commonwealth.”*

*This amendment prohibits the use of public money or property by cities and towns for the purpose of maintaining or aiding any institution or charitable or religious undertaking that is not publically owned. The kinds*

*of expenditures barred by the amendment are those that directly and substantially benefit or “aid” private organizations in a way that is unfair, economically or politically.*

*The prohibition against using public funds for private organizations includes any grants, contributions or donations made by a city or town to an organization for the specified purpose of directly supporting or assisting its operations. However, the Anti-Aid Amendment does not preclude a city or town from purchasing specific services from private organizations in order to carry out a public purpose. Further, as with the public purpose limitation discussed above, if an expenditure is for a public purpose, but also incidentally benefits a private organization, the expenditure generally will not violate the Anti-Aid Amendment.*

## *2.) Wines, Liquors, Cigars*

*In addition to the prohibition against the use of public funds for private organizations, there is also a prohibition against the use of public funds to purchase alcohol and tobacco under [Section 58 of M.G.L. Ch. 44](#).*

### *What Constitutes a Public Purpose?*

*The question of what constitutes a permissible “public purpose” has been discussed in many cases. The cases “do not, however, establish any universal test.” Instead, they generally stress the certainty of benefits to the community. Thus, the basic test is whether the expenditure is required for the general good of the inhabitants of the city or town.*

*Generally speaking, local government spending for the following purposes satisfies the public purpose test:*

- Wages and Benefits - Cities and towns have the right to spend reasonable amounts to execute their powers and duties. This right includes the right to compensate people for services rendered. Compensation for services may include sick leave and vacations. Cities and towns also have the right to settle employment and other claims that may be made upon them arising out of their administration of their municipal affairs.*
- Merit Awards - Cities and towns may spend reasonable amounts on awards for students. Cities and towns may also spend reasonable amounts on retirement gifts, plaques, merit service payments and other similar awards for municipal employees and officials. The expenditure of public money in recognition of services rendered, even though such expenditure of money is directly for the private benefit of certain individuals, is a public purpose where the benefit is conferred as an appropriate recognition of distinguished and exceptional service,*

*such that the public welfare will be enhanced or the loyalty and productivity of the other employees will be promoted.*

*By contrast, local government spending for these purposes does not satisfy the public purpose test:*

- *Gifts and Gratuities - Since public money can only be expended for public purposes, cities and towns have no power to appropriate money for gifts or gratuities to persons whose situations may appeal to public sympathy.*
- *Lobbying - Cities and towns cannot spend money to influence elections.*

#### *Frequently Asked Questions*

*We are asked frequently whether the following expenditures are for public purposes and may be paid:*

- *Alcohol purchased by a department to be served at a fundraiser or for compliance testing.*

*The language of [M.G.L. Ch. 44, § 58](#) is prohibitive. It reflects an explicit Legislative disapproval of spending municipal resources for alcoholic beverages and cigarettes. We have advised, however, that they can be purchased for the limited purpose of compliance testing for law enforcement or public health purposes. For example, local officials may stage purchases of alcohol or cigarettes by minors from local stores using money for anti-smoking or under-age drinking campaigns. We think those expenditures would not be prohibited because they are not for consumption but to ensure compliance with local regulations and state statutes.*

- *Floral arrangements for funerals of municipal employees.*

*Funeral flowers, sympathy cards and other expenses for the customary expression of sentiments that are incidental to the social relationships that employees develop during work are not expenses made for public purposes. Those expenses are not within a municipal department's budget simply because the relationships developed in conjunction with the conduct of departmental business. Therefore, it is not appropriate to pay for funeral flowers or sympathy cards out of municipal funds. They should be covered from private donations.*

- *Plaques and gifts awarded to persons from municipal government or to current employees for outstanding performance during the year.*

*Retirement gifts, plaques, merit payments and other similar awards given to retirees or employees may be considered a proper purpose for the expenditure of municipal funds if they are not excessive and are used to (i) encourage continuity of service or to (ii) enhance efficiency and loyalty or to (iii) promote productive performance. Similarly, appreciation gifts to volunteers and unpaid interns may also be considered a proper municipal expenditure if the purpose is to promote volunteerism and they are in token amounts. The expense of holding a retirement party should be covered from private donations because it is mostly an expression of support and appreciation from colleagues. However, paying for the cost of dinner for the retiree would be appropriate. By contrast, paying for the dinners, gifts or party expenses for any attendees other than the retiree would generally be considered a mere gratuity and not for a proper municipal purpose.*

- *Refreshments at public functions, such as a ribbon-cutting ceremony, an opening day, a reception or banquet or a presentation.*

*Refreshments and meals may be served at legitimate public functions such as ribbon-cutting ceremonies, opening day events, receptions or banquets, presentations, and the like so long as they are modest and served to provide a benefit for the city or town by helping to keep participants alert and receptive. The public functions must be a department sponsored public event for authorized persons and related to the public purpose of the department sponsoring it. If the function is open only to select groups or individuals, or spouses are in attendance, it is more likely to be considered a private celebration of primarily a social character.*

- *Refreshments served to employees, such as coffee made available at a staff meeting or light refreshments provided to election workers or lunch served at an all-day training program or planning meeting.*

*Refreshments and meals may be served to officers or employees of the city or town or persons doing business with the municipality at official meetings or official events so long as they are modest and benefit the city or town by helping to keep the participants alert and receptive or by enhancing efficiency by avoiding loss of time and disruption if participants leave the premises. The official meeting or event must be a department or municipal sponsored meeting or event for authorized persons and related to the public purpose of the sponsor.*

- *Reimbursement of a department head for attending retirement or department dinners or parties or for attending other events not sponsored by the department or municipality.*

*Employees and officials may be reimbursed for the expenses of attending functions that relate to their public duties. The function must relate to and further the public purpose of the department sponsoring it. If a department head incurs an expense in the performance of official duties in the representation of his or her department, the expense is reimbursable. Thus, the cost of a department head's attendance at a retirement dinner or department party at which he or she is the official presenter of token gifts or awards, as a representative of his or her department, would be a legitimate municipal expense. If the event is arranged and funded by department employees or others, and attendance is optional, then the event would seem to be social and for private purposes rather than for public ones. In addition, if the event is outside the municipality and not related to the department of the community, the use of municipal funds would not be appropriate.*

- *Reimbursement of purchases or expenses incurred during authorized travel or while engaged in authorized business.*

*Employees who are out-of-town or working late on business or attending training programs or conferences on behalf of the city or town may be reimbursed for out-of-pocket costs of travel, meals, and other purchases incurred in furtherance of that objective and as a term or condition of employment. These types of expenses are permissible municipal expenses, provided that attendance is authorized by the municipal official or board with the authority to expend department funds. Included within the realm of reimbursable expenses are (i) registration charges, including late fees; (ii) local surcharges and taxes on car rentals; (iii) taxes and tip on meals; and (iv) taxes on petty cash purchases, so long as these expenses are reasonable and not in conflict with the reimbursement policies of the city or town. Late registration fees are considered to be part of the contract price for the training program or conference. Similarly, surcharges, taxes and tips are a necessary and customary part of legitimate expenses incurred by employees in the course of their employment.*

- *Payment of expenses associated with fundraising for departments, e.g. mailings, seeking donations or door prizes and refreshments at a fundraising event.*

*Municipal departments like the Parks and Recreation Department, the Library, the Historic Commission, or the schools may want to raise money for a particular project. Generally, solicitations for donations or financial support from private individuals or businesses must be conducted in accordance with [MGL c. 268A](#), the Conflict of Interest Law. In that regard, the State Ethics Commission has issued Advisory Opinion [EC-COI-12-1](#),*

*which provides guidance on fundraising by municipal employees. We suggest that you consult with your municipal counsel for advice before proceeding with fundraising.*

*Fundraising activities that go beyond applying for grants or soliciting donations and involve expending municipal funds or receiving funds in exchange for goods are more problematic. For example, if the Recreation Department wants to sell T-shirts as a fundraiser, then it would need an appropriation from which to purchase the T-shirts and proceeds from the sale would be general fund revenue, which could not be spent without an appropriation. Arguably, such a transaction is more in the nature of a profit on a business transaction than a donation. We believe the better practice in such a case is to have a private entity, such as a “friends” group, sponsor and conduct the fundraising event and turn over the net proceeds to the municipal department as a grant or gift under [MGL c. 40, s. 53A](#). Under section 53A, the funds are held by the treasurer in a separate gift account and may be spent by the department for the purposes of the gift without appropriation upon the approval of the board of selectmen, or the city manager and city council, or the mayor and city council, as appropriate.*

*An additional issue arises when municipal resources are used to assist a private group’s fundraising activities even if the activities will benefit the municipality. Pursuant to the Anti-Aid Amendment, public funds may not be used to assist a private organization’s fundraising activities, no matter how worthy or related the cause. For example, the school department cannot pay to print and mail a flyer by a Parent-Teachers Organization to promote a car wash it is holding to raise monies for the schools. Sharing the expenses of a community event co-sponsored by a municipal department and private organization also raises Anti-Aid Amendment issues because the event is not under the exclusive control of public officers.*

### *Conclusion*

*DLS strongly recommends that municipalities develop clear written policies or guidelines, preferably by bylaw or ordinance, about allowable expenditures. For example, to ensure the municipality receives the maximum benefit from its sales tax exemption, there should be clear standards about when department employees can purchase necessary supplies or materials and be reimbursed. Travel expenses are often set out in collective bargaining agreements, but the municipality should also adopt a policy to cover travel expenses for non-union employees. DLS also recommends that standards be established for merit awards, food or fundraising expenses. Finally, DLS recommends that accounting officers advise managers and employees at the beginning of each fiscal year of*

*the municipality's policies. This will help to avoid uncertainty or disagreements about whether certain expenditures are permissible and payable.*

## Checklist for Processing Bills

- Determine if the correct appropriation is being charged.
- Determine whether the appropriation balance has sufficient funds to cover the proposed expenditure.
- If there is centralized purchasing, determine whether the requisition and purchase order have proper authorization and approvals are attached to the invoices.
- Determine whether the proposed expenditure complies with applicable bid-laws [40:4b] or [40:4g] and by-laws.
- Determine whether goods and services have been received by a department or whether an encumbrance of funds is necessary (check for signature or initials of person who received the goods).
- Determine whether the department head or person in charge of appropriation has approved the expenditure.
- Check the invoices for discounts allowed.
- Determine that sales tax has not been added.
- Check invoice for mathematical accuracy.
- Trace invoice total to bill payable prepared to determine whether appropriate supporting documentation exists.
- Check the mathematical accuracy of the bill payment schedule.
- Check bill payable for appropriate department head approval.
- Do not accept statements for processing without supporting documentation (invoices).
- Cancel invoices to prevent re-use.
- Mark or initial invoices and bill payable after they have been reviewed.

## Checklist for Processing Payrolls

- Determine whether the person on the payroll is a duly qualified employee of your municipality.
- Determine whether the payroll has been prepared using appropriate salary and wage schedules.
- Check payroll calculation for mathematical accuracy.
- Determine whether the appropriation has adequate funds to cover the proposed payroll.
- Check the payroll for appropriate department head approval and employee sign-off (i.e. time sheets).
- Determine whether an encumbrance of funds is necessary

## Example – General Expense Reimbursement Process

In order for the Accounting Department to initiate and produce checks to pay obligations of the town, proper documentation must be submitted.

- 1) When goods are purchased by a town employee on behalf of the town, the Expenditure Reimbursement Form must be completed.
- 2) Employees are paid through accounts payable for reimbursement of expenses only. Payment for any type of service from an employee must go through the payroll.
- 3) Mileage reimbursement must be detailed on a Travel Reimbursement Form describing each destination and the number of miles.
- 4) Reimbursements should be made only when the amount being paid could not be put on a warrant and paid directly to the vendor. Be aware of the dates of workshops and membership dues so that there is time to pay them through the warrant process to avoid individuals paying out-of-pocket unless absolutely necessary.
- 5) The Travel and meal reimbursement guidelines included in these procedures are established by the Town Manager and revised from time to time.

## Example – Employee Expense Reimbursement Procedure

- 1) Employees must complete the Expenditure Reimbursement Form to be reimbursed for out of pocket expenses. Include the date of payment, to whom the payment was made, the purpose of the expenditure and the amount.
- 2) Original invoices or sales slips must be attached to avoid duplicate payment at a later date.
- 3) Employees should use the town's tax-exempt number when making purchases for the town so that sales tax will not be charged.
- 4) Seminar and conference reimbursements must be accompanied by the brochure, invitation or some portion of paperwork showing the conference description, cost

and person(s) attending. Also, a copy of a canceled check, front and back, a paid receipt with the company name and amount, a charge card receipt or certificate of completion must be submitted to evidence payment in full and/or acknowledge attendance.

- 5) Postage reimbursement must be accompanied by the Expenditure Reimbursement form and include a description of the mailing and the postal receipt.
- 6) The employee's supervisor should sign off on the Expenditure Reimbursement Form. All receipts, including clothing allowance receipts should be reviewed by the supervisor to be sure they are work related.
- 7) Mileage reimbursement must be detailed on a Travel Reimbursement Form describing each destination and the number of miles.
- 8) Include these documents on a bill schedule and submit for payment through the regular invoice payment process.

## Chapter 3 - Municipal Accounting Basics and System Records

A municipal accounting system should:

- provide accurate, current and complete disclosure of the financial position and results of operations for each entity;
- organize and provide structure for financial transactions being recorded so that meaningful information can be generated to provide a basis or benchmark for comparability and management's decision-making process; and
- provide control and compliance with standards established by the Director of Accounts and legal requirements as prescribed by Massachusetts General Laws.

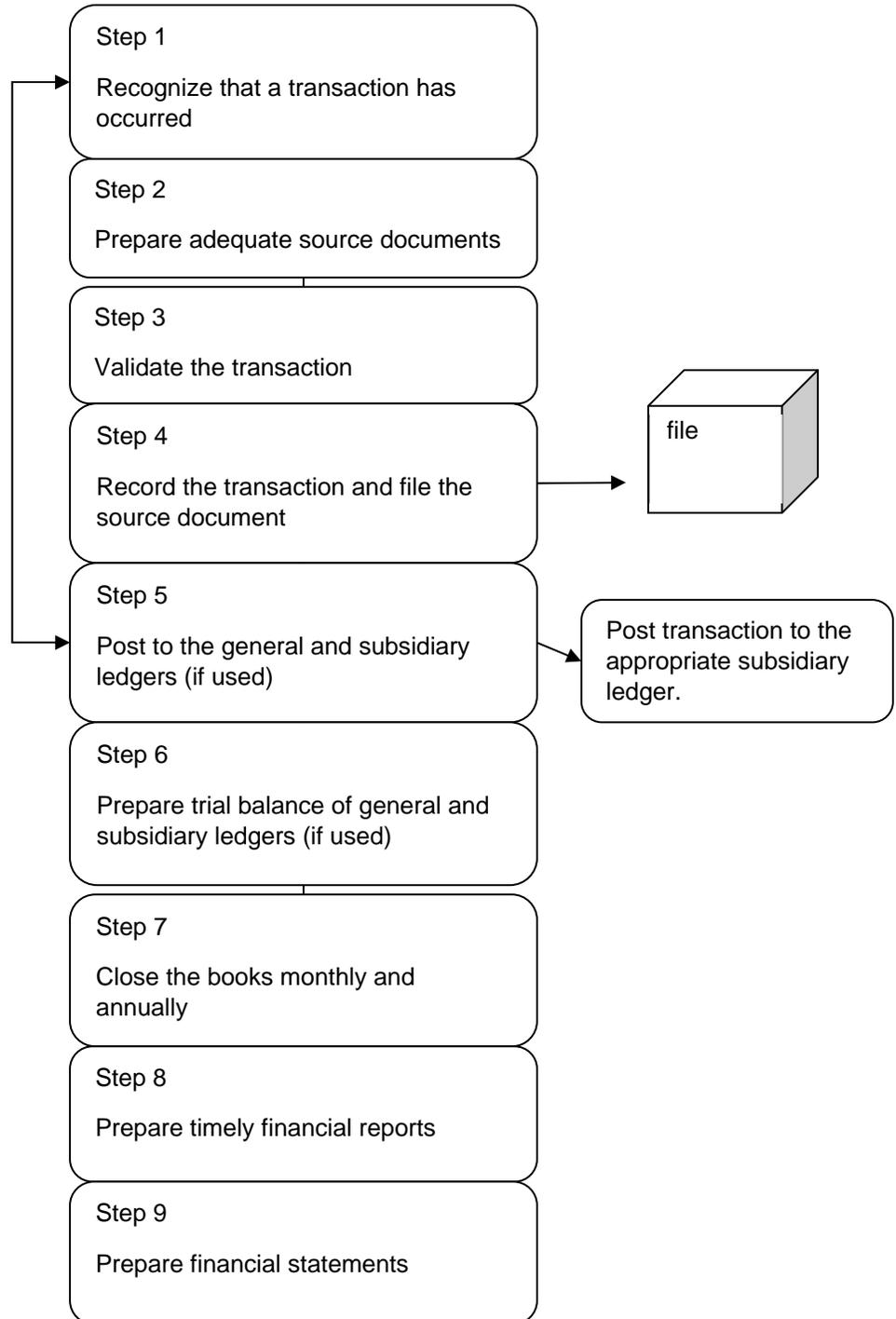
[G.L. c. 44, § 38](#) requires the Director of Accounts in the Department of Revenue to prescribe uniform accounting systems for local governmental entities.

A municipal accounting system must demonstrate:

- compliance with legally related financial matters;
- compliance with the Uniform Massachusetts Accounting System (UMAS); and
- compliance with the Department of Elementary and Secondary Education (DESE).

## Accounting Basics

This section provides a brief review of fundamental accounting procedures and accounting system requirements.



1) *Recognize that a transaction has occurred*

Usually this step is self-evident; however, the responsible Accounting official must be alert to subtle changes in accounts. For example, interest on savings accounts must be updated.

2) *Prepare adequate source documents*

"Accounting trails" documentation of a transaction from its inception through completion, including means for reporting of the transaction in the financial statement, must be provided. Original source documents are important objective evidence that each transaction has occurred. They are of equal importance in a computerized accounting system. Typical source documents include receiving reports, canceled checks, vendor invoices, timecards, and correspondence of all types.

3) *Validate the transaction*

Verification that the transaction was appropriately recorded from the source document is a basic audit function for the Accounting Officer.

4) *Record the transaction and file the source document*

The transaction should be entered in the appropriate journal (or "book of original entry"). Generally, transactions are recorded chronologically, listing their debit and credit entries simultaneously. In more sophisticated accounting systems, there may be several journals to post (or equivalent computerized files posted) before the source document is properly filed to provide an accounting trail.

5) *Post to the general and subsidiary ledgers (if used)*

The posting process transfers data from journals into the ledgers. In the general ledger, transactions are classified according to accounts. The "cash" account, for example, summarizes all changes in cash. In order to limit the number of accounts in a general ledger, it is sometimes simpler to maintain a "control account" only, in which case a subsidiary ledger would be prepared in order to permit the classification and accumulation of more detailed information. The revenue control account is an example of a general ledger account for which there would be a supporting subsidiary ledger. "Personal property taxes" would be a particular revenue source which would be

separately accounted for in the revenue subsidiary ledger. Ledgers are the final place where transactions are recorded.

*6) Prepare a trial balance of the general and subsidiary ledgers (if used)*

This step ensures that the total of the debit balances in the ledger equals the total of the credit balances. The formal preparation lists each account on a work paper and enters the balance of the account in the debit or credit column as appropriate. When each account has been recorded, the total of the debits should be equal to the total of the credits. If this is not the case, the accounts are "out of balance" and it will be necessary to investigate and identify the source of the misposting.

Normally, a formal trial balance is prepared on a monthly basis for each fund which has had transactions recorded in it during that month.

The preparation of a formal trial balance at the close of each month prior to the preparation of financial reports should be required of the accounting department. Thus, before current appropriation balances are reported to various department heads or other financial information is disseminated, a trial balance should be taken to provide assurance that figures are accurate.

*7) Close books monthly and annually*

Prior to closing the books, the Accounting Officer should be sure that cash is reconciled to Treasurer's cash, and accounts receivables to the Collector's receivables on a monthly basis. (see *Cash and Cash Reconciliation and Accounts Receivable and Accounts Receivable Reconciliation, this Manual*).

After all of the transactions for a period have been recorded, it will be necessary to record period-end adjustments before financial reports are prepared. The Accounting Officer identifies necessary adjustments by reviewing records and supporting documents. Unpaid vendor invoices, or the GAAP accrual of interest income, are examples of possible adjustments. These adjustments must be recorded before preparing financial statements or the reporting will be incorrect.

See an example of year-end closing procedures at the end of this chapter.

### 8) *Prepare timely financial reports*

The objective of the accounting process is to produce a set of related reports to accurately summarize the financial position and operations of the local government unit. If this is not done promptly, the usefulness of the reports is lessened. Periodic financial reports include:

- monthly trial balances;
- monthly budget to actual revenue and expenditure reports;
- monthly reconciliations with Treasurer's cash;
- monthly accounts receivable reconciliations with the Collector;
- annual Statement of Indebtedness;
- annual Snow and Ice report; and
- year-end balance sheet checklist.

### 9) *Prepare financial statements*

Financial statements present the financial position and result of operations of the local government unit. There are two types of financial statements:

- combined balance sheet (UMAS) that is submitted to the Bureau of Accounts for free cash, retained earnings and excess & deficiency certification; and
- financial statements presented in accordance with Generally Accepted Accounting Principles (GAAP) that are audited by the independent auditor. These statements may be prepared with the assistance of the audit firm. The Accounting Officer, however, is fully responsible for the information in these reports, regardless of who prepared them.

### Accounting System Records

This section describes the components of a "model" financial accounting system recommended for normal financial management needs. Theoretically, only a general journal is needed to record all financial transactions. In reality, special journals and subsidiary ledgers are needed to reflect the growing complexity of local finances and show increasingly detailed, but useful levels of information.

Every accounting system has limitations and each unit of local government must therefore adopt a system which best meets its own needs and capabilities. The paragraphs below describe the most commonly used accounting records.

### *General Journal*

The general journal is the primary medium used for all original entries. It indicates the amounts to be debited or credited to the various accounts. This journal is often used to summarize transactions from other specialized journals. The following accounting entries are examples of those normally made in the general journal:

- opening the books and setting up the beginning trial balance;
- recording the annual budget;
- recording adjusting entries or corrections;
- recording transfers between accounts or between funds; and
- recording closing entries at year-end.

### *Cash Receipts Journal*

The cash receipts journal is used to record all cash received. For each cash receipt, a properly authorized written receipt should be provided to the individual making the payment by the employee who accepts the cash.

### *Cash Disbursement Journal*

The cash disbursement journal is used to record all cash disbursed for such purposes as acquisition of an asset, liquidation of a liability, refund of previously collected revenues, retirement of debt, and expenditures in the current year. All cash disbursements should be made by issuing properly approved warrants drawn on specific funds.

### *General Ledger*

The general ledger is the major component of most accounting systems. It permits recording transactions on a double-entry basis, either in detail or at a summary level. This record is generally supplemented with journals and subsidiary ledgers; however, the final record of assets, liabilities, revenues, and expenditures will be found in the general ledger.

Separate general ledgers are maintained for each fund. General ledger accounts often include control accounts with related subsidiary ledgers available for recording the individual detail transactions. For this reason, the general ledger control accounts must also be balanced to the totals of the various subsidiary accounts at month-end.

A general ledger trial balance should be prepared for each fund after monthly postings are completed and before financial statements are prepared. A trial balance is a list of

all the balances in the ledger accounts at the end of an accounting period. It is a check on the mathematical accuracy of the ledger balances. Since the debit and credit double entry accounting structure requires balancing debits and credits for each transaction, the sum of all debit balances must equal the sum of all credit balances.

Just as separate general ledgers should be maintained for each fund, separate trial balances should be completed at the end of each accounting period for each general ledger. A trial balance does not indicate the accuracy of the postings, only that account totals are in balance; therefore, periodic testing and verification routines should be performed.

### *Purchase Order Register*

A purchase order register may also be referred to as an "encumbrance journal" and is generally used by all municipalities employing a purchase order system as a part of their purchasing procedures. A purchase order is written evidence of an order placed with vendors or contractors by the local unit. The submission of a properly authorized and approved purchase order gives the vendor authority to ship the required goods and binds the unit for payment upon compliance with its terms.

The purchase order register has two functions:

1. It is a register in which purchase orders issued are recorded and monitored.
2. It serves as an encumbrance journal which allows setting aside (encumbering) certain resources to cover the impending future obligation to the vendor created by the purchase order.

The usefulness and importance of the first function is fairly evident. However, the second function can be of even greater importance in controlling expenditures and preventing over-expenditure of appropriations, particularly at year-end.

### *Revenue Ledger*

The revenue ledger is a subsidiary ledger in which estimated and actual revenues are recorded and monitored in detail. The ledger is used to make the following entries:

- estimated revenue;
- actual revenue received during the month, by type; and
- actual revenue received year-to-date, by type.

A separate ledger sheet should be maintained for each revenue source, except where

transactions against that account are so few that a separate sheet is inappropriate.

### *Expenditure Ledger*

The expenditure ledger may also be called the "appropriation ledger". In either case, this is a subsidiary ledger in which appropriations, encumbrances and expenditures are recorded and monitored. The ledger is used to make the following entries:

- appropriations;
- encumbrances on the appropriations;
- actual expenditures; and
- the balance of the appropriation available.

A separate ledger sheet should be maintained for each type of expenditure detailed in this ledger.

## Chapter 4 – Massachusetts Local Government Accounting

Massachusetts' cities and towns have maintained their accounting records in a manner prescribed by UMAS since the late nineteenth century. The Bureau of Accounts supplied cities and towns with standardized and uniform forms for the accounting system until the late 1970's. UMAS is one of, if not the oldest, statewide uniform municipal accounting systems in the country.

The original UMAS system was called the "statutory system" that basically used one fund to record all transactions that occur during the year. If the municipality was building a wastewater treatment facility funded by grants and long-term debt, these activities were accounted for along with normal annual operating expenses in the general ledger. While the Accounting Officer and the Treasurer may have been able to understand financial statements with these co-mingled activities, managers and other interested outside parties could not.

UMAS was revised in 1981 as a multi-fund accounting system based on generally accepted accounting principles (GAAP) for governmental units. UMAS was later revised to become the Uniform Massachusetts Accounting System and is the preferred accounting system for Massachusetts government entities including cities, towns, regional school districts, municipal school departments, and other districts such as fire, water and sewer districts.

Today, the purpose of the UMAS Manual is to provide a reference for the city, town or regional Accounting Officer for financial transactions and reporting results of municipal financial operations. The Manual is based on GAAP but is written to meet the specific needs of Massachusetts Accounting Officers.

[G.L. c. 44, § 38](#) requires the Director of Accounts to prescribe uniform accounting systems for local governmental entities. Accounting for municipally owned electric light plants is prescribed in [G.L. c. 164](#) and is regulated by the Department of Public Utilities; accounting for retirement systems is prescribed in [G.L. c. 32](#) and is regulated by the Public Employment Retirement Administration Commission (PERAC).

If the guidance in the UMAS Manual is followed, Accounting Officers will be able to prepare a UMAS Balance Sheet and a UMAS based Schedule A. Massachusetts local government Accounting Officers are encouraged to account for transactions in a uniform manner consistent with the UMAS Manual.

As the preferred accounting system for all entities in Massachusetts, UMAS requires basic financial information in order to complete required statements. At a minimum, cities and towns need to account for:

- fund;
- UMAS function;
- department; and
- object.

## The Uniform Massachusetts Accounting System (UMAS)

(Link to [Manual](#))

The UMAS Manual can be viewed and/or downloaded from the DLS website. The following section is adapted from the UMAS Manual.

The Manual assigns asset, liability and fund equity classification codes as well as for revenue and expenditure accounts. The Manual also includes budgetary entries and entries for the following funds and account groups:

### *General Fund (UMAS Chapter 9)*

The general fund is the largest and single most important fund of a local government. Most of a local government's revenue resources are accounted for in it and substantially all of the day-to-day departmental operating expenditures are financed and accounted for in it. The general fund should be used to account for and report all financial resources not accounted for and reported in another fund. The general fund is also used to maintain and demonstrate budgetary compliance and it is the source for the community's fund balance available for appropriation or "free cash".

### *Special Revenue Fund (UMAS, Chapter 10)*

Special revenue funds account for and report proceeds of specific revenue sources that are legally restricted to expenditure for specified operating purposes. Special revenue funds must be established by statute or may be established via guidance issued by the Director of Accounts.

A more detailed description of special revenue funds along with certain funds worthy of note is found in the Special Revenue Funds chapter of this Manual.

### *Capital Projects Fund (UMAS Chapter 11)*

The capital projects fund type accounts for and reports financial resources for capital projects, including the acquisition, construction or reconstruction of capital facilities, and other major capital assets used by the government. A capital projects fund is used for all projects and purchases which involve the use of borrowed funds.

### *Proprietary Fund (UMAS Chapter 12)*

Both Enterprise Funds and Internal Service Funds are Proprietary Fund types, i.e. services are provided for a charge in a manner similar to private business.

#### *Enterprise Funds [G.L. c. 44, § 53F½ \(IGR 08-101\)](#)*

An enterprise fund gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities.

Enterprise funds may be established for a utility, health care, recreational, transportation, energy generating or PEG access facility.

Similar to free cash in the general fund, retained earnings is a representation of unobligated enterprise fund cash which may be appropriated once certified by the Bureau of Accounts for further use by the governmental entity's legislative body. IGR 08-101 details the proper use of retained earnings.

Enterprise funds are allowed to charge indirect costs, i.e. costs appropriated usually in the General Fund but attributable to the Enterprise fund. To be approved for tax rate certification purposes, these indirect cost amounts must be reasonable in amount or otherwise explainable. Only the amount of indirect costs approved for tax rate certification purposes may be transferred from Enterprise fund revenues to the other fund by the close of the fiscal year.

In UMAS accounting, Enterprise funds need not be self-sufficient and may require a subsidy from another fund. The amount equal to the subsidy as voted for tax rate certification purposes must be transferred to the Enterprise Fund during the fiscal year.

#### *Internal Service Funds*

Internal service funds are funds that are used to report an activity that provides from a central source goods and services to other funds, departments or agencies such as a self-insurance activity, motor vehicle pool or central supply office.

If full cost is not recovered by fees and charges, that is, they are financed by a separate appropriation, the use of an internal service fund would not be appropriate. In this case, these functions will probably be included as part of general government.

#### *Permanent and Fiduciary Funds (UMAS Chapter 13)*

Massachusetts governments have historically classified fiduciary funds as follows:

- Expendable trust funds, where the interest and principal may be expended consistent with the trust indenture;
- Non-expendable trust funds, where the interest only may be expended consistent with the trust indenture;
- Agency funds, where the government is acting as an agent for the funds.

Subsequent to GASB 34, expendable and non-expendable funds have been re-classified as permanent or private purpose fund types. Agency funds remain unchanged.

#### *Permanent Funds*

In these funds, the principal is legally restricted and only the earnings can be used to support governmental activities such as in a Cemetery Perpetual Care fund. For cemetery funds, the choice of investments is left to the donor or if the donor has not stipulated, the Cemetery Commissioners. These funds are similar to the

former non-expendable trust funds where the beneficiary is the government itself.

#### *Private Purpose Funds*

Private purpose trust funds are fiduciary funds that benefit an individual rather than the government as a whole (such as a Scholarship fund), a private entity or another government.

#### *Other Trust Funds*

Trust funds where the beneficiary is the government and no portion of the fund is restricted. For GAAP reporting, these funds are classified as Special Revenue Funds.

#### *Other Fiduciary Fund Types*

Other fiduciary fund types include Investment Trust Funds, Pension (and other employee Benefit Fund types and Agency Funds). Investment Trust funds are seldom used by Massachusetts local governments. Pension Funds include system trusts and Internal Revenue Code section 457 deferred compensation plans. Other Postemployment Benefit (OPEB) trusts are also reported here.

#### *Agency Fund*

An agency fund accounts for assets held by the governmental unit as an agent for other private or governmental units. These funds can include federal and state tax withholdings, retirement contributions, group life and health insurance, annuities and deferred Income, other salary deductions, and police detail collections.

#### *GFAAG and GLTOAG (UMAS Chapter 15)*

Although abolished by GASB 34 for GAAP purposes, UMAS has retained the general fixed assets account group (GFAAG) and the general long-term obligations account group (GLTOAG) to maintain the record of assets and long-term obligations within the general ledger.

All assets and long-term obligations for governmental funds and proprietary funds should be accounted for in these groups. Assets and

long-term obligations for proprietary funds and certain fiduciary funds are accounted for in the GFAAG and GLTOAG for UMAS and are reported (for GAAP financial reporting purposes) in the specific fund with which they are associated. Due to the need to reallocate these funds for GAAP financial reporting, they should be segregated and easy to identify in the GLTOAG.

Each of these Account Groups consists of self-balancing accounts designed to maintain a condensed record of the more detailed records maintained outside of the general ledger system.

## Accounting for Fixed Assets

Prior to the implementation of GASB 34, most local governments did not maintain detailed historical records of their fixed assets.

While generally accepted accounting principles have long required inclusion of fixed assets in financial statements, prior to the implementation of GASB 34, no more than ten Massachusetts cities and towns complied with this requirement; audit opinions of all the others were “qualified” for failure to account for fixed assets.

Local governments are required to record material capital assets at depreciated historical cost in the full-accrual based Government-Wide financial statements and in the full-accrual based Enterprise Fund financial statements.

Each community should have a policy on its capital asset management control system.

For financial reporting in accordance with GAAP, the minimum requirement is to capitalize all “major” infrastructure assets and 80% of the value of all non-infrastructure assets. If the government’s objective is only to control its capital asset inventory for financial reporting purposes, then the minimum requirements are acceptable. This policy decision will result in higher Capital Asset thresholds and not require the government to count assets that do not meet the capitalization thresholds.

Governments may wish to implement a more extensive capital asset inventory system. In this case, the policy should be specific to the thresholds that they wish to use. Although this method provides the government with a greater degree of control over all of its assets, it will also require more time and resources. This policy decision does not mean that all items counted must be valued and depreciated, it only means that all Capital Assets will be counted.

Most communities account for capital assets in a system outside of the general ledger. This can be done through a third-party software system. The additions to capital assets should tie directly into expenditures in the general ledger unless they were gifted or granted to the municipality. Depreciation is typically calculated on a straight-line basis and the estimated useful life of each asset class should be documented in the policy. The community must have a process to verify that assets exist annually by confirming the capital asset listing with each department. Deletions should be recorded in the capital asset system. The policy should also define a process for deleting infrastructure assets in a systematic and consistent manner.

#### Appropriation Transfers ([G.L. c. 44, § 33B](#))

[IGR 17-13](#) explains a process by which cities and towns may make end of year transfers in order to avoid appropriation deficits. These transfers apply for the last two months of the fiscal year, i.e., May and June, and the first 15 days of July, which is the statutory period for closing the municipality's financial records for the fiscal year under [G.L. c. 44, §§ 56](#) and [56A](#).

During the months of May and June as well as for the first 15 days in July, the Board of Selectmen (with agreement of the Finance Committee) or City Council (upon recommendation of the Mayor) may transfer any departmental appropriation to another appropriation within the same or other department. This procedure may not be used, however, to transfer from a municipal light or school department budget.

For a town, an end of year transfer using this alternative procedure requires a majority vote of the Board of Selectmen and a majority vote of the Finance Committee. Any end of year transfer from the light or school department requires Town Meeting approval.

For a city, an end of year transfer using this alternative procedure requires only a majority vote of the City Council. Any end of year transfer from the light or school department, requires approval under the applicable general transfer procedure.

## Year-End Closing Procedures

The following is a listing of procedures that the Accounting Officer will find helpful at fiscal year-end. Additional procedures may be required for particular entities.

- Notify departments of cut-off date for submission of bills;
- Notify departments of late date for submitting a list of bills remaining unpaid and amounts to be encumbered;
- Be certain that all town meeting votes from available funds are recorded;
- Prepare pre-closing trial balance;
- Request update from Treasurer if interest was earned on trust funds;
- Request update from Treasurer of grant reimbursements;
- Reconcile outstanding receivables with Collector and other departments that are responsible for receivables, i.e. water, sewer, etc.;
- Reconcile cash with the Treasurer;
- Reconcile Overlay balances with the Assessors;
- Reconcile payroll withholding balances with Treasurer's records;
- Reconcile payables with supporting documentation;
- Reconcile all receivables with offsetting revenues;
- Reconcile subsidiary ledgers/classification books with general ledger;
- Analyze subsidiary revenue and appropriation ledgers and compare with budgeted amounts to determine if deficits exist;
- Analyze fund equity accounts to determine what adjustments are necessary;
- Review loans authorized and loans authorized unissued;
- Review UMAS Manual and prepare adjusting entries;
- Review UMAS Manual and prepare closing entries;
- Prepare post-closing trial balance;
- Prepare balance sheet including all funds, general, special revenue, debt, trust, etc.;
- Prepare Schedule A;
- Prepare reports for Auditors;
- Notify Assessors by August 1 of the total receipts of the preceding fiscal year, excluding taxes, loans and trust funds;
- Notify Assessors of any snow and ice overdrafts;
- Notify Assessors of payment of final judgments not provided for;
- Notify Assessors of any Overlay, appropriation or revenue deficits;
- Prepare a statement of preceding fiscal year appropriations and expenditures;
- Prepare a statement of change in town debt and a list of debt incurred and unpaid.

## Chapter 5 – Restricted Funds

Restricted Funds include all funds required to be accounted for outside of the general fund or trust funds. Accounting Officers should be aware of the statutory requirements of any funds accounted for as restricted.

Restricted Funds are the subject of Chapters 10 – 13 and Appendix I in the UMAS Manual (Appendix I, List of Funds, is included in this chapter). The resources accounted for in restricted funds include:

- special revenue funds;
- capital projects funds;
- enterprise funds;
- internal service funds; and
- pension and other post-employment benefits funds.

These funds are also reported in Parts III – VII of Schedule A.

Funds not authorized by either law or Director of Accounts' guidance cannot be reserved despite being adopted locally. Funds reserved but not properly authorized must follow the Director of Accounts' guidance.

Local option laws may require a ballot to enact them, may require approval by the executive and/or legislative body and may require approval of another local body (i.e. School Committee). Be sure to understand from which of these bodies action is required for proper enactment of a local option law. For any further guidance on specific questions, please contact the Bureau of Accounts directly.

The following restricted funds are presented in further detail in this chapter:

Name	Statutory Reference
Circuit Breaker	c.71B, § 5A
Community Preservation Fund	c. 44B
Conservation Fund	c.40, § 8C
Health Claims Trust Fund	c.32, § 3A
Other Post-Employment Benefits (OPEB) Fund	c.32, § 20
Overlay Surplus	c.59, § 25
Pension Reserve Fund	c.40, § 5D
Reserve Fund	c.40, § 6
Scholarship, Education, and Low Income Elderly or Disabled Persons Fund	c.60, §§ 3C, 3D
School Choice	c.76, § 12B
Stabilization Fund	c.40, § 5B, c. 71, § 16G 1/2
Student Activity Accounts	c.71, § 47
Unemployment Compensation Fund	c.40, § 5E

*Circuit Breaker* ([G.L. c. 71B, § 5A](#))

This special education reimbursement program provides additional state funding to school districts and charter schools for eligible instructional costs associated with high-cost special education students.

Reimbursements are based on the previous year's per pupil instructional costs. Each summer, districts submit claim forms to the Department of Elementary and Secondary Education listing the types and amounts of special education instructional services provided to each student during the previous fiscal year.

Payments are made to districts on a quarterly basis. Each quarterly payment is 25 per cent of the estimated reimbursements for the previous year's submissions and is subject to appropriation.

In addition to the regular circuit breaker reimbursements, the "extraordinary relief" program provides up to \$5 million to help districts experiencing a significant increase in their special education costs. Under this program, districts may file an additional claim form in February for the current year's estimated expenses. If the expenses have increased by 25 percent or more over the prior fiscal year, then the district will be eligible for an additional extraordinary relief payment to help fund the increase.

Circuit breaker reimbursements should be deposited into a special education reimbursement account within the special revenue fund. These funds may be expended by the school committee in the year received or in the following fiscal year for any special education related purposes, without further appropriation.

Detailed information on the Circuit Breaker program is available on the [DESE website](#).

#### *Community Preservation Fund ([G.L. c. 44B](#))*

This fund gives communities that adopt the law a dedicated funding source to expand certain community assets: open space, historic resources, recreational land and community housing.

Communities adopting the Community Preservation Act (CPA) impose not more than 3% of the tax levy against real property, and this additional amount is collected on tax bills above the limits of Prop 2½.

Adopting the CPA allows cities and towns to receive a contribution from the State Community Preservation Trust Fund. Each adopting community appoints a local Community Preservation Committee which recommends projects to the community's legislative body. The law requires that at least 10% of revenues be allocated to each CPA purpose.

CPA-related forms (CP-1, CP-2 and CP-3) each must be completed and submitted to the Department of Revenue annually by communities that have adopted the CPA. In addition to instructions provided by the Department of Revenue, the [Community Preservation Coalition](#) provides technical assistance related to the reporting requirements.

#### *Conservation Fund ([G.L. c. 40, § 8C](#))*

By local option a city or town may establish a Conservation Commission for the promotion and development of the natural resources and for the protection of the community's watershed resources. The City Council or Town Meeting may raise or transfer funds to the Commission for purchase or lease of such land, water rights, conservation restrictions or easements as may be necessary to protect open spaces in land and water areas.

*Health Claims Trust Fund ([G.L. c. 32B, § 3A](#))*

The Health Claims Trust Fund was established in order to pay the claims of eligible persons, including appropriate service charges.

Every city, town, county or other political subdivision that self-insures its group health plan under G.L. c. 32B, § 3A must have an annual audit of this fund which may be conducted as part of the subdivision's annual audit, but is required even if the subdivision is not required to have an annual audit under the Federal Single Audit Act.

If an annual audit is not required, the Selectmen, Commissioners or other executive authority should contact the Director of Accounts, who will promulgate pursuant to the law "agreed-upon procedures" for engagement of a Certified Public Accountant to perform the required work.

*Law Enforcement Trust Fund ([JGR 90-209](#))*

Law Enforcement Trust Funds may be expended for the purposes specified in the statute without the necessity of any further appropriation by a municipality's appropriating body.

The Law Enforcement Trust Fund established by [G.L. c. 94C, § 47](#), is composed of a portion of the proceeds from property seized from illegal drug related activities. The fund may specifically be used "to defray the costs of protracted investigations, to provide additional technical equipment or expertise, to provide matching funds to obtain federal grants or for such other law enforcement purposes as, the Chief of Police ... deems appropriate, but such funds shall not be considered a source of revenue to meet the operating needs of such department."

*Other Post-Employment Benefits or OPEB Fund ([G.L. c. 32B, § 20](#))*

This law authorizes an Other Post-Employment Benefits Liability Trust Fund. Prior to the law's enactment, special acts of this sort were passed by the State Legislature for some communities.

If accepted by cities, towns, districts (as defined under [G. L. c. 32B, § 2](#)) and municipal lighting plants, this law allows appropriated funds including interest to be credited to a special fund for the purpose of funding other post-employment benefits.

OPEBs are more fully discussed in the Pensions and Other Post-Employment Benefits chapter of this Manual

*Overlay Surplus* ([G.L. c. 59, § 25](#))

The Allowance for Abatements and Exemptions or Overlay is an annual account to cover anticipated abatements and exemptions of committed real and personal property taxes for that fiscal year. The Overlay amount is determined by the Board of Assessors and is raised on the Tax Rate Recap without appropriation. Excess Overlay is determined, certified and transferred by vote of the Assessors to a Fund Balance Reserved for Overlay Surplus (UMAS account 3220). Overlay Surplus may then be appropriated by the legislative body for any lawful purpose until the end of the fiscal year, i.e., June 30. Overlay Surplus not appropriated by year end is closed to the general fund's Undesignated Fund Balance (UMAS account 3590).

In determining the amount of any transfer, the Assessors must use the Overlay balances and property tax receivables that appear in the Accounting Officer's records. If there is a variance in the overlay balance between the Assessors' and Accounting Officer's records, the Assessors must use the lesser of the two amounts. If there is a variance in the property tax receivables between the Collector's and Accounting Officer's records, the Assessors must use the greater of the two amounts.

The Accounting Officer must verify that the amount voted by the Assessors is excess Overlay under ([G.L. c. 59, § 25](#)), otherwise the Assessors' action is not effective to the extent of that portion of the amount voted that is greater than the amount available.

*Pension Reserve Fund* ([G.L. c. 40, § 5D](#))

Cities, towns and districts as defined under [G.L. c. 40, § 1A](#) may appropriate funds into a Pension Reserve Fund. Funds for cities, towns and districts that participate in a county retirement system are governed by [G.L. c. 32, § 22](#).

A city, town or district's appropriation into this fund is for the purpose of offsetting the anticipated future cost of its contributory retirement system. The annual appropriation cannot exceed 5% of the previous fiscal year's tax levy and in the aggregate cannot exceed 10% of the city or town's Equalized Valuation under [G.L. c. 44, § 1](#). Interest remains as part of the fund.

The funds are invested by the Treasurer according to [G.L. c. 40, § 5D](#) and may be appropriated by majority vote at an Annual Town Meeting in a town, by majority vote at

an Annual District Meeting in a district and by a majority vote of the City Council in a city for pension purposes. Any appropriation from this fund must receive prior PERAC approval.

*Reserve Fund ([G.L. c. 40, § 6](#))*

To provide for extraordinary or unforeseen expenditures, a town by majority vote may appropriate a sum not exceeding 5% of the current fiscal year's tax levy at an Annual or Special Town Meeting to establish a Reserve Fund. The Finance Committee in towns having such a Committee, and in other towns the Selectmen, can by majority vote transfer money from the fund to a particular line-item in the budget.

*Scholarship, Education and Low Income Elderly or Disabled Persons Fund, [G.L. c. 60, § 3C](#), and [G.L. c. 60, § 3D](#).*

Cities and towns may designate a place on the property tax bill or the motor vehicle excise tax bills (or design a separate form to be mailed with the tax bills) for taxpayers to check off amounts to donate to the locally accepted Scholarship and Education Funds authorized by G.L. c. 60, § 3C, and the locally accepted fund to assist Low Income Elderly or Disabled Persons pay their property taxes authorized by G.L. c. 60, § 3D. The local funds check-off may also appear on or accompany any demand notice issued for the bill.

*School Choice ([G.L. c. 76, § 12B](#))*

The school choice program allows parents to send their children to schools in communities other than the city or town in which they reside. Tuition is paid by the sending district to the receiving district. Districts may elect not to enroll school choice students if not space is available.

See [DESE website](#) for annual guidance on calculating, paying, ensuring the accuracy of and accounting for tuition charges, revenues and expenditures and how the state shares in the cost of school choice and transportation costs for special education as well as other choice students..

### *Stabilization Fund*

Cities, towns and special purpose districts as defined in [G.L. c. 40, § 1A](#) (for regional school districts, [G.L. c. 71, § 16G½](#)) may create multiple Stabilization Funds for different purposes. [G.L. Ch. 40, § 5B](#) as amended allows one or more Stabilization Funds to be established for different purposes by a two-thirds vote of the legislative body. The legislative body may amend the purposes of those funds at a later time in the same manner. Appropriations both into and from the funds require a two-thirds vote of the legislative body. Interest earned on all stabilization funds remains with the funds.

Upon accepting [G.L. Ch. 40, § 5B](#), a city, town or district may dedicate, without further appropriation, all or a percentage not less than 25 percent, of a particular fee, charge or other receipt to a stabilization fund. This excludes receipts reserved by law for a particular purpose and certain taxes, excises and surcharges. Once accepted, a vote to terminate a dedication must be made before the fiscal year commences and is effective for at least 3 fiscal years.

In addition, [G.L. Ch. 59, § 21C\(g\)](#) authorizes a property tax levy limit override under Proposition 2½ to fund a stabilization fund..

### *Student Activity Accounts ([G.L. c. 71, § 47](#))*

This law authorizes student activity accounts established by a School Committee as well as includes certain administrative provisions for these accounts such as for interest-bearing bank and checking accounts, disbursement procedures and auditing and reporting requirements.

The Massachusetts Association of School Business Officials (MASBO) has published a handbook for their members entitled [Student Activity Accounts Guidelines For Massachusetts School Districts](#) to provide specific guidance on maintaining student activity accounts in accordance with the law.

There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the School Committee and the outside Auditor based upon guidelines issued by DESE.

DESE has issued guidelines to conduct agreed upon procedures engagements for student activity accounts. These agreed upon procedures are available on DESE's website under [School Finance/Accounting and Auditing](#).

Funds for student activities are usually collected from students, parents or the public for yearbooks, proms, field trips and similar activities under the provisions of [G.L. c. 71, § 47](#).

The School Committee of a city, town or district may authorize a school Principal to receive money in connection with the conduct of certain student activities and to deposit such money, with the Municipal or Regional School District Treasurer, into an interest bearing bank account (agency account), for student activities. The School Committee may also establish a checking account controlled by the school Principal for expenditure of certain student activity funds.

The School Committee votes a maximum balance for the checking account and the school Principal must give a faithful performance bond to the city or town in an amount determined by the Treasurer.

All funds collected must be collected into the agency account. The checking account is reimbursed from the agency account periodically when supporting documentation for each expense is provided.

#### *Unemployment Compensation Fund ([G.L. c. 40, § 5E](#))*

Cities, towns, and districts as defined under [G.L. c. 40, § 1A](#) may appropriate funds into an Unemployment Compensation Fund. A city town or district's appropriation into this fund is to provide for the anticipated costs of funding reimbursements to the Commonwealth for unemployment compensation benefits under [G.L. c. 151A](#). The annual appropriation cannot exceed 1/10th of 1% of the city or town's Equalized Valuation under [G.L. c. 44, § 1](#) and no appropriation into the fund is allowed if the aggregate amount in the fund equals or exceeds 1% of that Equalized Valuation. Interest remains as part of the fund.

The funds are invested by the Treasurer according to [G.L. c. 40, § 5E](#) who may pay such amounts as the Selectmen or other officers authorized to expend money determine to be necessary to satisfy the liability of the city, town or district in accordance with the Unemployment Security law of the Commonwealth.

## List of Funds from the UMAS Manual

### **Special Revenue Funds** **Fund Number and Statutory Reference**

- 201 Adult and Continuing Ed Ch. 71, §71E
- 202 Ambulance Receipts Reserved Ch. 40, §5F
- 203 Beach and Pool Receipts Reserved Ch. 40, §5F
- 204 Anniversary Celebrations Ch. 44, §53I
- 205 Community School Program Ch. 71, §71C
- 206 Dog Refund Ch. 140, §172
- 207 Elderly Lunch Program Ch. 15, §1L
- 208 Golf Course Receipts Reserved Ch. 40, §5F
- 209 Insurance Reimbursements (over \$20,000)
- 210 Insurance Reimbursements (under \$20,000) Ch. 44, §53
- 211 Lost Books and Industrial Art Supplies Ch. 44, §53
- 212 Off-Street Parking Receipts Ch. 40, §§22B, 22C
- 213 Racial Equality Ch. 76, §12A
- 214 Recreation and Parks Revolving Ch. 44, §53D
- 215 Off-Duty Police Detail Ch. 44, §53C
- 216 Sale of Cemetery Lots Ch. 114, §§15, 25
- 217 Sale of Real Estate Fund Ch. 44, §63
- 218 School Athletics and Other Receipts Ch. 71, §47
- 219 School Choice Ch. 76, §12B(o)
- 220 School Lunch Ch. 548 of 1948
- 221 School Building Rental Ch. 40, §3
- 222 Skating Rink Receipts Reserved Ch. 40, §5F
- 223 Solid Waste Collection/Disposal Ch. 44, §28C(f)
- 224 State Aid to Libraries Ch. 78, §19A and annual legislation
- 225 Summer School Tuition Ch. 71, §71E
- 226 Waterways Improvement Fund Ch. 60B, §2(I), 4
- 227 Waterways Improvement Fund Ch. 40, §5G
- 228 Wetlands Protection Fees Ch. 131, §40  
Ch. 43, §218 Acts of 1997  
Ch. 194, §349 Acts of 1998
- 229 Regional School District Tuition Ch. 71, §16D½
- 230 Extended School Services (Day Care Receipts) Ch. 71, §26C
- 231 School Tuition Non-resident or Foster Care Ch. 71, §71F
- 232 Parking Meter Receipts Ch. 40, §§22A – 22C
- 233 Arts Lottery Council (Cultural) Ch. 10, §58
- 234 Equal Education Opportunity Ch. 70A, §4
- 235 Vocational Education Receipts Ch. 74, §14B
- 236 Culinary Arts – Special Fund Ch. 71, §17A
- 237 Disability Commission Ch. 40, §22G
- 238 Planning/Zoning/Health/Conservation Ch. 44, §53G
- 239 Highway and Water Pollution Grants Ch. 44, §53

240 Recycling Commission Fund Ch. 40, §8H  
241 Performance Bond Forfeitures Ch. 41, §81U  
242 METCO Reimbursements Ch. 71B, §12  
243 Sewer Receipts Ch. 83, §16  
244 Water Surplus Ch. 41, §69B  
245 Trash Collection Charges Ch. 44, §28C(f)  
246 Community Preservation Fund Ch. 44B  
247 Law Enforcement Trust Ch. 94C, §47  
248 Weights and Measurers Fines Ch. 98, §29A  
249 Spay and Neuter Deposits Ch. 140, §139A  
250 Stabilization Ch. 40, §5B  
251 Education Fund Ch. 60, §3C  
(Supplementing School Appropriations)  
252 Use of School Property Ch. 71, §71E  
253 - 260 Grants and Gifts Ch. 44, §53A  
261 - 265 Offset Receipts Ch. 44, §53E  
266 - 270 Revolving Funds (Annual Authorization) Ch. 44, §53E½  
271 Unemployment Compensation Ch. 40, §5E  
272 Workers' Compensation Ch. 40, §13A  
273 Multi-Community Yard Waste Ch. 179 of 1993  
274 Millennium/Centennial Celebration Ch. 59 of 1998  
275 School Bus Advertising Ch. 184, §197 of 2002  
276 Title 5 Betterment Loan Program Ch. 29C  
277 Receipts Reserved MWPAT Loans Ch. 29C  
278 - 299 Other Federal and State Grants

### **Capital Projects Funds**

300 Highway Improvement Fund Ch. 44, §53  
(reimbursable highway grants on recap)  
301 - 399 Other Capital Projects  
400 - 449 Water Projects Ch. 41, §69B  
450 - 499 Sewer Projects Ch. 83, §16

### **Permanent Funds**

530 Cemetery Perpetual Care Ch. 114, §25  
540 - 599 Bequests Ch. 44, §53A

### **Enterprise Funds**

650 Water Enterprise Ch. 44, §53F½  
651 Sewer Enterprise Ch. 44, §53F½  
652 - 659 Other Enterprise Ch. 44, §53F½  
660 Water Enterprise – Special Legislation Special Legislation  
661 Sewer Enterprise – Special Legislation Special Legislation  
662 - 669 Other Enterprise – Special Legislation Special Legislation  
670 Electric Light Department Ch. 164, §57

**Internal Service Funds**

- 691 Health Claims Insurance Ch. 32B, §3A
- 692 Workers' Compensation Insurance Ch. 40, §13A
- 693 Municipal Liability Insurance
- 694 Municipal Building Insurance Ch. 40, §13
- 695 Motor Vehicle Pools

**Pension (Other Employee Benefit) Trust Funds**

- 700 Pension Reserve Ch. 40, §5D
- 750 Other Post-Employment Benefits Liability Trust Ch. 32B, §20

**Private Purpose Trust Funds**

- 850 Conservation Ch. 40, §8C
- 851 Scholarship Trust Fund Ch. 60, §3C
- 852 Regional School Stabilization Ch. 71, §16G½
- 853 Educational/Instructional Materials Ch. 71, §20A
- 854 Low Income Seniors and Disabled Tax Relief Ch. 60, §3D
- 855 Education Fund (Adult Literacy) Ch. 60, §3C

**Agency Funds**

- 900 Deferred Compensation Ch. 4, §67
- 901 Performance Deposits
- 902 Funds Held for Electric Light Department
- 903 Payroll Withholdings
- 904 Student Activity Agency Account Ch. 71, §47

**School Revolving Funds**

Revolving funds separately account for specific revenues and earmarks them for expenditure without appropriation for particular purposes. Typically, revolving funds are authorized by state law for programs or services with expenses that fluctuate with demand and can be matched with specific revenues.

The Bureau of Municipal Finance Law prepares a chart listing all approved school and non-school revolving funds along with each funds' distinct characteristics. Accounting officers should be familiar with the specific regulations of each fund utilized in their community. The charts can be found on the [DLS website \(school\) and \(non-school\)](#).

## Chapter 6 – Municipal Reporting

One of the major responsibilities of a municipal Accounting Officer is accurate and timely financial reporting. This chapter provides an overview of the major financial reports required to be filed with the Bureau of Accounts and DESE, as well as other financial reports filed for the public and financial institutions.

For balance sheet reporting by cities, towns, special purpose and regional school districts, proper completion and submission of forms to the Bureau of Accounts is required for certification of unobligated reserves (i.e. free cash, retained earnings, excess and deficiency). The calculation of these reserves is found in the next Chapter.

For Schedule A reporting by cities and towns, failure to submit by the November 30 deadline authorizes the State to withhold local aid distributions which may revert to the Commonwealth's general fund at the end of the State's accounts payable period.

For audited financial statements reporting by cities, towns, and special purpose districts, audited financial statements are required by the Federal government's Single Audit Act for receipt of Federal grant funds if Federal expenditures are \$750,000 or more in a fiscal year. They can also be required under debt covenants for municipalities with outstanding debt. For regional school districts, annual audits are required by general law.

Submission of the End-of-year School Pupil and Financial Report to DESE is required to be submitted by October 1. Failure to submit by the required deadline may result in withholding of local aid distributions which may revert to the Commonwealth's general fund at the end of the State's accounts payable period.

Most important to the Accounting Officer within DESE's Report is in the completion of Schedule 19 which includes indirect school expenditures (those not within the school budget, but somewhere within the city or town's omnibus budget) which result in services to or on behalf of the school district, not all of which count toward net school spending per DESE guidelines.

Unlike the Annual Report for a town (*see Annual Report, this chapter*), cities are not required by general law to produce such a report.

## To the Bureau of Accounts

### *UMAS Balance Sheet*

A balance sheet is an important municipal financial document that helps show the public and the financial community the entity's results of operations and show proof that funds are being accounted for. A balance sheet:

- illustrates an entity's financial position as of June 30;
- identifies the community's account balances, assets, liabilities and fund balances or equity;
- is one of the most important reports submitted to the Bureau of Accounts; and
- is used to determine the amount of free cash and retained earnings for a city or town and excess and deficiency (E&D) for a regional school district which after certification by the Director of Accounts is then available for appropriation.

The balance sheet has a target date for submission of September 15. The certification of free cash and retained earnings is not required by the Bureau of Accounts unless appropriation from free cash or retained earnings is intended, unless one is requested by the Director of Accounts, or if borrowing through the State House Note Program is requested by a non-property taxing special purpose district.

State law and a DESE regulation ([603 CMR 41.06](#)) require balance sheets from regional school districts to be submitted to the Bureau of Accounts annually on or before October 31 for certification of E&D as of the prior June 30. DESE regulations indicate that if a balance sheet is not filed timely, the DESE Commissioner may request of the DOR Commissioner to withhold all or some part of the distribution of state aid for that school district until a balance sheet is submitted. This local aid, if not made before the close of the State's accounts payable period, may revert to the Commonwealth's general fund.

[Annual Bureau instructions](#) indicate the submission requirements. Audited balance sheets are not required, but the submission must be in a format that will allow the Bureau to calculate a free cash, retained earnings or E&D amount.

The Bureau of Accounts and DESE agree that E&D must be certified by the Bureau of Accounts which only then may be applied by the regional school district to reduce members' assessments.

Proper presentation of the balance sheet to the Bureau of Accounts is very important.

The Balance Sheet chapter in this Manual details other forms necessary for balance sheet submission.

*Schedule A – ([G.L. c. 44, § 43](#))*

The Annual City and Town Financial Report, Schedule A, is a year-end statement of revenues and other financing sources, expenditures and other financing uses, changes in fund balances, certain balance sheet and other information. The Director of Accounts is required to collect this information from all communities by November 30. The data collected is based on fund designations, account numbers and classifications contained in the UMAS Manual.

Information from the reports is incorporated into the DLS data base of historical financial information and is used by State and federal agencies and members of the Legislature in the development of programs and policies impacting cities and towns. The same information is also available to communities, interest groups and citizens-at-large through the DLS web site. Ultimately, the completeness and accuracy of the data reported are critical to ensure that a community's profile is fairly represented when various State and Federal agencies use the information in their decision-making processes.

In the event that a city or town fails to submit a Schedule A by November 30, the Commissioner of Revenue is authorized to withhold a community's local aid distribution. These local aid payments, if not made before the close of the State's accounts payable period, may revert to the Commonwealth's general fund.

Schedule A is completed and submitted to the Bureau of Accounts via the Gateway system.

*Audit Reports – ([G.L. c. 44, § 42](#)) (see additional details under “To the Public and Financial Institutions” below)*

The Bureau of Accounts requires final audit reports to be submitted electronically and will accept audit reports directly from independent audit firms to ensure the receipt of the actual audit as certified by an independent firm. Inclusion of an audit report in an official statement for sale of municipal securities does not fulfill the requirements of G.L. c. 44 § 42. For CAFRs only, the Bureau accepts the audited financial statements in the CAFR but will only accept the Management Letter and Single Audit Report directly from the independent audit firm if not included in the CAFR.

A complete audit report includes:

- The auditor’s opinion and the financial statements on which the auditor opined (may be included within a Comprehensive Annual Financial Report (CAFR).;
- The Management Letter, or if no Management Letter was prepared, an explanation of why one was not prepared; and
- The Single Audit Reports; the opinions and schedules related to the expenditure of federal awards as required by Uniform Guidance, when applicable.

The threshold for requiring a Single Audit for cities, towns and special purpose districts is expenditure of at least \$750,000 in Federal award money in a fiscal year.

Per [G.L. c. 71, § 16A](#), the Regional School Committee must ensure that the district has an annual financial audit. The Committee must:

- solicit proposals;
- contract with an independent Certified Public Accountant to perform the audit;
- make management recommendations;
- receive the audit report during a meeting open to the public; and
- within 10 days, forward a copy of the audit to the Director of Accounts and the Board of Selectmen, City/Town Manager or Mayor of each member municipality.

For more information, see “How to Obtain an Audit” in this Manual.

To the Department of Elementary and Secondary Education (DESE)

Pursuant to [603 CMR 10.03\(3\)](#), each school district must maintain an accounting system in accordance with the requirements of the Commissioner of Revenue, which is UMAS. It must then be the basis for the school district’s reporting of data to DESE.

From the CMR:

*Each school district shall adopt and maintain a financial accounting system, in accordance with generally accepted accounting principles and requirements prescribed by the Commissioner of Revenue, in which all revenue and expenditure data shall be recorded. This system shall be the basis for the district's periodic reporting of financial data to the Department.*

- a) *Each school district shall utilize a financial accounting system that permits the reporting of all school district expenditures by fund source, object, and*

*function, and permits the reporting of certain costs by program and school. The fund source, object, function, program and school classifications for which reporting shall be required shall be those identified and described with specificity in guidelines published by the Department*

*(b) In attributing expenditures to a specific reporting category, school districts shall calculate and allocate expenditures in accordance with reporting instructions, formulas, and any special reporting rules set forth in the guidelines published by the Department.*

### *End of Year School Finance and Pupil Report*

Similar to the Schedule A, DESE's End of Year School Finance and Pupil Report is a comprehensive summary for city, town and regional school districts of prior fiscal year revenues and expenditures from all categories and includes budget data for the next fiscal year. This Report is due September 30 of each year and is used by DESE for a variety of purposes including calculation of state aid, reporting to the Federal government and determining compliance with the spending requirements of Education Reform.

The Report is subject to annual agreed upon procedure engagements in accordance with a "compliance supplement" issued by DESE which must be conducted by an independent Certified Public Accounting firm or individual and submitted to DESE by March 31.

The Accounting Officer must complete Schedule 19 within this DESE Report. This Schedule includes expenditures not within the school budget, but which result in services to or on behalf of the school district, not all of which are credited to net school spending. The amounts which may or may not be included are set forth in DESE guidelines.

Methods for allocating these expenditures are set forth in [603 CMR 10.04 \(1\) \(a\) through \(m\)](#). The chosen method must be consistent from year to year but may be changed with approval from the DESE Commissioner. The DESE Commissioner or designee, with help if requested from the DOR Commissioner or designee, may intervene to resolve disputes as to the reporting, allocation and documentation of these expenditures.

DESE expects that the allocation methodology be sent to them in writing signed by the Auditor or officer having similar duties in a city or town and by the Superintendent and Chairman of the School Committee.

To the Public and Financial Institutions

*The Annual Report (G.L. c. 41, § 61)*

The Town Accountant shall make an annual report, to be published as a town document, giving:

- a statement of all receipts and expenditures for the past fiscal year;
- a statement of all receipts and expenditures of funds managed by Trustees or Commissioners showing also the amount of each specific appropriation, the expenditures therefrom, and the purpose for which money has been spent; arranged in accordance with the classifications prescribed by the Director of Accounts; and
- a statement of any change in the amount of the town debt during the year and a list of indebtedness incurred and unpaid at the end of the fiscal year.

Unlike the Annual Report for a town (*see Annual Report, this chapter*), cities are not required by general law to produce such a report.

*Audit Reports (see also To The Bureau of Accounts, Audit Reports, this chapter)*

Basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

- Management's discussion and analysis (MD&A) provides an analytical overview of the government's financial activities. Although it is RSI, governments are required to present MD&A before the basic financial statements.
- Basic financial statements include:
  - Government-wide financial statements, a statement of net assets and a statement of activities prepared using the economic resources measurement focus and the accrual basis of accounting.
    - These statements report all assets, liabilities, revenues, expenses, and gains and losses of the government, distinguishing between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary

activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.

- Fund financial statements that consist of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units, and report information about a government's fiduciary funds and component units that are fiduciary in nature.
- Governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting.
- Proprietary fund financial statements (including financial data for enterprise and internal service funds) and fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting.
- Notes to the financial statements that provide information essential to a user's understanding of the basic financial statements.
- Required supplementary information (RSI) for budgetary comparison schedules, pension schedules and OPEB schedules.

The basic financial statements and RSI are generally subject to an audit by an independent Certified Public Accounting firm or individual Certified Public Accountant.

A non-Federal entity that expends \$750,000 or more during the year in Federal awards must have a single or program-specific audit conducted in accordance with Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), Subpart F (Audit Requirements)

### *Comprehensive Annual Financial Report (CAFR)*

The Comprehensive Annual Financial Report (CAFR) is an optional presentation of the government's financial statements which includes the required basic financial statements and notes to the basic financial statements along with additional supplementary information reported in compliance with accounting requirements promulgated by the Governmental Accounting Standards Board (GASB). The issuance

of a CAFR is considered the highest level of financial reporting for local governments. The contents of the CAFR present the financial position, results of operations, and certain demographic and statistical information to help the reader understand the financial condition of the government. A CAFR has three sections:

### Introductory

- provides background on the structure of the government;
- a subjective analysis of the government's financial condition;
- a list of principal officials;
- transmittal letter; and
- an organization chart.

### Financial

- the Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic Financial Statements;
- Notes to the Financial Statements;
- Required Supplementary Information;
- Notes to Required Supplementary Information;
- Combining and individual fund financial statements and schedules.

### Statistical

- a 10-year historical perspective of financial information; and
- certain demographic and economic data.

The Government Finance Officers Association (GFOA) offers a CAFR certificate program where communities may submit their CAFR to the GFOA to apply for a Certificate of Achievement for Excellence in Financial Reporting. Information about this program can be obtained at <http://www.gfoa.org>. This is considered a prestigious award in governmental financial reporting.

This basic structure and contents of a CAFR are set by authoritative accounting and financial reporting standards. The GFOA certificate program is designed to encourage governments to publish high quality CAFRs to assist in this process by providing educational material and comments and suggestions for improvements and to recognize governments that have published high quality reports.

## Chapter 7 – The Balance Sheet

Completion and submission of a UMAS Balance Sheet including supporting documentation to the Bureau of Accounts is for the certification of free cash for a city, town or special purpose district, retained earnings for a city or town and E&D for a regional school district.

Free cash represents unobligated general fund cash which may be appropriated for further use by the governmental entity's legislative body. Free cash may be appropriated for any legal expenditure but cannot be appropriated until certified by the Bureau of Accounts and cannot be appropriated to an amount in excess of the certified amount.

Retained earnings of an enterprise fund is similar to free cash but represents unobligated enterprise fund cash which may be appropriated for further use by the governmental entity's legislative body. [IGR 08-101](#) details the proper use of retained earnings which cannot be appropriated until certified by the Bureau of Accounts and cannot be appropriated to an amount in excess of the certified amount.

E&D ([G.L. c. 71, § 16B½](#) and DESE [603 CMR 41.06](#)) represents unobligated general fund cash of a regional school district. E&D used as part of the certification of assessments to member communities must first be certified by the Director of Accounts. Use prior to certification or in excess of certification is considered defective. Per DESE 603 CMR 41.06, monthly regional school district state aid in whole or in part may be withheld if the regional school district has not filed the required balance sheet forms and schedules as of June 30 to the Bureau of Accounts by October 31.

Proper presentation of the balance sheet and related documentation is key to a smooth and efficient certification by the Bureau of Accounts. The Accounting Officer should be aware of how the accounting software produces a balance sheet, whether it produces asset, liability and fund balance accounts consistent with UMAS, and how the Bureau of Accounts calculates free cash, retained earnings and E&D. The Bureau includes within its certification notice a calculation worksheet. The Accounting Officer should become familiar with the calculation methodology should questions arise during budget planning.

### The Balance Sheet and Supporting Documentation

To be properly filed, supporting documentation for free cash, retained earnings and E&D certification is detailed in the Director of Accounts' annual end-of-fiscal-year letter to Accounting Officers in cities, towns and special purpose districts as well as to School Business Officers in regional school districts. The annual letter and form instructions can be found under [Bureau of Accounts/Year End Letters](#) on the DLS website. Some

forms are found under the Miscellaneous Forms heading in Gateway.

- A Combined Balance Sheet is a master form from which free cash, retained earnings and E&D are certified and is prepared consistent with a fund based financial statement model. This balance sheet need not be audited prior to submission. For cities and towns, cash and fund balances must reconcile to those reported on Schedule A.

#### *Supporting documentation*

- Combining Balance Sheets for each fund type including individual fund balances reflect a logical grouping of funds by fund type.
- The Balance Sheet Checklist includes supplemental information regarding the combined balance sheet. There is a separate balance sheet checklist for regional school districts.
- Cash Reconciliation Form – (*see Cash and Cash Reconciliation, this Manual*)
- Treasurer’s Year-End Cash Report – (*see Cash and Cash Reconciliation, this Manual*)
- Schedule of Outstanding Receivables – (*see Accounts Receivable and Accounts Receivable Reconciliation, this Manual*)
- Statement of Indebtedness – (*see Borrowing, The Accounting Officer’s Role in the Borrowing, Reporting Borrowings, this Manual*)
- Detailed analysis of Undesignated Fund Balance accounts for factors that added to and subtracted from last fiscal year’s ending Undesignated Fund Balance to yield this fiscal year’s ending Undesignated Fund Balance.
- The Snow and Ice Data Sheet summarizes the activity related to the removal of snow and ice of a municipality. Under [G.L. c. 44, § 31D](#), cities and towns are required to report annually to the Bureau of Accounts by September 15 or prior to the certification of free cash, whichever is earlier. This report:
  - includes all appropriations and expenditures related to the removal of snow and ice for the prior fiscal year;

- compares current year original budget to prior year original budget for snow and ice removal;
  - discloses any snow and ice deficits; and
  - provides a record for possible State reimbursement.
- Audited financial statements may be required by the Director due to balance sheet inadequacies.
  - Other information may be requested by the Bureau as additional supporting documentation to provide a clearer understanding of the balance sheet's presentation.

### The Calculation of Free Cash

Free cash is the amount of funds in a city, town or special purpose district which is unrestricted and available for appropriation in accordance with G.L. c. 59, § 23, after certification by the Director of Accounts.

At the end of the fiscal year, the Accountant will close the books of the governmental entity and prepare a balance sheet.

Every city, town and special purpose district should submit the balance sheet with supporting documentation to the Bureau of Accounts for determination of "free cash." Every regional school district should do the same for determination of "excess and deficiency."

The Director of Accounts certifies free cash based upon the governmental entity's balance sheet for the fiscal year ended June 30. The balance sheet, consisting of assets, liabilities and fund balances, is prepared by the Accountant with a target submission date of September 15 to allow for possible appropriation of such funds during the fall season. For free cash/retained earnings certification purposes, a combined balance sheet with backup documentation is required from each entity.

BEGIN	Undesignated Fund Balance
MINUS	Property Taxes Receivable
PLUS	Deferred Revenue
MINUS	Debit balances in other funds
MINUS	Other receivables not deferred
MINUS	Illegally overspent appropriations (appropriations not allowed by General or Special law(s) to be overspent)
MINUS	Prepaid Items
MINUS	Amounts appropriated from free cash
PLUS	60 day collections from the date of mailing, net of refunds, if property tax bills were issued after May 1
PLUS	Late Payments when allowed by the Director as Revenue Recognition per annual guidance
PLUS/MINUS	Other Miscellaneous Adjustments
EQUALS	Free Cash

### *Revenue Recognition*

The Bureau of Accounts policy allows for additions to what would be free cash as of June 30 by either revenue recognition (funds received after June 30 per the Director's [annual guidance](#), identified in the UMAS Manual as UMAS Modified Accrual) and/or by a free cash update. .

### *Free Cash Update*

One free cash certification update is allowed per fiscal year, but it is not required. Certification may be updated by receipts attributable principally to prior fiscal year property taxes, net of refunds, received from July 1 through March 31. At minimum, a listing of taxes collected by fiscal year must be provided to the Bureau of Accounts for update purposes. This certified update provides additional appropriation authority.

An update will not be certified if use of such funds could, in the Director's opinion, result in a negative free cash as of the following June 30. No similar update may be requested for the following fiscal year if an update is certified and such a negative free cash results.

The Bureau allows non-recurrent distributions received in the current fiscal year to update free cash subject to the conditions noted above.

Once the balance sheet for a city, town or special purpose district has been reviewed, free cash and retained earnings are calculated and certified by the Bureau. Once the balance sheet for a regional school district has been reviewed, E&D is calculated and certified by the Bureau. The Bureau's certification along with a calculation worksheet is then E-mailed as indicated under Notice of Certification below.

## The Calculation of Retained Earnings

Similar to free cash in the general fund, retained earnings is a representation of unobligated enterprise fund cash which may be appropriated after certification by the Bureau of Accounts for further use by the governmental entity's legislative body.

Generally, the retained earnings amount is the undesignated fund balance of the enterprise less any negative accounts receivable. The Bureau attempts to prove the certification from two perspectives: cash and undesignated fund balance.

- 1.) General cash is reduced by any current liabilities or designations against it to result in the unobligated amount.
- 2.) Retained earnings undesignated is reduced by accounts receivable to result in the undesignated amount.

If the proofs do not yield the same dollar result, the Bureau will request further information from the Accounting Officer.

## The Calculation of Excess and Deficiency (E&D)

The calculation of E&D is very much like the calculation of free cash except that there are no property tax receivables to take into consideration. Other adjustments in the calculation may include close-outs of certain accounts above legal limits such as circuit breaker, [603 CMR 10.07](#), or other reservation(s) not allowed by law.

The resulting E&D is then checked against 5% of the district's total operating and capital budgets (not including grants). The E&D amount in excess of the 5% threshold must then be returned to the district's member communities either by reduction of assessment or by check.

## Notice of Certification

For cities, towns and special purpose districts, letters confirming certification of free cash and retained earnings if applicable are automatically e-mailed via the Gateway system to the jurisdiction's Mayor/Manager, Board of Selectmen, Finance Director, Accounting Officer and Treasurer immediately upon approval, provided an e-mail address is reported in DLS' Local Officials Directory.

For regional school districts, letters confirming certification of E&D are automatically e-mailed via the Gateway system to the Superintendent and School Business Manager, the Board of Selectmen in each member town and the City Council in each member city immediately upon approval, provided an e-mail address is reported in DLS' Local Officials Directory.

In all cases, officials are advised to check their e-mail address in the Directory and notify the person responsible to maintain the Directory in their jurisdiction if it is incorrect.

## Chapter 8 – Cash and Cash Reconciliations

### Introduction

A strong system of internal controls and good cash management practices require that the Accounting Officer and Treasurer reconcile cash at the end of each month to quickly identify and correct any errors or irregularities. The Treasurer reconciles the cash book balance to the bank statements or to any electronic statement available to the Treasurer from the bank on a more frequent basis than monthly, and then the cash book balance is reconciled to the Accounting Officer's general ledger. For the purposes of this section "Cash" includes cash on hand, cash in bank accounts and investments carried at fair value.

The Massachusetts Treasurer's Manual advises every Treasurer to reconcile cash promptly and frequently. The Treasurer should calculate the aggregate amount of cash on deposit in municipal bank accounts and balance this total with the cash book prior to undertaking a reconciliation of these records to the Accounting Officer's ledger(s).

Although it may appear as if cash reconciliation is merely a Treasury function, the Accounting Officer cannot allow a variance to pass without concern. This is a shared responsibility. A timely and accurate reconciliation among bank statements, the Treasurer's cashbook, and the Accounting Officer's general ledger is an extremely important part of a valid set of financial records. The process of cash reconciliation is a deterrent in preventing fraud and may detect fraud in the management of the entity's funds.

If material, unreconciled cash will be seen as a weakness in the entity's audited financial statements, could turn an entity's bond rating to the negative and will be a reduction in the calculation and certification of unrestricted funds or "free cash" by the Bureau of Accounts as of June 30.

Cash should be reconciled between the Treasurer and Accounting Officer on a monthly basis and Accounting Officers should be given access to all bank statements.

### Reconciling Bank Statements to the Treasurer's Cash Book

#### *Reconciling Bank Statements*

Treasurers are required to maintain a cashbook and to reconcile their cashbook to the supporting bank statements. There are several different types of cashbooks and bank reconciliation systems that can be utilized. At a minimum, the cashbook should always report a Treasurer's cash balance and all cash deposits and disbursements. The

reconciliation should identify all differences between the cashbook and the bank balance. Reconciling items should be limited to timing differences, such as outstanding checks and deposits in transit.

At a minimum, the Treasurer will maintain a general depository account to deposit most receipts and separate checking accounts for payroll and vendor checks. Almost all of the community's cash activity takes place in these three accounts. Other accounts may be maintained for investment purposes, diversification, convenience, or for compliance with trust and grant agreements.

To simplify the reconciliation process, most Treasurers maintain both the vendor and payroll checking accounts as "zero balance accounts." This system requires the value of each warrant to be transferred into the vendor or payroll account exactly to cover the checks issued, and the book balance always remains at zero. The outstanding check list would then equal the bank balance and would be the only reconciling item. Any interest earned is transferred out of the account and the value of any voided checks is transferred from the account. The reconciliation process consists of matching the outstanding check list with the bank balance and verifying that the book balance is always at zero. Most banks are also able to provide a listing of outstanding checks, which further simplifies the reconciliation process.

If unidentified variances exist between the cashbook and the bank/investment balances, the accounts may require a more detailed comparison of the activity recorded since the last reconciliation. All deposits should be compared between the bank and the cashbook and all warrants (checks or wires issued) should be compared to the cleared and outstanding check listings until any variances have been identified and documented on a reconciliation form. Any errors identified through the cash reconciliation process should be corrected immediately.

The completed reconciliation should be signed and dated to document that the process is complete.

*Sample Reconciliation Form (reconciling bank statements to Treasurer’s Cash Book)*

Sample Cash Reconciliation Form (Bank to Cashbook)

	Bank Balance per Statement	\$	
Less	Outstanding Checks		
Plus	Deposits in Transit		_____
Equals	Adjusted Bank Balance	\$	_____
	Cash Book Balance as of Statement Date	\$	
Less	Bank Service Charges		
Plus	Interest		_____
Equals	Adjusted Cash Book Balance	\$	_____

Reconciling the Treasurer’s Cash Book to the Accounting Officer’s General Ledger

Once the reconciliation is completed between the bank statements and the Treasurer’s cash book, the reconciliation between the Treasurer’s cash book and the accounting officer’s general ledge should occur.

- 1.) Reconciliations should be prompt, to identify and correct errors and omissions that may have occurred, to maintain strong controls over cash and to ensure that checks and balances are in place.
- 2.) Transfers between trust or other non-operating accounts should be made promptly in the bank accounts and in the cashbook and ledgers. Specific account balances of trust accounts should be verified.
- 3.) End-of-month reports from the Treasurer to the Accounting Officer should be compared.
- 4.) Total warrants paid should compare to the amount recorded by the Accounting Officer. Check for timing issues.
- 5.) The Accounting Officer’s cash accounts in the ledger should reflect only those cash transactions provided by the Treasurer.

- 6.) The Treasurer and Accounting Officer should sign and date the completed reconciliation. Variances should be resolved timely.
- 7.) The results of reconciliation should be reported to the community's management and executive body, verifying that the reconciliations took place and providing explanations regarding any variances.

## Cash and Cash Reconciliation Reporting

For the Accounting Officer, cash and cash reconciliation reporting to the Bureau of Accounts involves two forms, the Treasurer's Year-End Cash Report and the Cash Reconciliation Form:

*Treasurer's Year-End Cash Report* – ([G.L. c. 41, § 50](#))  
<https://www.mass.gov/service-details/year-end-letters-forms>

This form is completed by the treasurer and countersigned by the Accounting Officer.

This report is intended to:

- demonstrate that the Treasurer's reconciled bank accounts agree with the ledger balances of the Accounting Officer;
- emphasize the safety of the deposits of the city, town, county or district;
- report whether an account is collateralized or has a compensating balance, as defined in [G.L. c. 44, § 53F](#); and
- compare with the cash amount reported on the balance sheet, Schedule A and audited financial statements as of June 30.

This detailed report is a listing of all cash in the custody of the Treasurer as of June 30. The amounts are listed are from the Treasurer's cash book, which have been reconciled with the respective bank statements and the Accounting Officer's ledger.

All city, town and district (including regional school district) Treasurers, Accounting Officers and School Business Officers must complete the Treasurer's Report found under Gateway's Balance Sheet landing page and upload it to their community's Report Summary page by September 30, or prior to the certification of free cash, whichever is

sooner. If a balance sheet is not being submitted, this Cash Report is still required to be submitted.

Copies of this report should be filed in both the Treasurer's and Accounting Officer's offices for possible Bureau of Accounts inspection or independent CPA audit.

### *Cash Reconciliation Form*

This form is completed by the Accounting Officer and is countersigned by the Treasurer. The form begins with the Treasurer's dollar amount from the year-end cash report and is adjusted by other funds not in the Treasurer's custody and other reconciling items. The adjusted Treasurer's balance is reconciled to the balance reported on the community's balance sheet, from the general ledger, which is broken out by fund.

Any variance explained at the bottom of the form is a reduction in the calculation and certification of unrestricted funds or "free cash" by the Bureau of Accounts as of June 30.

This form is required submission as supporting documentation for free cash, retained earnings and E&D certification. The cash amount reported on this form must be reconciled to the cash reported on Schedule A and in audited financial statements for all entities where applicable.



## Chapter 9 – Accounts Receivable and Accounts Receivable Reconciliations

### Introduction

Accounts receivable represent monies that are owed to the entity. There are several categories of receivables recognized by UMAS. A strong system of internal controls and good receivables management practice require that the Accounting Officer, Treasurer, Collector and department heads reconcile receivables throughout the fiscal year and certainly at fiscal year-end to identify any errors or irregularities.

The timely and accurate reconciliation of accounts receivable is an extremely important part of a system of internal controls and help to validate the accuracy of an entity's financial records. The reconciliation process is a deterrent in preventing fraud and may detect fraud in the management of the entity's funds.

If material, unreconciled accounts receivable will be seen as a weakness in the entity's audited financial statements, may cause the entity to lose a property lien, could turn an entity's bond rating to the negative and will be a reduction in the calculation and certification of unrestricted funds or "free cash" by the Bureau of Accounts as of June 30.

Accounts receivable should be reconciled on a monthly basis.

### Types of Receivables

The current UMAS Chart of Accounts recognizes the following types of receivables:

- Taxes, including actual and estimated personal property, actual and estimated real estate, tax liens, community preservation, Massachusetts clean water trust (formerly the Massachusetts Water Pollution Abatement Trust), deferred property tax, taxes receivable in litigation and unbilled real and personal property taxes;
- Excises, including motor vehicle, boat, farm animal, and classified forestlands;
- Accounts Receivable, including user charges, other service charges, utility liens added to taxes, and departmental;
- Special Assessments Receivable, including apportioned and unapportioned special assessments, committed interest added to taxes, apportioned

assessments not yet due, suspended assessments and special assessment tax liens;

- Notes Receivable – An unconditional promise signed by the maker to pay a certain sum in money on demand or at a fixed or determinable future time either to the bearer or to the order of a person designated therein. Notes Receivable may be held by a government as designated payee or by endorsement.

### Accounting for Receivables

The Accounting Officer records the commitment of taxes and excises when presented with a copy of the Assessors' warrant to the Collector. The commitment of actual property taxes follows certification of the tax rate by the Director of Accounts.

Under the modified accrual basis of accounting, when the accountant records the commitment as an accounts receivable, an offsetting deferred revenue is recorded. Deferred revenues are assets for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable but not available.

An Allowance for Abatements and Exemptions, or Overlay, is also recorded in the amount raised on the annual tax rate recap to provide for abatements and exemptions of committed real and personal property taxes for that fiscal year. The Overlay amount is determined by the Board of Assessors and is raised in the tax rate without appropriation. See new Overlay rules in [IGR 17-23](#).

### Reconciliation of Accounts Receivable

Reconciliation of Receivables	
Beginning Balance	\$ _____
Plus:	
Commitments	_____
Refunds	_____
Less:	
Collections	_____
Abatements	_____
Transfers	_____
Equals Ending Balance	\$ _____

The total accounts receivable balance must be supported by a detailed outstanding listing of each individual making up the total balance.

The Collector should maintain a control book for each receivable type that records commitments, refunds, collections, abatements, returned checks or transfers to tax title accounts. The control book should tie to the detailed outstanding listing and should be used to reconcile to the accounting officer's records.

Any variances from the control book to the detailed listing of receivables should be researched and corrected timely.

### Reporting Outstanding Receivables

For the Accounting Official, reporting of outstanding receivables to the Bureau of Accounts involves the Schedule of Outstanding Receivables which is submitted through the Gateway system. This Schedule as of June 30 indicates whether the general ledger is reconciled to the Collector's, Treasurer's and department heads' detail lists. This Schedule is prepared by the Collector and forwarded to the Accounting Officer who must verify that the amounts reported agree with the general ledger. Receivables include taxes, excises, departmental, special assessment and other receivables.

## Chapter 10 – Schedule A

The Annual City and Town Financial Report, Schedule A, is a year-end statement of revenues and other financing sources, expenditures and other financing uses, changes in fund balances, certain balance sheet and other information. Under State statute, the Director of Accounts is required to collect this information from all communities by November 30. The data collected is based on fund designations, account numbers and classifications contained in UMAS.

Schedule A must be submitted to the Bureau of Accounts via the Gateway system. The Bureau, however, provides an EXCEL version of the Schedule that is uploadable into Gateway.

Information from Schedule A is incorporated into DLS' data base of historical financial information and is used by State and Federal agencies and members of the Legislature in the development of programs and policies impacting cities and towns.

Although not necessarily received by the Bureau on an audited basis, Schedule A cash and fund balances must agree to the combined balance sheet.

Upon final approval of Schedule A by the Bureau of Accounts, various reports are available through DLS' [Data Bank](#). This data may be helpful in the preparation of annual budgets and for comparisons with other communities.

Massachusetts General Laws provide for the withholding of local aid payments to cities and towns that do not submit a Schedule A to the Bureau of Accounts timely. At present, Schedule A is due on November 30. Further, these local aid payments if not made before the close of the State's accounts payable period may revert to the Commonwealth's General Fund. Review the Bureau's [annual guidance](#) for more details.

### Overview of Schedule A

Schedule A is completed in twelve parts. A short description of each part is shown below. The Schedule A module is located in the Gateway system. The Excel version of the form which can be uploaded into Gateway and instructions can be found on the landing page of the Schedule A.

### *Part I - General Fund Revenues and Other Financing Sources*

A report of all taxes, state aid and unrestricted local receipts, including all school related revenue, but exclusive of general and education offsets. All revenue is reported net of refunds. Revenues are reported on a cash basis for all categories except real and personal property taxes and earnings on investments.

### *Part II - General Fund Expenditures and Other Financing Uses*

A report of expenditures for most municipal operations ("Object of Expenditure") financed by tax dollars, including school-related expenditures. All expenditures should be reported net of refunds (overpayments) that were credited to respective accounts.

### *Part III – Special Revenue Funds*

A report of Federal grants, State grants, receipts reserved for appropriation, revolving funds, and other special revenues that are established by statute and may be restricted to a particular purpose. A separate accounting of each of the above activities is required to demonstrate compliance with grant agreements, general laws, and other restrictions imposed on certain receipts.

### *Part IV – Capital Projects Funds*

A report of financial resources used for the acquisition or construction of major capital facilities, that involve projects extending over more than one year, and that are financed wholly or in part from bond issues, intergovernmental loans, private donations, or current revenues of more than one fund. Exclude projects financed by enterprise or trust activity.

### *Part V – Enterprise Funds*

A report of funds created pursuant to [G.L. c. 44, § 53F½](#) established for municipal operations that can be financed and conducted in a manner similar to a private business. The intent of the municipality may be that all cost, direct or indirect, of providing goods or services be financed or recovered primarily through user charges. Subsidy from another fund is allowed.

Enterprise Fund accounting can be adopted for operations where utility, health care, recreation, transportation, and/or cable television services are provided.

#### *Part VI – Trust Funds*

A report of assets held by a community in a trustee capacity and for a specific purpose stipulated by a trust agreement. Both principal and interest may be used for the purpose if the trust is established as an expendable trust. For non-expendable trusts, interest, but not principal may be expended as directed. Certain statutes have also permitted communities to establish trust funds for specific purposes.

#### *Part VII - Agency Funds*

A report of assets held by a governmental unit in the capacity of an agent for individuals, private organizations, other governmental units, and/or other funds. A community is only custodian of the funds and the fund itself provides no equity to the community.

#### *Part VIII - Personnel Expenditures*

A report of the total salaries and wages as of December 31, as reported on IRS Form W-2: Includes all amounts paid in salaries and wages as reported on W-2s for all employees during the last full calendar year which ended within the current Schedule A reporting year.

This part also includes a report of the total number of employees for calendar year ending December 31: This number should reflect city and town full time equivalents (FTEs), including schools, as of December 31.

#### *Part IX – Schedule of Cash and Investments*

A report of the municipality's cash status as of June 30 compared to individual year-end balances in the general fund, special revenue funds, debt service fund, capital projects fund, enterprise funds, trust and agency fund.

This schedule should also reconcile with year-end cash reconciliations and a balance sheet submitted to the Bureau of Accounts.

*Part X – Schedule of Debt Outstanding, Issued and Retired this Fiscal Year*

General Obligation Bonds

A report of the municipality's debt activity for general obligation bonds both inside and outside the debt limit. Debt incurred for purposes authorized under [G.L. c. 44, § 7](#) is within the debt limit; debt incurred under [G.L. c. 44, § 8](#) is outside the debt limit.

Revenue Bonds and Non-Guaranteed Bonds

A report of revenue bond and non-guaranteed bonds payable from and secured solely by specific revenues and, as a result, are not regarded as full faith and credit obligations. Non-guaranteed bonds are similar to revenue bonds in that they are unsecured instruments.

Short Term Debt

A report of temporary loan information as of June 30, net of refunding.

Other Interest

A report of Interest paid on refunds due to abatements.

Total Authorized and Unissued

A report of debt authorized and unissued, which for purposes of this report, the Bureau of Accounts defines as the amount of the authorization remaining to be issued as new money after long or short term debt has been issued.

*Part XI - Reconciliation of Fund Equity (Retained Earnings) for the Fiscal Year*

This reconciliation serves as a Schedule A proof. In reviewing the reconciliation, the Schedule A preparer should be satisfied that all totals tie to corresponding totals in each part of this report.

## *Part XII – Certification*

Certification of the Schedule A requires the approval of the Accounting Officer. By his or her signature, the Accounting Officer certifies that the data in the report is accurate. This part also includes a section for notes.

### *KAR-1 – Addendum*

This form checks the cash and fund equity balances between the Schedule A and balance sheet. Any variance will be questioned by Bureau of Accounts field representatives.

#### Common Schedule A Errors

- Data proofs fail. Schedule A provides a proof system to verify that information is consistent throughout the report. A “fail” is an indication that information in the report is not accurate and should be corrected.
- Form KAR-1 and/or the statutory reconciliation form (if applicable) has/have not been submitted.
- Current fiscal year beginning balances do not match prior fiscal year ending balances.
- “Transfers from” do not equal “transfers to”, excluding agency funds.
- Combined total debt for all parts doesn’t equal total long-term retired debt, plus total long-term interest, total short-term interest, and other interest.
- Explanations for discrepancies have not been provided.
- Report pay-down of short-term principal if from the general fund in part II as “retirement of debt principal” and from other funds as “debt service.”
- Debt reported in Schedule A doesn’t match the Statement of Indebtedness.

## Chapter 11 – Budgeting

Formulating the annual budget is the most visible activity of local leaders, and its approval is a key characteristic of participatory government. When systematic, inclusive and responsive, the budget process can instill in residents confidence in management.

The budget process has many steps from initial guidelines, to assembly, review, passage, recording, monitoring and finally to audit. Accounting Officers could find themselves auditing data for the previous fiscal year while monitoring data for the current fiscal year and assembling data for the next fiscal year, all in the same day.

The purpose of this chapter is to advise local Accounting Officers of their role and what they should know about the budget process in cities and towns.

### The Municipal Accounting Officer's Role in the Budget Process

The degree to which the Accounting Officer is involved in budget development varies from entity to entity. For example, a community with a Finance Director and/or a dedicated budget office may rely on the Accounting Officer for revenue and expenditure reports rather than on budget assembly and passage. In many small communities, however, the Accounting Officer may be relied on for those responsibilities as well.

The Accounting Officer has the responsibility to maintain budgetary control through the accounting system. This is done by maintaining accurate records, verifying that the voted appropriations are reflected accurately in the accounting system, preparing monthly budget to actual reports for revenues and expenditures for department heads and the governmental entity's leaders, reporting issues in order to implement changes in response to projections during the fiscal year, preparing for year-end transfers, and always maintaining internal controls to prevent deficits. Recording the budget properly is the subject of chapter 8 in the UMAS Manual.

### The Budget Process in Towns

There is no mandated format for Town's to prepare and approve their annual budget and the systems can be different based on statutory responsibilities, by-laws and the Town's organizational structure.

Best practices include a policy document to identify the Town's budgetary process and to state the Town's financial goals and objectives and the overall financial plan to meet those objectives. The budget policy document would describe the municipal services

and operations and how they are supported through the budget process. The Town should also develop a budget development calendar to ensure that all parties are aware of their responsibilities and that the budget is ready in time for printing of the reports for town meeting.

The budget process typically begins in the fall when instructions, guidelines and worksheets are given to department heads.

The estimates for a Town Budget begin with the requirements under [MGL C. 41, § 59](#):

*The selectmen and all boards, committees, heads of departments, or other officers of a town authorized by law to expend money shall furnish to the town accountant, or, if there is no town accountant, to the appropriation, advisory or finance committee, if any, otherwise to the selectmen, not less than ten days before the end of the calendar year, or not less than ninety days prior to the date of the start of the annual town meeting, whichever is later, detailed estimates of the amount necessary for the proper maintenance of the departments under their jurisdiction for the ensuing fiscal year, with explanatory statements as to any changes from the amounts appropriated for the same purposes in the then current fiscal year, and an estimate of amounts necessary for outlays or permanent improvements. They shall also prepare estimates of any income likely to be received by the town during the ensuing fiscal year in connection with the town's business or property intrusted to their care. The selectmen shall include in their estimates the salaries and expenses connected with their own office, and the salaries of all other town officers shall be included in the estimates for the office, department or branch of the public service of which they are in charge. The treasurer shall, in addition to his estimate of the amount required for the maintenance of his own office, prepare a separate statement indicating the amounts required for the payment of interest on the town debt and for the payment of such portions of the town debt as may become due during the ensuing fiscal year.*

The Town Accountant is responsible for compiling the prior year budget to actual, the current year budget to actual (with estimates) and the estimates for the next fiscal year per [MGL C. 41, § 60](#):

*The town accountant shall immediately upon the close of each calendar year compile statements in tabulated form showing the amounts appropriated and the amounts expended from each appropriation during the preceding fiscal year, the amounts appropriated for the current fiscal year and the amounts expended from such appropriations during the first six months of such year and the amounts estimated to be expended from such appropriations during the second six months of such year, and the estimates for the next ensuing fiscal year, and shall forthwith furnish a copy thereof to the selectmen, or to such committee as the town may appoint to consider and report on*

*proposed appropriations. The selectmen, or said committee when so appointed, shall after due consideration designate the amounts which in their opinion should be appropriated for the ensuing fiscal year, and shall accompany the same with such explanations and suggestions in relation thereto as they may deem desirable for the proper information of the inhabitants. The selectmen or, if such a committee has been appointed, the committee, shall print and distribute this document at or before the annual town meeting, and the town clerk shall transmit a copy thereof and of all town reports to the director of accounts.*

Town's with Town Managers often give responsibility for developing the budget to that position. Town's without a Town Manager typically give the Board of Selectmen the responsibility for developing the budget.

Departments will provide budget requests based on instructions provided in the fall. The requests may be reviewed by the Town Manager/Administrator, Board of Selectmen, Superintendent and School Committee and by the Finance Committee.

In Town's with operating departments reporting to elected boards or with elected officials, the advisory or finance committee will often receive budgets from several different individuals.

In Towns with an advisory or finance committee, such committee is responsible for reviewing and analyzing budgetary requests and to recommend a budget to the annual town meeting. Either the advisory or finance committee, or the Board of Selectmen are responsible for submitting a budget at the annual town meeting.

The "warrant" presented to town meeting typically contains one article for the omnibus budget of the Town and separate articles for appropriations outside of the operating budget.

#### Budget Formats:

There is no mandatory budget format in Towns, and no two budget documents are exactly alike. The Bureau of Accounts has determined that towns may rely for guidance upon M.G.L. Ch. 44, § 32, which sets forth the budget format for cities.

Budgetary control must be maintained at the budgetary level adopted at town meeting. Changes to the appropriated budget would require approval at a special town meeting. This leaves Town's with less budgetary flexibility than a city form of government.

Town Meeting can vote the budget at a very detailed level, such as a line-item budget, which would be very restrictive and may not provide the flexibility to respond to unforeseen circumstances throughout the year.

More often, Town Meeting will vote the budget by department and within each department it is broken out into personal services, purchased services, supplies, other expenses and capital outlay.

A more detailed the appropriated budget provides less flexibility to department heads to operate within those guidelines. Consideration should be balanced between granting flexibility and maintaining control over how where funds will be spent.

In accordance with state law, the appropriation for the local education budget is presented to town meeting as a single amount. Town meeting has no authority to divide elements of the school department's budget, make line-item amendments or direct expenditures to specific purposes within the budget. To pass the regional school budget, town meeting must appropriate the assessment proposed by the regional school district. An appropriation for any amount less than what the regional school proposes constitutes a rejection of the regional school budget.

#### Reserve Fund Transfers

If town meeting appropriates a sum for a reserve fund, then the finance committee may transfer funds from this reserve to specific departments within statutory limitations.

#### The Budget Process in Cities

City department heads are generally required to submit their budget requests to the Mayor between November 1 and December 1. This does not apply to the school department which must submit its requests in time for the Mayor to include them in his submission to the Council.

In a city, within 170 days after the annual organization of the city government (which is ordinarily in early January), the Mayor or City Manager is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The City Council may:

- make appropriations for the recommended purposes; and/or
- may reduce or reject any item.

Without a recommendation of the Mayor or Manager, the Council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds

vote in the case of a failure of the Mayor or Manager to recommend an appropriation for such a purpose within 7 days after a request from the Council. The Council may not increase any item without the recommendation of the Mayor. If the Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

If the Mayor does not make a timely budget submission, provision is made for preparation of a budget by the Council. Provision is also made for supplementary appropriations upon recommendation of the Mayor.

Under certain circumstances and subject to certain limits and requirements, the City Council, upon the recommendation of the Mayor, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department.

The school budget is limited to the total amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated. The Education Reform Act of 1993 as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors.

State and county assessments, abatements in excess of Overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the Assessors in fixing the tax rate.

With a city form of government, the budget process can be more flexible since the appropriation process does not require Annual or Special Town Meeting. For more detailed information on the budget process in cities, review [G.L. c. 44, §§ 32, 33, 33A](#) and [33B](#).

[G.L. c. 44, § 32](#) allows the Mayor to submit to the City Council a continuing appropriation budget on a month to month basis for a period not to exceed three months if the city has not approved an operating budget because of circumstances “beyond its control.”

In towns and special purpose districts, an operating budget must be in place as of July 1. There is no similar provision as in cities.

## Budgeting Steps in General

### *Prepare Budget*

Estimate available revenues for the upcoming fiscal year.

- **DOR** notifies cities and towns of preliminary levy limits and Cherry Sheet estimates for the upcoming year.
- **Assessors** estimate new growth
- **Finance Committee and Board of Selectmen, Mayor or Manager:**
  - Project levy limit for next fiscal year.
  - Consider if override/exclusion appropriate.
  - Estimate total revenues.

Develop budget to be appropriated.

- **Department of Elementary and Secondary Education** notifies communities of net school spending requirements for the upcoming year.
- **Finance Committee and the Board of Selectmen, Mayor or Manager:**
  - Review department budget requests.
  - Prepare budget plan for the upcoming fiscal year.
- **Departments** work to achieve a balanced budget.

### *Adopt the Budget*

Present proposed budget for the upcoming year to the appropriating body.

- **Selectmen** call annual town meeting prior to June 30.
- **City Council/Town Meeting** adopt budget for upcoming fiscal year.

### *Implement Budget*

- **Accountant/Auditor** post revenue and appropriation budgets to each subsidiary ledger and verify that the ledgers balance.

### *Monitor the Current Year's Expenditures.*

- **Clerk** certified appropriations and sources of funding made at town or city council meetings.
- **Accountant/Auditor** sets up departmental appropriations from town meeting or city council report to monitor expenditures.

### *Review Prior Year's Operation (after the close of the current fiscal year).*

- **Accountant/Auditor** closes books.
  - Certified and documents actual local receipts for the year.
  - Identifies deficits from prior year.
  - Submits balance sheet to DOR for certification of free cash.

## **Budget Components**

There are at least two major elements of a city or town budget, however presented: sources of revenue and intended expenditures.

### *Sources of Revenues*

The major revenue sources in a city or town budget include:

- the levy of real and personal property taxes;
- State reimbursements, distributions and offsets reported on the Cherry Sheet;
- Massachusetts School Building Authority funding;
- Locally generated, non-allocated estimated receipts such as Motor Vehicle and Other Excise, Penalties and Interest on Taxes and Excises and Investment Income;

- Enterprise Funds;
- Special funds such as Offset Receipts and Revolving Funds;
- Reserves and Grants; and
- Borrowing Authorizations

Total revenue sources must at least equal or exceed total intended expenditures for a budget to be said to be “in balance” and for tax rate certification to occur.

### *Intended Expenditures*

Most municipal expenditures are appropriated meaning that there is a process that must be followed through the entity’s executive and legislative bodies to approve the annual spending plan. In limited circumstances, certain expenditures do not require appropriation and include:

- Cherry sheet assessments;
- certain account deficits such as revenue and overlay, court judgments and/or settlements for judgment, and other amounts allowed by general law;
- certain grants (both school and non-school); and
- the Overlay

## Chapter 12 – School Budgeting

### School Budgeting

Preparation and presentation of the school budget to the School Committee is about as varied a process as is that for the city, town or district budget to their respective executive and legislative bodies. School budgets may be presented as line-item, zero based, program or performance based, site based or in any other helpful to understand fashion.

School Business Officers may look for guidance from the Massachusetts Association of School Business Officials or MASBO. The national association, or ASBO (Association of School Business Officials), has a Meritorious Budget Award recognition process by which school districts in the United States and Canada can achieve an award for excellence in school budget presentation.

City and town Accounting Officers are not usually involved in school budgeting, however they must become very familiar with the following areas:

- Monitoring School Department spending;
- Net school spending including the Municipal Revenue Growth Factor;
- Accounting for grants; (*see Special Revenue Funds, this Manual*);
- Auditing of data, especially the DESE End-of-Year Report (*see Municipal Reporting, this Manual*); and
- Student Activity Funds (*see Special Revenue Funds, this Manual*).

Generally, school budgets for cities and towns apply the same principles for executive and legislative body approval as the non-school portion of the omnibus budget. In regional school districts, however, [G.L. c. 71, 16B](#) authorizes 1/12<sup>th</sup> of the total budget approved by the region in the most recent fiscal year to be expended by authority of the DESE Commissioner and continued for successive months until budget adoption, or if a budget is not adopted by December 1, DESE assumes operation of the district.

The school budget is typically the largest item in the local general appropriation budget and it is the most complex to understand. The state and federal governments set rules for services, such as special education and vocational education that must be funded and the state sets minimum levels for basic local educational spending.

The superintendent and the school committee are responsible for developing the school department budget within these guidelines. Once the initial budget is developed, the school committee and the finance committee negotiate an acceptable level for the school department appropriation. The final budget is presented to town meeting with the omnibus budget or to city council for appropriation.

Although the school department has bottom line spending authority within the total appropriated budget, the Accounting Officer continues to have the responsibility to oversee the school departments budgetary controls. The Accounting Officer has the power to inspect all school department bills and payrolls for validity and can disapprove payment if a payment is fraudulent, unlawful or excessive. The Accounting Officer must also maintain the budgetary and expenditure accounts for the school department's budget in accordance with the DESE account structure to facilitate the school department's reporting of expenditures at the close of the fiscal year.

The Accounting Officer also has the duty, whenever the appropriation has been expended, or whenever the liabilities incurred appear to be in excess of the unexpended (and unencumbered) balance, to immediately notify the school committee and other school officers authorized to make expenditures and to refuse payment until funds have been provided. The accounting officer is also required to notify the executive and legislative bodies.

One of the tools the accountant may use to determine whether liabilities incurred appear to be in excess of the remaining appropriation is to encumber the entire annual payroll and other funds for known executed contracts at the beginning of the fiscal year. As new contracts are executed during the year, funds should be encumbered accordingly. These amounts should remain encumbered until certification by the department head or person responsible for the expenditure that the liability has been eliminated. Any official that makes or executes a contract on behalf of the school department should furnish the accountant or auditor with an original or copy of the contract within one week of its execution.

### Regional School District Budgeting

A Regional School Committee prepares a tentative capital and operating budget and estimated assessments for the ensuing fiscal year. Budget presentation should be in reasonable and understandable detail and a copy of this budget may be sent to member communities for review.

The Committee adopts an operating and capital budget (less State aid and other anticipated revenues) before commencement of the first town meeting in a member's

town. Grants and revolving funds should not be part of the Committee's annual budget for assessment and apportionment purposes. The approval provisions of [G.L. c. 71, § 16B](#) take effect depending upon whether the regional school district has two or greater than two member communities. Final budget approval depends upon City Council and/or Town Meeting action and the budget is then apportioned according to the Regional School District Agreement. The budget must reflect the provisions of the Education Reform Act regarding net school spending and minimum local contribution of member communities apportioned between the members.

Once the budget has been approved, further budget action must be in conformity with Massachusetts General Laws and DESE's [603 CMR 41](#). Certified E&D may be applied by the Regional School Committee to reduce member assessments in the budget approval process, after which it must follow DESE's rules under 603 CMR 41.

### **Other Regional School District Matters**

Regional School Administrators should also review DLS [Bulletin 2002-04B](#) regarding:

- Regional School Business Managers or other persons who perform functions similar to municipal Accounting Officers, may not serve as District Treasurers or perform any functions involving the receipt or distribution of money.
- Business managers will now have the same statutory duties as municipal Accounting Officers under [G.L. Ch. 41 §52](#) to review and approve all bills and payrolls before the Treasurer can pay them including the power to disapprove those found to be fraudulent, unlawful or excessive and the duty to file a written statement of the reasons for the disapproval with the Treasurer, who cannot make payment.
- The Regional School Committee may appoint the Treasurer of any member municipality as District Treasurer or Assistant Treasurer and anyone appointed to either position may be compensated for their services and must meet the minimum statutory qualifications of "ability and experience" for the position.
- Regional School Committee must ensure that the district has an annual financial audit. The Committee must solicit proposals, contract with an independent Certified Public Accountant to perform the audit, make management recommendations, receive the audit report during a meeting open to the public, and within 10 days, forward a copy of the audit to the Director of Accounts and the Board of Selectmen, City/Town Manager or Mayor of each member municipality

## Education Reform and Net School Spending

The Massachusetts Education Reform Act (MERA) of 1993 provided significant funds to increase educational achievement and equalize education spending in districts across the State. Cities, towns and regional school districts must annually meet a certain budgeted and spending requirements monitored by DESE, or be subject to penalties such as a delayed tax rate or a reduction of state aid pursuant to [603 CMR 10](#).

One particular provision of that Act, The Municipal Revenue Growth Factor (MRGF), reflects a percentage increase on the total of six estimated receipts as reported on page 3 of the current and prior fiscal year's Tax Rate Recap forms. These receipts are:

- Motor Vehicle Excise;
- Other Excise;
- Penalties and Interest on Taxes and Excises;
- Fines and Forfeits;
- Investment Income; and
- Miscellaneous Recurring.

Education Reform requires that school spending receive a share of increasing revenues.

Net School Spending (NSS) includes both 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 be equal to or exceed the NSS requirement established annually by DESE. NSS may be met by direct appropriation in the school department's budget plus other appropriations made as part of the community's omnibus budget (*see Monitoring Budgeting below*).

### *Monitoring Spending*

DESE monitors actual spending through its comprehensive End-of-Year Report completed for the most part by the School Business Officer. Within nine months of the close of a fiscal year, this Report must be independently audited based on the compliance requirements, audit objectives and audit procedures contained in DESE's [Compliance Supplement](#).

The law imposes penalties upon the community for not meeting NSS and includes a carry-over provision for funds appropriated for NSS purposes, but not spent during the fiscal year.

### *Monitoring Budgeting*

Schedule 19 of DESE's End-of-Year Report includes the annual school budget for the next fiscal year. The importance of this Schedule to city, town and district financial officials is that certain school-related appropriations included in the entity's omnibus budget but not directly included in the school budget may count toward the entity's NSS requirement. Support for these indirect appropriations and possible allocation of expenses must be maintained and must also be agreed upon in writing between the School Committee and municipal officials.

The [Compliance Supplement](#), spending and reporting requirements, and associated Code of Massachusetts Regulations (CMRs) on Education Reform can be found on [DESE's website](#).

## Chapter 13 – Proposition 2 ½

Proposition 2 ½ is a Massachusetts statute that limits property tax assessments. Massachusetts communities cannot raise more than 2 ½ % of the prior year's levy limit plus new growth or voter approved overrides or debt exclusion amounts.

The Massachusetts tax levy limitation law is found in multiple provisions of [G.L. c. 59, § 21C](#).

The calculation of the levy limit in compliance with Proposition 2 ½ is approved annually by the Bureau of Accounts as part of the annual tax rate certification process. The information to set the tax rate is submitted to the Bureau of Accounts in a document referred to as the Tax Rate Recapitulation (Tax Recap). Specific documents accompanying the Tax Recap may change from year to year and from municipality to municipality depending on the type of spending such as Enterprise funds, Community Preservation Funds, etc.

### Levy Limits

The property tax levy is the revenue a community raises through real and personal property taxes each fiscal year when it sets its tax rate. The law established three types of annual levy limits: a levy limit, a levy ceiling and a maximum allowable levy. The levy limit is incremental and allows a permanent but controlled annual increase to the tax levy. The levy ceiling caps the levy limit for that fiscal year at 2.5% of the current fiscal year's total assessed full and fair cash value for real and personal property. The levy limit may be increased or decreased by locally adopted referenda but may not exceed the levy ceiling. The levy ceiling may be increased temporarily by certain locally adopted exclusions. The maximum allowable levy is the maximum amount of property tax a community may raise in a fiscal year. The following will outline the levy limit components.

### Levy Limit Components

#### *The Base or Prior Year Levy Limit*

The Base or starting point for calculating a community's levy limit is its prior year levy limit.

### *Amended Prior Fiscal Year New Growth*

This growth, certified by the Bureau of Local Assessment, is based on the value of new construction and/or new articles of personal property omitted or increased and committed for payment after the original commitment. The certified amended amount adds to the Base in the calculation of the following fiscal year's levy limit.

### *The Annual 2.5% Increase*

Prop 2½ allows an automatic 2.5% increase to the Base which includes amended prior fiscal year new growth in calculating the following fiscal year's levy limit.

### *Current Fiscal Year New Growth*

Prop 2½ allows for an increase to the levy limit by an amount based on the assessed value of new construction and new articles of personal property.

### *New Growth Adjustment*

Certified new growth that included an extraordinary assessment on property or properties subsequently granted an abatement in large part, may be reduced by the Bureau of Local Assessment in any year. Any 2.5% increment added to that certified growth amount in any subsequent fiscal year may also be reduced.

### *Overrides and Underrides*

The law enacted two types of adjustments to the levy limit that may be approved by the voters in a referendum: Overrides and Underrides.

Proposition 2½ allows a community to assess taxes in excess of the automatic annual 2½% increase and any increase due to new growth by passing an override. A community may take this action as long as it is below its levy ceiling, or 2½% of the full and fair cash value. An override cannot increase a community's levy limit above the level of the community's levy ceiling.

When an override is passed, the levy limit for the year is calculated by including the amount of the override. The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2½% each year.

A majority vote of a community's selectmen, or town or city council (with the mayor's approval if required by law) allows an override question to be placed on

the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

Proposition 2½ allows a community to reduce its levy limit by passing an underride. When an underride is passed, the levy limit for the year is calculated by subtracting the amount of the underride. The underride results in a permanent decrease in the levy limit of a community because it reduces the base upon which levy limits are calculated for future years.

A majority vote of a community's selectmen, or town or city council (with the mayor's approval if required by law) allows an underride question to be placed on the ballot. An underride question may also be placed on the ballot by the people using a local initiative procedure, if one is provided by law. Underride questions must state a dollar amount and require a majority vote of approval by the electorate.

#### *Stabilization Fund Override, Chapter 59 § 21C(g)*

This is a special form of override which may be approved by the electorate for an appropriation to the general or special purpose stabilization fund in the same manner as that for an Override described above. Once initially approved, an annual two-thirds "appropriation" vote by the board of selectmen, town council or city council (with the mayor's approval if required by law) allocates or dedicates an additional amount of stabilization fund appropriation to the same purpose in subsequent fiscal years. The assessors then raise the amount in the tax rate and the levy limit is increased.

The override vote is only required in the first year. However, any change to the stabilization fund's purpose requires a majority vote at a referendum. This Override, which has no repeal provision, increases by formula and is further detailed in [IGR 04-201](#).

#### *Levy Ceiling*

A community cannot levy more than 2½% of the current fiscal year's total assessed full and fair cash value for real and personal property. This limit is referred to as the levy ceiling. The levy ceiling is an annual calculation reflecting market value fluctuation of real and personal property and the addition and removal of property from the tax roll.

The difference between the levy limit and levy ceiling is called override capacity. When override capacity exists, a city or town may override the levy limit by local ballot and maximize it up to 2.5% of total assessed full and fair cash value. When override capacity has been depleted, there is no credit for an override, the levy limit becomes the levy ceiling, and the levy limit is said to have “hit the ceiling.”

A community can assess taxes in excess of its levy limit or the levy ceiling by successfully voting a debt exclusion or capital outlay expenditure exclusion. The amount of the exclusion does not become a permanent part of the levy limit base, but allows a community to assess taxes for a certain period of time in excess of its levy limit or levy ceiling for the payment of certain debt service costs or for the payment of certain capital outlay expenditures.

### *The Maximum Allowable Levy*

The maximum allowable levy may or may not be greater than the levy ceiling. If the community has not voted any locally adopted exclusions to the levy limit, the lesser of the levy limit or levy ceiling becomes the maximum allowable levy. In any case, the actual tax levy for the fiscal year, as reported on the annual Tax Rate Recapitulation form, cannot exceed the maximum allowable levy.

### *Debt Exclusion, G.L. c. 59, § 21C(j,k)*

The debt exclusion has been and continues to be by far the most frequently used form of exclusion. A debt exclusion requires a two-thirds vote of the board of selectmen, or town or city council (with the mayor’s approval if required by law) to be placed on a ballot. A majority vote of the electorate is required for approval. Once voted, the debt exclusion allows the community to raise the additional tax revenue needed to pay debt service for each fiscal year on the borrowing issued to fund the specified project until the debt is retired. The excluded amount is offset by any reimbursements and certain premiums received per Bureau instruction.

The debt exclusion:

- must be presented using wording specified by the law which includes only the borrowing purpose;
- applies to temporary or permanent debt service;
- may be negative if reimbursements in any year exceed debt service;

- must be reserved for the following fiscal year if the amount of debt service excluded exceeded the amount expended;
- is reduced if excluded debt proceeds are transferred to a non-excluded project.

*Capital Expenditure Exclusion, G.L. c. 59, § 21C(i½)*

Enacted by Chapter 562 of 1986, this exclusion has been less popular than the debt exclusion but has been used more often than other maximum allowable levy components. It allows additional funds to be raised for any item for which the city or town could borrow, but has chosen to fund by appropriation, or for the city or town's apportioned share of a regional capital expenditure. This exclusion requires a two-thirds vote of the board of selectmen, or town or city council (with the mayor's approval if required by law) to be placed on a ballot. A majority vote of the electorate is required for approval. Once voted, the capital expenditure exclusion allows the community to raise the amount included in the vote, or the amount appropriated, whichever is less, minus any state or federal reimbursement received for the acquisition or purpose for the year voted.

In addition, the capital expenditure exclusion:

- must be presented using wording specified by law including a dollar amount, purpose(s) and fiscal year;
- authorizes a temporary tax increase to the lesser of the levy limit or levy ceiling;
- has the same wording as an override and must be properly distinguished to the electorate.

*Other Adjustment - Cape Cod Commission*

The Cape Cod Commission is a regional planning and land-use regulatory agency that serves Barnstable County. All Barnstable county towns have individually voted to become members of the Commission. The annual assessment by the Commission to a member is exempt from Prop 2½ and no further local action is necessary.

*Other Adjustment - [Chapter 111 § 127B½](#) and Other Special Legislation*

Chapter 111, § 127B½ exempts from Prop 2½ any city or town tax levy appropriation or debt service for the purpose of municipal removal of a residential underground fuel storage tank, the removal of dangerous levels of lead paint as determined by [MGL c. 111, § 194](#), or repair, replacement or upgrade of a home's septic system required by [MGL c. 21A, § 13](#). No further local action is necessary.

Special legislation approved for Wellesley in 2007 excluded funding for its Other Post-Employment Benefits obligations.

*Other Adjustment - Regional Refuse Management Districts*

The Greater New Bedford Refuse Management District (Chapter 652 of 1987) and the Martha's Vineyard Regional Refuse Disposal District (Chapter 303 of 1985) assess debt service upon their respective member communities and pursuant to their legislation, their debt service assessments are excluded from Prop 2½. No further local action is necessary.

*The Water/Sewer Rate Shift, G.L. c. 59 § 21C(n)*

The board of selectmen, the town or city council (with the mayor's approval where required by law) may vote to exclude water and sewer debt service. No further local action is required. If voted, the city or town:

- recovers water and sewer debt service costs from the property tax rather than from user charges;
- must then reduce its water and sewer charges by the amount of the debt service being transferred to the tax levy;
- may choose either an all taxpayers or residential taxpayers only option.

Once adopted, the percentage or stated amount of the exclusion remains the same unless changed by a new vote of the Board of Selectmen, Town or City Council (with the Mayor's approval where required by law). [IGR 93-207](#) has further details.

*The Tax Levy and Excess Levy Capacity*

The tax levy is the annual amount of taxes assessed upon real and personal property in the city or town as reported on the Tax Rate Recapitulation form. The

levy cannot exceed the maximum allowable levy. The dollar difference, or “excess levy capacity,” is the amount by which the community may have legally levied but chose not to do so.

*For further information, see the Division of Local Services Publications [“Levy Limits: A Primer on Proposition 2½”](#), [“Proposition 2½ Ballot Questions - Requirements and Procedures.”](#)*

*A copy of the levy limit worksheet can be found under [Bureau of Accounts/Levy Limit](#) on the DLS website.*

## Chapter 14 – The Tax Rate Recapitulation Process

For most communities the property tax is the single largest source of local revenue. Consequently, the tax rate has a tremendous impact on the amount of revenue a community can generate from the assessment of property taxes. However, under the constraints of Proposition 2½, a municipality is limited in the amount it may increase its property tax levy annually.

Calculating and setting a community's tax rate is a component of a larger process called the tax recapitulation process. At the end of this yearlong activity a community completes the Tax Rate Recapitulation form, sometimes called the Tax Rate Recap or just Recap. A municipality's entire budget plan for the fiscal year is laid out on this form which includes all appropriations made by the legislative body since the previous year's tax rate was set and anticipated and actual sources of revenue other than property taxes such as Cherry Sheet aid and estimated local receipts. The difference between the appropriations and revenue from these sources must be raised through property taxes and is called the tax levy. The tax levy must be within the limits set by Proposition 2½.

The Accounting Officer has responsibilities in the setting of the tax rate including a determination of deficits and other amounts that must be provided on the Recap as required by law, a detailing of local receipts from the prior fiscal year from which to estimate for the new fiscal year and an acknowledgement that appropriations detailed by the city/town Clerk are properly reflected. The Accounting Officer will also be called upon to complete certain other Recap related forms that are shown in the next Chapter.

The Accounting Officer estimates the general fund receipts reported on page 3 of the Tax Rate Recap. The Accounting Officer should use the prior fiscal year's actual receipts as a baseline for the new fiscal year's estimates. One-time receipts reflected in the actuals should not be estimated for the new fiscal year. Estimates in excess of the prior fiscal year's actuals must have reasonable documentation submitted for the Bureau of Accounts' review and acceptance.

### A Description of the Tax Rate

The tax levy is distributed or allocated among taxpayers based on the assessed value of their properties. By law, assessed valuation is based on "fair cash value," which is defined as the amount a willing buyer would pay a willing seller for the property on the open market. This valuation standard ensures each taxpayer's constitutional right to pay a fair and proportional share of property taxes. Assessors estimate the fair cash valuation of properties by analyzing the real estate market to determine what buyers are paying for similar properties in the community.

DOR reviews a community's values once every five years, checking that appropriate appraisal methods have been used and uniformly applied. A community's values must be certified as representing current full and fair cash value, or market value, before the tax rate can be set in the recertification year. Although the State only reviews the values every five years, assessors must analyze the real estate market annually in order to determine if there has been a change in market conditions and make interim adjustments when warranted.

Municipalities have several options in setting the tax rate and distributing the tax levy. Under property tax classification, property is classified as one of four classes of real property: residential, open space, commercial or industrial, or as personal property. Some communities choose to have a single tax rate for all classes of property. A single tax rate allocates the tax levy proportionately. This means taxpayers individually and within each class pay the same percentage share of the tax levy that the fair cash valuation of their property or class bears to the total assessed valuation of the community for that year.

Other communities choose to use multiple tax rates for the different classes of property. Multiple rates shift some of the taxes that would be paid by certain classes of taxpayers under a single tax rate onto other taxpayers. The total tax levy remains the same. The shifts must be within parameters set by law, and are calculated by DOR. The allowable shift varies from community to community and from year to year because it is based on the assessed valuation of the different classes of property in the community.

The four options when setting a multiple tax rate are:

- a tax shift from residential and open space to business property owners;
- an open space discount that shifts taxes from open space to residential property owners;
- a residential exemption that shifts taxes on lower valued owner-occupied residential property to other residential property owners;
- a small commercial exemption that shifts taxes on small business property to other commercial and industrial property owners.

The decision whether to tax the property classes at the same or varied rates is made by the Board of Selectmen, or City Council with the Mayor's approval, annually after a public hearing. Officials should also be aware that the community may either send tax

bills semi-annually or institute a quarterly tax billing cycle by local option as voted by Town Meeting or City Council.

The tax recapitulation process is an essential part of the municipality's financial activity and budgeting. Setting the tax rate and completing the entire tax recapitulation process are not the responsibility of any one local official. Rather, these procedures require teamwork and cooperation among many of the community's local officials to ensure accurate, successful financial management.

### Key Dates for Setting the Tax Rate Timely

Setting the tax rate and mailing tax bills in a timely manner are keys to successful financial operation. Late tax billing jeopardizes the municipality's cash flow. It results in the added expense of borrowing in anticipation of revenue and the loss of investment income on property tax collections. It also disrupts regularly performed financial activities, particularly for the Assessor and Collector, and often creates delays in next year's schedule of activities.

A realistic plan and timetable for completing the tax rate process should be developed and reviewed periodically by municipal officials involved in the process. A community completing a revaluation and undergoing a recertification of its assessments must also incorporate adequate time in the plan for completing the certification process. The following are target dates for submitting accurate and complete key data to DOR:

Regular Semi-Annual Tax Billing – G.L. c. 59 §57 Regular schedule with bill issued by October 1 and first half installment due November 1 (or 30 days after billing if later) and second half installment due May 1. If community is unable to issue actual bills on time due to revaluation delays, it may issue a preliminary bill in the fall with DOR approval. G.L. C. 59 §23D. Preliminary bill based on prior year tax is due November 1 (or 30 days after billing if later). Actual bill for balance is issued in spring and is due May 1 (or 30 days after billing if later).

#### Certification Target Dates:

Preliminary Certification – June 30<sup>th</sup>

Public Disclosure – July 15<sup>th</sup>

Final Certification – August 5<sup>th</sup>

#### Tax Rate Target Dates:

Submit New Growth – August 15<sup>th</sup>

Submit Tax Recap – September 1

Mail Tax Bills – September 30<sup>th</sup>

Annual Preliminary Billing – G.L. c. 59 §57C. Local option requiring acceptance by legislative body. If accepted, preliminary bill issued by July 1 and actual bill issued by December 31. Bills may be payable on semi-annual or quarterly system.

Certification Target Dates:

Preliminary Certification – September 15<sup>th</sup>

Public Disclosure – October 15<sup>th</sup>

Final Certification – October 31<sup>st</sup>

Tax Rate Target Dates:

Submit New Growth – November 5<sup>th</sup>

Submit Tax Recap – November 15<sup>th</sup>

Mail Tax Bills – December 31<sup>st</sup>

Communities unable to submit final tax rate data by these dates because of revaluation delays should plan on using preliminary bills to ensure adequate cash flow. To do so, however, the community must produce a Pro Forma Recap and following Bureau of Accounts' instructions.

Communities using a regular semi-annual payment system may issue a preliminary bill in the fall, and those using a quarterly payment system may issue a third quarter preliminary bill, with the approval of DOR. This option allows all communities, whether billing semi-annually or quarterly, to plan realistic timetables for recertification and tax rate setting.

Tax rate setting requires the written approval of DOR, and tax bills cannot be mailed until DOR has signed the Tax Rate Recap.

### The Tax Rate Setting Process

The formulation of the tax rate is an essential part of the budgeting process. The tax levy is the largest source of revenue for many Massachusetts municipalities and is an integral part of a municipality's overall financial picture. The tax rate setting process relies on the efforts and contributions of many municipal officials. The following establishes general guidelines for this process:

*Determine Assessed Valuations*

- Assessors determine final valuations for all taxable property and submit information to DOR.
- Report total values by class and parcel count (form LA-4).

- Submit allowable tax base levy growth (form LA-13) and/or amended tax base levy growth from omitted and revised assessments (form LA-13A).
- Submit adjustment of valuations between certification and request for authorization to issue preliminary tax bills (for communities with semi-annual bills) if necessary.
- DOR certifies growth and tax classification options.

#### *Decide tax policy*

- Board of Selectmen/City Council holds a public hearing on property tax classification.
  - Decide various tax policy options under classification law.
  - Acknowledge excess levy capacity.
- Assessors submit classification hearing and excess levy capacity (form LA-5) to DOR.

#### *Prepare tax rate*

- Assessors oversee the completion of the tax recap sheet, including supporting documents and forms, and determine the amount to be raised through the property tax levy.
- Clerk certifies all appropriations since the last tax rate was set.
- Accountant/Auditor checks Town Meeting/City Council documentation for accuracy.
  - Checks for other expenditures that must be funded (deficits, court judgments, etc.);
  - Checks for any debt service for the current fiscal year that has not been appropriated at town/city council meeting and must be raised in the tax rate;
  - Certifies last year's actual receipts;
  - Documents other available funds used such as free cash, enterprise revenues etc., and prepares the free cash certification and appropriation (form B-1) and available funds sources/uses (form B-2);

- Assists the Assessors in the preparation of State forms: offset receipts use and appropriation (form A-1), enterprise fund receipts/appropriations (form A-2), revolving fund use (form A-3), community preservation fund receipts/appropriations (form A-4).
- Accountant/Auditor and the Assessors
- Estimate amount raised to fund expected abatements and exemptions (overlay) and prepare overlay analysis form (form OL-1).
- Review total revenues and make sure tax recapitulation balances.
- Treasurer prepares the debt exclusion report (form DE-1).

## Chapter 15 – The Tax Rate Recapitulation Submission and Approval

More detailed information on the tax rate recapitulation process may be obtained from the Tax Rate Recap, Pro Forma Recap and Supporting Forms booklet when issued by the Bureau of Accounts.

### The Tax Rate Submission in Gateway

Gateway is the name given to the DLS' interactive computer application that implements the provisions of E-Government in the Division. The application allows authorized local officials to enter, analyze, sign and submit local government data to the Division. This efficiency aims at making what may have been a complex process faster and more transparent.

The Recap and supplementary schedules are prepared and submitted by local officials, and are finally approved by the Bureau of Accounts using Gateway. Some information, such as narrative explanations, copies of court judgments and votes on particular matters are uploaded into the Recap in the areas provided.

### Automated Tax Rate Software

DLS annually provides on its website an automated tax recap program in EXCEL format to provide municipalities with the opportunity to consider various financial plans prior to their final entry into Gateway. An options table in the program allows local officials to see the resulting tax rates given different assessed values, tax levies, and classification options designed specifically for development of "what if" scenarios. Instructions on program specifications annually accompany the software.

### List of Forms

The following List of Forms for Tax Rate or Pro Forma Recap setting purposes highlights the forms that require particular action by the Accounting Officer.

Form	Completed by	Description
Schedule of Amts. Certified for Tax Title Purposes	Collector/Treasurer	Documentation of amounts raised for tax title purposes
<b>A-1</b>	<b>Accounting Officer</b> , Assessors	Offset Receipts use and appropriation
<b>A-2</b>	Clerk, <b>Accounting Officer</b> , Assessors, Commissioners	Enterprise Fund receipts/appropriations
<b>A-3</b>	<b>Accounting Officer</b> , Assessors	Revolving Fund use under Ch44, §53E1/2
<b>A-4 and Worksheet</b> See IGRs 00-209 and 01-207	<b>Accounting Officer</b> , Clerk, Assessors, CPA Committee	Community Preservation Fund

B-1	Accounting Officer	Free Cash certification and appropriation
B-2	Accounting Officer	Available funds sources/uses
OL-1	Accounting Officer, Assessor	Overlay analysis
DE-1	Accountant, Clerk, Treasurer	Debt exclusion report
DE-2 (see IGR 02-101)	Mayor, Manager, Selectmen	Determination of Borrowing Covered by Debt Exclusion
DE-3 (see IGR 02-101)	Assessors, Treasurer, Acct., Mayor, Manager, Selectmen	Adjusted Debt Exclusion Schedule
LA-4	Assessors	Values by class/parcel count
LA-15 Interim Year Adjust.	Assessors	Non-Certification year report
LA-7	Assessors, BLA	Minimum Residential Factor computation
Chapter 200, Acts of 1988	Assessors, BLA	Calculation of Lowest Possible Residential Factor per this chapter
LA-10	Assessors	Assessment adjustment list
LA-13	Assessors	Tax base levy growth
LA-13A	Assessors	Amended tax base levy growth for omitted/revised assessments
Levy Limit	Assessors, BOA	FY14 Maximum Allowable Levy
Options	Assessors	Shift Scenarios
LA-5 Input	Assessors	LA-5 detailed calculations
LA-5 Form	Assessors, Clerk, Council/Selectmen	Classification hearing and excess capacity report
Tax Rate Recap	Accounting Officer, Assessors, Clerk	Four-page form required to certify a tax rate
Pro Forma Recap	Accounting Officer, Assessors, Clerk	Four-page form required for authorization of preliminary tax bills
Omitted and Revised Assessments Report	Assessors	Assessments in accordance with Chapter 59 sections 75 and 76
Quarterly Bills Acceptance Notification	Clerk	Notice of acceptance of quarterly tax billing law
Authorization to Issue Preliminary Tax Bills	Assessors	Notice of request to issue preliminary tax bills
Letter in Lieu of Balance Sheet	Accounting Officer	Prior year accounts deficit notification
Pro Forma Unused Levy Capacity Letter	Mayor, CFO, Chairman – Board of Selectmen	Pro Forma excess capacity loss

### *Forms Signed by the Accounting Officer*

A following provides the general purpose of each form highlighted in the List of Forms above.

#### A-1 – Offset Receipts (G.L. c. 44, § 53E)

- monitors the type of receipts being used;
- ensures that their estimate is supported by adequate documentation;
- required for any city or town that accepts the provisions of [G.L. c. 44, § 53E](#) and appropriates the use of a particular departmental receipt to offset a particular departmental appropriation.

Schedule A-1 must be electronically signed by the Accounting Officer and Board of Assessors.

#### A-2 – Enterprise Funds (G.L. c. 44, § 53F½)

- shows all enterprise fund revenues and appropriations in the enterprise and in the General Fund;
- helps determine any budgeted surplus or general fund subsidy; and
- must be completed for each enterprise fund established under [G.L. c. 44, § 53F½](#).

Schedule A-2 is electronically signed by the Clerk, Accounting Officer and Board of Assessors.

This form should be prepared using DLS's [IGR 08-101](#), "Enterprise Funds." Enterprise funds established by special legislation may or may not require completion of the A-2; contact the Bureau of Accounts for guidance.

#### A-4 – *Community Preservation Fund*

- monitors the appropriate use of the Community Preservation Fund as established by [G.L. c. 44B](#); and
- must be submitted by all municipalities establishing a Community Preservation Fund under Chapter 44B.

Schedule A-4 is electronically signed by the Accounting Officer.

The Community Preservation Act Surcharge Estimate Worksheet supports the level of community preservation surcharge estimated revenues. The worksheet may be required to be submitted to the Bureau of Accounts to support the level of estimated revenues used on Schedule A-4 in the first year of adoption.

### *B-1 – Free Cash*

- ensures that free cash appropriations are not greater than free cash certifications. Free cash is certified by the Bureau of Accounts as of July 1 after submission of the entity's balance sheet. The Director of Accounts may also certify updates to free cash when requested. These certifications can only be appropriated from the date of certification through June 30. As of each July 1, the entity's free cash available for appropriation is "\$0" until a new balance sheet is received and a new free cash amount is certified.

Schedule B-1 is electronically signed by the Accounting Officer.

### *B-2 – Available Funds*

- monitors the appropriate use of available funds by cities, towns and districts. Appropriate use may include whether the use of the fund is proper given the source and whether the amount available at the time of appropriation is greater than the amount appropriated, unless otherwise allowed by law.

Schedule B-2 is electronically signed by the Accounting Officer.

### *OL-1 - Overlay*

- determines whether the amount of Overlay being raised on the Tax Rate and/or Pro Forma Recap is reasonable. Special attention is given to the Overlay when shortfalls are identified. The Bureau of Accounts normally applies a rolling three-year average with special consideration for a revaluation year as well as certain extraordinary events.
- compares to the balance sheet submitted as of June 30 for accuracy.

Schedule OL-1 is electronically signed by the Assessor and by the Accounting Officer.

### *DE-1 – Debt Exclusion*

- reports each debt exclusion for which a community can assess taxes in excess of Proposition 2½'s levy limit or levy ceiling; and
- ensures that the prior year's debt exclusion was fully expended for each project's debt service.

Schedule DE-1 is electronically signed by either the Accounting Officer or Treasurer.

## DE-3 – Debt Exclusion Adjustment

Schedule DE-3 can be found on the Division of Local Services website as part of [IGR 02-101](#).

- must be approved by the Director of Accounts for adjustment to occur;
- adjusts the debt schedule for Proposition 2½ excluded debt if requested for approval by the city or town and if approved by the Director of Accounts to moderate the impact of the exclusion on the tax levy; and
- is not currently part of Gateway.

Schedule DE-3 must be physically signed by (1) majority of Board of Assessors, (2) Treasurer, (3) Accounting Officer, and (4) Mayor, City/Town Manager or majority of Board of Selectmen, and returned to the Bureau of Accounts for consideration.

## Tax Rate Recap – Tax Rate

- submitted with supporting documentation for DOR approval of a municipal or special purpose district tax rate;
- provides a summary of information contained in supporting documentation and is considered a “master document;” and
- must be approved by the DOR before tax bills can be issued. Tax rates are certified by the Bureau of Accounts using the information on the Tax Rate Recap and supporting forms.

The Tax Rate Recap is electronically signed by the Clerk (page 4), the Accounting Officer (page 3) and by the Board of Assessors (page 1).

Forms to determine the valuation as determined by the Board of Assessors and shown on page 1 of the Tax Rate Recap are not shown in this presentation.

### *Pro Forma Recap – For Preliminary Tax Notices*

- for approval to issue preliminary tax notices;
- contains the same information as a Tax Rate Recap except that page 1 of the Pro Forma Recap shows the Proposition 2½ levy limit calculation rather than assessed valuation;
- is submitted with supporting documentation when a tax rate cannot be set and actual tax bills cannot be issued timely;
- can only be issued by cities, towns and districts when they are in a recertification year, have a valuation related delay approved by the Bureau of Local Assessment and the Bureau of Accounts or as a 3rd quarter bill provided the

community has a quarterly tax billing payment system (see [annual IGR](#) on the matter); and

- entity must be at or below its Proposition 2½ levy limit.

Notices cannot be mailed until the Pro Forma Recap is approved by the Bureau of Accounts.

The Pro Forma Recap is electronically signed by the Clerk (page 4), the Accounting Officer (page 3) and by the Board of Assessors (page 1).

Valuation information is necessary to calculate a tax rate, so you cannot set a tax rate using the Pro Forma Recap.

Letter in Lieu of Balance Sheet – If Balance Sheet hasn't yet been submitted

- reports that no deficits exist from the previous fiscal year that must be raised on the current fiscal year's Pro Forma Recap or Tax Rate Recap; and
- is submitted to the Bureau of Accounts for Pro Forma or Tax Rate Recap approval purposes if a previous fiscal year's balance sheet has not been received by the Bureau of Accounts. Normally deficit information would be verified using the balance sheet.

The letter is electronically signed by the Accounting Officer.

#### Tax Rate/Pro-Forma Recap Page 4 – Example

The following example is presented as there are oftentimes questions on the completion of page 4 of the Tax Rate and/or Pro Forma Recap by the city or town Clerk. The example includes articles and motions from an annual and special meeting, a Clerk's certification of the meeting and how the Clerk's certification is transferred onto page 4 of the Tax Rate or Pro Forma Recapitulation form.

#### *Legislative Body Meetings*

The following are examples of Annual Town Meeting and Special Town Meeting articles and motions on them. Note how the Clerk's certification of financial articles and motions are recorded and transferred onto page 4 of the Tax Rate Recap. The basic process for completing page 4 of the Tax Rate Recap applies to cities as well.

*Annual Town Meeting*

*Article 3:* To raise and appropriate or transfer from available funds for the operation of the departments and payment of debt service for the fiscal year budget or to take any other action relative thereto.

*Motion on Article 3:* Move to raise and appropriate \$11,401,657 for FY20xx budget.

(The entire appropriation is recorded from raise and appropriate)

*Article 5:* To raise and appropriate or transfer from available funds to operate the enterprise or to take any other action relative thereto.

*Motion on Article 5:* Move to raise and appropriate \$13,000, to appropriate from retained earnings \$50,000 and to appropriate from departmental receipts \$379,000 for the enterprise.

(\$13,000 and \$429,000 (\$379,000 + \$50,000) are recorded from the enterprise fund – Schedule A-2 must also be completed for Tax Rate Recap purposes)

*Article 6:* To re-authorize the Recreation revolving fund for a special events program per [G.L. c. 44, § 53E½](#) and to authorize the Recreation department to expend funds received from this program to support the program or to take any other action relative thereto.

*Motion on Article 6:* Move to re-authorize the Recreation revolving fund for its special events program and to authorize said department to expend \$10,000 to support the program.

(\$10,000 is recorded from revolving fund receipts - Schedule A-3 must also be completed for Tax Rate Recap purposes)

*Article 7:* To see if the community will vote to accept General Laws [Chapter 44B](#) §§3-7, known as the Community Preservation Act, which establishes a special “Community Preservation Fund” that may be appropriated and spent for certain open space, historic resources and affordable housing purposes, to approve a property tax surcharge in an amount not to exceed 3% of the taxes assessed annually on real property which shall be dedicated to the fund, such surcharge to be imposed on taxes assessed for fiscal years beginning on or after July 1, 20xx, and to provide for no exemptions to the surcharge or take any other action relative thereto.

*Motion on Article 7:* I move that the town vote to accept General Laws Chapter 44B §§3-7, known as the Community Preservation Act, which establishes a special “Community Preservation Fund” that may be appropriated and spent for certain open space, historic resources and affordable housing purposes and to approve a property tax surcharge that shall be in the amount of 3% of the taxes assessed annually on real property and shall be dedicated to the fund, such surcharge to be imposed on taxes assessed for fiscal years beginning on or after July 1, 20xx, to provide for no exemptions from the surcharge and to appropriate \$250,000 from expected total annual revenues.

(The extra language is needed because it is the first year of adoption. \$250,000 is recorded from Community Preservation. – Schedule A-4 must also be completed for Tax Rate Recap purposes.)

*Article 9:* To see if the community will vote from offset receipts an amount of money for the Sewer department or take any other action relative thereto:

*Motion to Article 9:* Vote to appropriate \$50,000 from offset receipts of the Sewer Department.

(\$50,000 is recorded from Offset Receipts – Schedule A-1 must also be completed for Tax Rate Recap purposes.) Beginning in FY2017, page 4 of the Tax Rate Recap is expected to separate current merged columns for ease in entry.)

*Article 15:* To see if the community will vote from free cash for a new DPW truck.

*Motion to Article 15:* Vote to transfer from free cash \$60,000 for a new DPW truck.

(\$60,000 is recorded from Free Cash – Schedule B-1 must also be completed for Tax Rate Recap purposes.)

*Article 20:* To see if the community will authorize the Treasurer to borrow funds for a new fire truck.

*Motion to Article 20:* Move to authorize the Treasurer to borrow \$500,000 for a new fire truck.

(\$500,000 is recorded from Borrowing Authorization)

### *Special Town Meeting*

*Article 3:* To see if the community will vote to transfer funds from the account for Parking Meters to the Parking department for expenditure.

*Motion for Article 3:* Move to transfer \$19,500 from the Parking Meter account to the Parking department for expenditure.

(\$19,500 is from Available Funds – Schedule B-2 must also be completed for Tax Rate Recap purposes.)

*Article 4:* To see if the community will vote to transfer from the stabilization fund to purchase equipment for use at the cemetery.

*Motion for Article 4:* Move to transfer from the stabilization fund the sum of \$3,000 for cemetery equipment.

(\$3,000 is recorded from Available Funds – Schedule B-2 must also be completed for Tax Rate Recap purposes.)

*Article 5:* To see if the community will vote to transfer an amount from free cash to reduce the tax rate for this fiscal year.

*Motion for Article 5:* Move to transfer \$20,000 from free cash to reduce the community's tax rate this fiscal year.

(\$20,000 is recorded from Free Cash to Reduce the Tax Rate – Note that this amount is not recorded on page 4 of the Tax Rate Recap; it is recorded on page 2, part III d, line 1a or 1b whichever is applicable – Schedule B-1 must also be completed for Tax Rate Recap purposes.)

The following shows the Clerk's worksheet of the meetings and appropriations from particular revenue sources as voted.

The following shows the Clerk's certification of Annual Town Meeting action.

Clerk's Certification of City/Town Meeting Action											
Meeting Date: 4/12/20xx	Fiscal Year: FY20xx	Include these appropriations on page 4 of the Tax Rate or Pro Forma Recap						Do Not include these appropriations on page 4 of the Tax Rate or Pro Forma Recap		Include these amounts in the correct columns on page 4 of the Tax Rate or Pro Forma Recap, but not in the Total.	
		Total Appropriations of Each Meeting	from Raise and Appropriate	From Free Cash	From Other Available Funds	From Offset Receipts	From Enterprise Fund Revenues	from Community Preservation Revenues	from Free Cash to Reduce the Tax Rate	from Other Source to Reduce the Tax Rate	from Revolving Funds
Article 3	11,401,657	11,401,657									
Article 5	442,000	13,000				429,000					
Article 6	10,000									10,000	
Article 7	250,000						250,000				
Article 9	50,000				50,000						
Article 15	60,000		60,000								
Article 20	500,000										500,000
<b>Total</b>	<b>12,713,657</b>	<b>11,414,657</b>	<b>60,000</b>	<b>0</b>	<b>50,000</b>	<b>429,000</b>	<b>250,000</b>	<b>0</b>	<b>0</b>	<b>10,000</b>	<b>500,000</b>

The following shows the Clerk’s certification of Special Town Meeting action.

Clerk's Certification of City/Town Meeting Action											
Meeting Date: 10/10/20xx	Fiscal Year: FY20xx	Include these appropriations on page 4 of the Tax Rate or Pro Forma Recap						Do Not include these appropriations on page 4 of the Tax Rate or Pro Forma Recap		Include these amounts in the correct columns on page 4 of the Tax Rate or Pro Forma Recap, but not in the Total.	
		from Raise and Appropriate	Free Free Cash	From Other Available Funds	From Offset Receipts	From Enterprise Fund Revenues	from Community Preservation Revenues	from Free Cash to Reduce the Tax Rate	from Other Source to Reduce the Tax Rate	from Revolving Funds	Borrowing Authorizations
Article #	Total Appropriations of Each Meeting										
Article 3	19,500			19,500							
Article 4	3,000			3,000							
Article 5	20,000							20,000			
<b>Total</b>	<b>22,500</b>	<b>0</b>	<b>0</b>	<b>22,500</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The following shows Page 4 of the Tax Rate Recap summarized by each meeting from the Clerk’s worksheets. Note that the appropriation of free cash to reduce the tax rate (Article 5, STM dated 10/10/20xx) is reported only on page 2 of the Recap, part III d, as applicable). Also note that columns (h) and (i) are “Memo Only” and are not included in column (a). The Accounting Officer’s signature on page 3 of the Tax Rate Recap indicates agreement with the Clerk’s entries on Page 4. The review and understanding of this information is necessary.

### Recap – Page 4

APPROPRIATIONS					
Delete	City/Town Council or Town Meeting Dates	Appropriations FY*	(a) Total Appropriations Of Each Meeting	(b) ** From Raise and Appropriate	(c) From Free Cash (See B-1)
<input type="checkbox"/>	04/12/2014	2015	12,203,657.00	11,414,657.00	60,000.00
<input type="checkbox"/>	10/10/2014	2015	22,500.00	0.00	0.00
		<b>Total</b>	<b>12,226,157.00</b>	<b>11,414,657.00</b>	<b>60,000.00</b>
AUTHORIZATIONS					
MEMO ONLY					
(d) From Other Available Funds (See B-2)	(e) From Offset Receipts (See A-1)	(f) From Enterprise Funds (See A-2)	(g) From Community Preservation Funds (See A-4)	(h) *** Revolving Funds (See A-3)	(i) Borrowing Authorization (Other)
0.00	50,000.00	429,000.00	250,000.00	10,000.00	500,000.00
22,500.00	0.00	0.00	0.00	0.00	0.00
<b>22,500.00</b>	<b>50,000.00</b>	<b>429,000.00</b>	<b>250,000.00</b>		

## Recap – Page 2

### IIIId. Other revenue sources appropriated specifically to reduce the tax rate

1a. Free cash..appropriated on or before June 30, 2015	0.00	
1b. Free cash..appropriated on or after July 1, 2015	20,000.00	
2. Municipal light source	0.00	
3. Other source : <input type="text"/>	0.00	
<b>TOTAL IIIId</b>		<b>20,000.00</b>

## Chapter 16 – Borrowing

### Introduction to Borrowing

A portion of the information in this chapter has been adapted from the [Massachusetts Treasurers' Manual](#) and is presented here to provide the Accounting Officer a complete picture of the indebtedness process.

Municipalities regularly borrow money for a variety of purposes. Ordinary borrowing purposes include satisfying cash flow needs, financing the acquisition of capital assets and paying for the construction and repair of municipal infrastructure. State law strictly regulates both the purposes for which cities and towns can borrow and the time periods for which these borrowings can occur. Borrowing purposes and maximum loan durations are set out in MGL c.44, §§ 7 & 8.

Where the Treasurer plays a more significant role in the actual issuance of debt, the Accounting Officer plays an important role in:

- determining the amount to be borrowed and when;
- keeping a record of debt and debt policies and planning;
- notifying the proper parties of indebtedness;
- preparing for a ratings calls;
- gathering data for a Preliminary or Final Official Statement;
- notifying the proper parties of indebtedness;
- accounting properly for debt;
- accounting properly for premiums;
- reporting borrowings; and
- understanding borrowing procedures of the MSBA, MCWT and MFOB, if applicable.

### The Accounting Officer's Role in Borrowing

#### *Determining the Amount to be Borrowed and When*

#### Year End Deficits:

The Bureau of Accounts' annual end-of-fiscal year letters to Accounting Officers and Treasurers reminds them that a year-end capital projects fund balance deficit (on an individual, not aggregate basis) resulting from anticipated other governmental reimbursements or borrowing not issued by June 30 (e.g., BANs, SAANs) that equaled

or exceeded the amount received or borrowed is a deduction from certified free cash, retained earnings or E&D. To avoid this deduction from free cash, the Accounting Officer should understand the level of borrowing required and work with the Treasurer to determine the amounts that should be borrowed before year end.

The Accounting Officer should meet with the Treasurer by mid-May to plan for year end borrowing. The Accounting Officer should also monitor capital expenditures and work with project managers to determine capital expenditures that will occur at the end of the year and should be funded through either temporary or permanent financing.

#### Interfund Borrowing:

Cities, towns and districts that have authorized debt or had a Federal or State grant approved may spend for those purposes from available unrestricted funds in anticipation of borrowing or receipt of grant funds. Any so-called inter-fund or internal borrowings or advances must be repaid during the same fiscal year and be made according to rules, regulations and guidelines promulgated by the Director of Accounts. [IGR 92-105](#) and/or [G.L. c.44, § 20A](#).

#### Borrowing in Anticipation of Revenue:

It is the Treasurer's responsibility to maintain sufficient cash balances to meet the spending demands of departments within their appropriation limits. The need to borrow short-term for operating costs can be time-consuming, costly, and generally not regarded as a best practice for managing a community's operations. To avoid the need to borrow for operations, major anticipated cash expenditures such as the regional school assessment, contributory retirement payment or summer teachers' pay anticipated by the Accounting Officer should be communicated to the Treasurer in advance so that the proper level of funds are on hand. Still, communities may find themselves in need of short-term cash infusions for operating purposes, and in that event, borrowing is an allowable option. In this event, the community would consider issuing Revenue Anticipation Notes (RANs) or Grant Anticipation Notes (GANs). RANs can be issued for a maximum of one year, are used to stabilize cash flow when the treasurer's cash balances are low or forecasted to go negative (M.G.L. c. 44, § 4). These notes are issued to fill a cash need, usually until receipt of quarterly or semiannual tax payments or local aid distributions from the Commonwealth. GANs are further broken down into Federal and State Aid Anticipation Notes (FAANs and SAANs). These notes are issued to fund spending in anticipation of grant receipts with the expectation that the note will be paid off upon receiving federal, state or other funds (e.g., Chapter 90 highway project reimbursements).

## Temporary Borrowing for Capital Projects:

Bond Anticipation Notes (BANs) are issued to provide temporary funding for capital improvements. BANs are usually paid off with the proceeds of long-term financing instruments, such as general obligation bonds. However, state law allows for the reissue of a BAN for up to five years if principle payments are made in accordance with an amortization schedule that would be required if the outstanding balance were financed as long-term debt (M.G.L. c. 44, § 17). Since short-term debt normally carries a lower interest rate than permanent debt, this strategy may make sense under certain circumstances.

Once borrowing has been authorized and the project begins, community's typically issue BANs to provide funding to cover project costs until the project is completed and the final amount required to be bonded long-term is determined. Treasurer's often work with their financial advisors to determine the best times for a community to issue long-term bonds.

## Permanent Financing through Long-term Debt:

Long-term Debt Permanent financing vehicles (i.e., municipal bonds) are typically issued when market conditions make it advantageous to lock in a fixed interest rate or when further refunding of short-term debt is no longer an option due to statutory time limits. The various purposes for which borrowings are permitted are outlined in M.G.L. c. 44, § 7 and § 8. Nationwide, general obligation (GO) bonds are by far the most prevalent form of long-term municipal debt, and this is especially true in Massachusetts. GO bonds are backed by the full faith and credit of a municipality and issued for periods ranging from 5 to 30 years, depending on limitations established by state law. Additional long-term debt vehicles exist, including pension obligation, revenue, conduit, special tax, and limited obligation bonds. However, these complex options, although fairly common in other states, are almost never issued by Massachusetts communities. This is because they are suited to very specific or unique financing purposes that, in most instances, require special legislation or state approval.

### *Keeping a Record of Debt and Debt Policies and Planning*

Per [G.L. c. 41, § 57](#), the Accounting Officer "shall keep a detailed record of the town debt, showing the purpose for which it was incurred, when incurred, when due, the rate of interest and the provisions made for the payment of the debt." The amount of debt outstanding and the debt service payments each year must be considered as part of the budget planning process and is often incorporated into a community's capital plan and debt service policy.

### *Notifying the Proper Parties of Indebtedness*

The Accounting Officer must:

- record the debt as required by UMAS;
- be notified by the Treasurer of the amounts of principal and interest coming due for the purpose of inclusion in the next annual budget ([G.L. c. 41, § 59](#));
- notify the Assessors in writing of the amount coming due and explain what provision has been made for meeting the requirement ([G.L. c. 44, § 16](#));
- notify the Assessors of funds necessary to be provided on the next Tax Rate Recap to discharge a refunding loan ([G.L. c. 44, § 6A](#)); and
- verify that debt reported on the Statement of Indebtedness is in agreement with the general ledger.

### *Accounting Properly for Debt*

When a community issues short-term notes, they are recorded in the fund receiving the funding as cash and notes payable. It should be noted that a capital project fund will likely show a fund balance deficit while the cash from the BAN is spent down and until the project has been permanently financed through the issuance of long-term bonds.

Since community's maintain their ledgers on the modified accrual basis of accounting, long-term debt is recorded in the fund that is receiving the funds (typically the capital project fund) as cash and an "other financing source – bond proceeds". This other financing source account provides an income statement account to record the receipt of the funds that is not, by definition, a revenue account. Additionally, to track the liability portion of the outstanding bonds, since they are not recorded as a liability, a memo record is recorded in the General Long-Term Obligations Account Group. The memo entry records the Bonds Payable and an offsetting account called "Amounts to be Provided for the Retirement of Long-Term Debt". (refer to the UMAS Manual for the detailed entries.)

### *Accounting Properly for Premiums*

Premiums (net of issuance costs) and accrued interest received on bonds or notes sold on or after November 7, 2016 must be used either for project costs and to reduce the amount borrowed or reserved for appropriation for capital purposes. M.G.L. c. 44, § 20.

## Application of Premium to Pay Project Costs and to Reduce the Amount of the Borrowing

Premiums (net of issuance costs) and accrued interest received on bonds or notes that are the subject of an approved Proposition 2½ debt exclusion under G.L. c. 59, § 21C(k) should be used to pay project costs and to reduce the borrowing authorization by the same amount. Use of this option reduces the amount borrowed, which adjusts the debt service to reflect the true interest cost incurred to finance the excluded project. M.G.L. c. 44, § 20. Therefore, the full amount of the debt service payable in each year is excluded.

### Authorization to Reduce Amount of Borrowing

The authorization to reduce the amount of a borrowing by the amount of any net premium and accrued interest must be contained in a vote of the legislative body. It may be in the original bond authorization vote or in an amendment of that authorization vote. Bond and municipal counsel should be consulted for language to use in bond authorization votes and to amend existing borrowing authorizations in order to use net premiums and accrued interest to pay project costs and to reduce the amount of the borrowing authorization by the same amount.

Net premiums not used to pay project costs and reduce the amount borrowed must be reserved for appropriation for capital projects for which a loan has been, or may be, authorized for an equal or longer period of time than the loan for which the premiums were received. They are not available for appropriation for the payment of annual debt service of the project. They should be recorded in a separate special revenue fund until they are appropriated.

A premium received for a bond or note for which a Proposition 2½ debt exclusion has been approved (“excluded debt”), must be offset against the stated interest cost of financing the project when computing the annual exclusions for the borrowing. G.L. c. 44, § 20. This ensures that the additional amount raised in taxes for the borrowing reflects the true interest cost of financing the project.

### *Reporting Borrowings*

The Accounting Officer must:

- complete part X of Schedule A, the annual City and Town Financial Report submitted to the Bureau of Accounts
- review and sign the Statement of Indebtedness (see below);

- be notified of an advance of funds in lieu of borrowing, complete and submit the [Advance of Funds in Lieu of Borrowing](#) report to the Bureau of Accounts;
- complete and submit the [Renewal of State/Federal Grant Anticipation Notes](#) report to the Bureau of Accounts

### Statement of Indebtedness

The statement of indebtedness as of June 30 is required to be submitted via Gateway by September 30 or upon submission of a balance sheet for free cash, retained earnings and E&D certification, whichever is earlier. The statement summary screen is found in Gateway under Misc. Forms, Statement of Indebtedness.

[M.G.L. Ch. 44, §28](#) requires the Director of Accounts to maintain complete and accurate records of indebtedness incurred by cities, towns and districts. This statute also requires Treasurers to furnish any other information requested by the Director in respect to the authorization and issuance of loans. This Statement is the annual report required from Treasurers to accomplish this purpose.

The Statement of Indebtedness is prepared by the Treasurer and forwarded to the Accounting Officer who must verify that the amounts reported agree with the general ledger.

The Bureau of Accounts may compare the statement of indebtedness to other financial reports such as the balance sheet, Schedule A, and the audit report.

### *Advance of Funds in Lieu of Borrowing Report*

This Report is initially completed by the Treasurer. It is used to report to the Bureau of Accounts any inter-fund borrowings done as an alternative to borrowing in anticipation of bonds or receipt of grant funds.

Prior to the end of the fiscal year, the Treasurer and Accounting Officer should review the status of all outstanding inter-fund borrowings. If the payment or reimbursement of grant funds is not expected by the end of the fiscal year, the Treasurer should issue state or federal grant anticipation notes if allowed prior to June 30<sup>th</sup> and repay the advance as required by statute. The Accounting Officer enters the date of the repayment on the form and forwards a copy to the Bureau of Accounts, Public Finance Section. A copy should also be maintained by the Accounting Officer as part of the financial records of the municipality or district.

### *Renewal of State/Federal Grant Anticipation Notes*

This form is used when renewing State or Federal grant anticipation notes and is completed by the Accounting Officer upon the Treasurer's request. The Accounting Officer is certifying, as required by [M.G.L. Ch. 44, 6A](#), that the grant receivable is at least equal to the amount of the refunded loan.

### *Gathering Data for a Preliminary or Final Official Statement*

The purpose of a Preliminary Official Statement is to provide a notice of sale of bonds or notes by a governmental entity and to provide certain information about the entity itself. It is the responsibility of the Treasurer to produce this document. However, a Financial Advisor hired by the Treasurer to assist in the sale of the security will typically assist in assembling this information. The Accounting Officer plays a role in the completion of the Official Statement by providing certain financial information.

A Final Official Statement contains the same information as the Preliminary Official Statement. In addition, however, the Final Official Statement includes all the final information (e.g., interest rate, payment schedule etc.) resulting from the sale.

### *Preparing for a Rating Call*

Credit rating agencies assign a rank to the creditworthiness of the entity, a rank which is relied upon by lenders to determine a security's interest rate or possibly to help decide whether to bid on the security's sale at all. The meeting with the ratings agent, or maybe a telephone call, will guide that agency toward that rating. Detailed knowledge of the entity's finances is discussed, and the Accounting Officer's participation is required.

Rating agencies will typically request information in advance of the call and will provide a list of questions and topics that the Accounting Office should be prepared to discuss.

### *Understanding Borrowing Procedures of the MSBA, MCWT and MFOB*

#### *The Massachusetts School Building Authority (MSBA)*

MSBA is a quasi-independent government authority created to reform the process of funding capital improvement projects in the Commonwealth's public schools. The

MSBA strives to work with local communities to create affordable, sustainable, and energy efficient schools across Massachusetts.

The MSBA has a dedicated revenue stream of one penny of the state's 6.25% sales tax, is collaborating with municipalities to equitably invest up to \$2.5 billion in schools across the Commonwealth. In its ten-year history, the MSBA has made more than \$10.7 billion in reimbursements to cities, towns and regional school districts for school construction projects.

For newer projects, MSBA uses an online Pro-Pay system where costs are incurred, and reimbursements are received usually within 15 days of submitting a request. The State share for newer projects cannot be borrowed for permanently. These costs are borrowed for temporarily via BANs, and the BAN's are paid off using the reimbursement. The State share for the cost of older projects is reimbursed annually as these costs were likely borrowed for permanently some years ago. This reimbursement is reported on the city or town's Tax Rate Recap from a schedule released by the Authority.

#### *The Massachusetts Clean Water Trust (MCWT)*

The Massachusetts Clean Water Trust (MCWT or the "Trust") was established in 1989 pursuant to Title VI of the Federal Clean Water Act. It was later amended in 1998 to encompass the provisions of Title XIV of the Federal Safe Drinking Water Act. The Trust was formally known as the Massachusetts Water Pollution Abatement Trust.

The Massachusetts Clean Water Trust improves the water quality in the Commonwealth through the provision of low-cost capital financing to cities, towns, and other eligible entities.

The Trust administers loan programs that provide funding to cities, towns, other governmental units, and private entities for the purpose of financing improvements to drinking water and wastewater infrastructure. To qualify for a loan, the project must be approved by the Department of Environmental Protection (DEP).

Authorization for borrowing for Trust projects is much like borrowing for other capital projects in the community, only the funds come from the Trust. Loans from the Trust are typically issued at a set interest rate. The savings comes in the form of the lower than market rate.

*The Municipal Finance Oversight Board (MFOB, [IGR 04-101](#))*

Chapter 149 §§95-101, 215 and 254 of the Acts of 2004 eliminated the Emergency Finance Board (EFB) which provided state oversight of certain city, town or district borrowings, appropriations and other actions. This law created the MFOB consisting of the Attorney General, State Treasurer, State Auditor and Director of Accounts, or their designees, for oversight in some cases.

The MFOB must approve of the following actions before they can occur:

- (1) Incur debt to establish or enlarge a gas or electric plant; [M.G.L. Ch. 44 § 8\(8\)](#);
- (2) Incur debt to remodel or repair a gas or electric plant or telecommunications system; [M.G.L. Ch. 44 §8\(8A\)](#);
- (3) Incur debt for sewer system construction or payment to tie into neighboring municipality's system, unless city or town has a sewer enterprise or special revenue fund and Accounting Officer certifies to Treasurer that sewer rates are set at a level sufficient to cover operating expenses and debt service; M.G.L. Ch. 44 §8(15);
- (4) Exceed statutory debt limit (including debt above limit authorized before July 31, 2003 and not approved by EFB before its abolition); [M.G.L. Ch. 44 §10](#);
- (5) Designate Qualified Bonds; [M.G.L. Ch. 44A](#);
- (6) Incur debt for projects receiving federal grants Ch. 74 of the Acts of 1945.

### Types of Borrowing

Municipalities may incur both short-term and long-term debt. They generally make short-term borrowings for periods of one year or less, often in anticipation of a particular municipal revenue source. The short-term debt instrument is called a “note,” which is a written document containing an express promise of the signer to pay a definite sum of money at a specified time not more than a year from the execution of the note.

Long-term debt, on the other hand, involves loans with a maturity date of 12 months or more. It is issued using an instrument called a bond, which is a written document containing an express promise of the bond issuer to repay a specified sum of money, alternately referred to as the face value, par value or bond principal, to the buyer of the bond on a specified future date, called the maturity date, together with periodic interest at a specified rate.

Notes are categorized according to the purpose for which they are issued. For example, notes issued in anticipation of the receipt of operating revenues are called Revenue Anticipation Notes (RANs); notes issued in anticipation of bond proceeds are called Bond Anticipation Notes (BANs); and notes issued in anticipation of state and federal grant receipts are called State Grant Anticipation Notes or Federal Grant Anticipation Notes (SAANs and FAANs).

Chapter 44 sets out strict rules and procedures regarding municipal borrowing. The issuance of long-term debt always requires a 2/3 vote of the legislative authority. Certain types of debt, such as debt for landfill capping, require the approval, as well, of various state agencies or boards.

The Bureau of Accounts (BOA) of the Department of Revenue (DOR) possesses jurisdiction and responsibility to monitor and maintain records of municipal indebtedness. Each community must complete a Statement of Indebtedness and return it to the BOA. Furthermore, upon a city, town, or district's authorizing debt, the Clerk must notify the BOA by furnishing the Director with a copy of the vote within 48 hours after the vote has become effective.

### *Debt Limitations*

Cities, towns and districts must comply strictly with chapter 44 in all matters of public debt. [Ch.44, § 2](#) asserts this requirement, stating, "Except as otherwise expressly permitted by law, cities, towns and districts shall incur debt only in the manner of voting and within the limitations as to amount and time of payment prescribed in this chapter...."

Chapter 44 provides for numerous limitations and procedures that govern local debt issues. One of these limitations places a ceiling on the maximum amount of debt a city or town may have authorized at any one time. [Ch.44, §10](#) sets this limit at 5% of their equalized valuation (EQV) for cities and towns. The statute permits municipalities to exceed these limits only with the approval of the Municipal Finance Oversight Board (MFOB). With Board approval, a city or town's borrowing limit may be increased by an amount up to an additional 5% of its EQV, sometimes for a term provided.

The aggregate amount of a community's authorized and outstanding debt for purposes of the [Ch.44, §10](#) debt limit, however, includes only the debt authorized under Ch.44, §7. The borrowing purposes set out in this statute are "inside" the debt limit. The borrowing purposes set out in [Ch.44, §8](#), on the other hand, are "outside" the [Ch.44, §10](#) debt limit.

## *Issuing Debt*

Once debt has been properly authorized by a municipality's legislative authority and all other legal requirements have been met, the municipal treasurer must prepare and sign the notes or bonds. For debt issued by a city, the debt instruments must be countersigned by the mayor, unless the charter otherwise provides. In towns, a majority of the selectmen must sign the instruments.

## *Types of Short-Term Debt*

### *Revenue Anticipation Notes (RANs)*

[Ch.44, § 4](#) permits cities, towns and tax-levying districts to incur short-term debt in any fiscal year in anticipation of taxes and other current revenues of that fiscal year. Such borrowing requires approval of the same official or board authorized to countersign the notes, generally the mayor or the selectmen. The borrowing amount cannot exceed the municipality's "certified" revenue borrowing capacity, which is the aggregate of:

- (1) the tax levy of the preceding fiscal year;
- (2) the net amount collected in the prior fiscal year from motor vehicle and trailer excise, and
- (3) payments made to the municipality by the Commonwealth in lieu of taxes during the prior year as reimbursement for property taken for State purposes. For a district, the borrowing cannot exceed the district's aggregate receipts from taxes, rates, and services in the year preceding that for which the debt is incurred.

The aggregate amount borrowed by a town or district must be approved by the Director of Accounts or bond counsel and must be shown on an estimated cash flow statement prepared on a form approved by the Director. Borrowings for periods of less than one year may be renewed, so long as the total term does not exceed one year from the date of the original borrowing. Revenue anticipation notes must be paid within one year of their date; however, payment may span two separate fiscal years.

### *Grant Anticipation Notes (GANs)*

Municipalities regularly receive grants of money from the Commonwealth and from the federal government for diverse municipal projects. Frequently, the municipalities must

pay the project costs up front and receive reimbursement for these costs later, after completion of the project. Massachusetts law permits municipalities to make borrowings to pay up front project costs in anticipation of reimbursement from grant proceeds.

#### *State Aid Anticipation Note (SAANs)*

If a municipality receives a grant from the Commonwealth to reimburse the municipality for its up front expenditures for any project for which the municipality could borrow for 5 years or longer, the treasurer can incur debt outside the debt limit and issue state aid anticipation notes for the project for a period not exceeding 2 years ([Ch. 44: §6A](#)). The loan may be renewed from time to time, as long as the grant remains payable in an amount at least equal to the amount of the outstanding loans. The availability of grant funds must be verified by an accountant's letter with each renewal.

Borrowings under ([Ch. 44: §6A](#)) do not require town meeting vote. Rather, they require, in towns, the approval of the selectmen and, in cities, the approval of the official whose approval is required by the city charter for the borrowing of money. The notes must be signed by the treasurer and approved by either the Bureau of Accounts as State House Notes or bond counsel. The grant proceeds may be used to discharge the loan without the need for additional appropriation.

Borrowings in anticipation of state grants may also be made under Ch.44, §6. However, borrowings are infrequently made under this statute, partly because they require a majority vote of the legislative body.

#### *Federal Aid Anticipation Notes (FAANs)*

Federal aid anticipation notes may be issued to provide temporary financing for projects that will ultimately be funded by federal grant proceeds. (Ch. 74 of the Acts of 1945)

Issuing FAANs does not require approval of the legislative body; however, the legislative body must have voted to approve the project and have authorized debt for the local share of the project costs. If a grant is awarded to reimburse the costs for a public works project, the municipality must obtain approval from the Municipal Finance Oversight Board and the Governor before undertaking the project or issuing FAANs. To obtain such approval, the municipality must submit to the Municipal Finance Oversight Board an environmental statement, grant documentation, a project cost breakdown and a copy of the town or city vote accepting the grant.

Upon obtaining the necessary approvals, a municipality may issue notes in anticipation of federal aid for a maximum of 2 years. The municipality may from time to time renew these notes, so long as the accountant or auditor certifies that at the time of the refunding, the municipality is entitled to receive from the grant an amount at least equal to the amount of the refunding loan.

### *Bond Anticipation Notes (BANs)*

Municipalities may issue bond anticipation notes (BANs) in anticipation of contracting long-term debt. ([Ch. 44 §17](#)) Prior to issuing BANs, a municipality's legislative body must have specifically authorized the long-term debt with a 2/3 vote.

Municipalities can issue BANs for up to 2 years without having to make principal payments. They can refund BANs for up to 5 years from the date of the original loan. However, municipalities that refund BANs must make principal payments in the third and fourth years. Each paydown must be at least equal to the minimum payment that would have been required if the temporary loan had been converted to a serial loan.

*Exception:* A municipality can issue BANs for a feasibility study required to apply for a school facility grant for up to 5 years with no principal payments {70B:6(e)}.

Any BAN proceeds remaining when a serial loan is issued should be applied to the payment of the BAN. However, if a serial loan is issued after the final costs of a project are known and those costs are less than the amount for which the BAN was issued, the serial loan may only be issued for the amount of the project costs.

Some municipal borrowing purposes require the approval of the Municipal Finance Oversight Board or other state agencies prior to the issuance of the serial loan or BANs (Ch.44, §7-8). Moreover, if a municipality seeks to incur debt in an amount of \$500,000 or more, the Bureau of Accounts may require the municipality to obtain a preliminary legal opinion from bond counsel attesting to the legality of incurring that debt.

### *State House Notes*

State House Notes are debt instruments for municipalities, counties and districts certified by the Director of Accounts (Ch.44, §23-28). These instruments are payable annually. Usually, they are limited to maturities of 10 years. The notes do not require an official statement or full disclosure.

[Ch.44, §23](#) requires the Director to furnish forms to each municipal and district treasurer for the issuance of notes for money. To comply with this requirement, the Director delivers to each treasurer a book of serially numbered notes. The notes, as required by [C.44, §24](#), contain blank spaces for the treasurer to insert an issue date, interest percentage and due date.

Whenever a municipality or district votes to borrow money other than by issuing bonds, the treasurer, using the forms provided by the Director, may make notes for the amount of the proposed loan. The treasurer may use one or more of these forms, filling in the blank spaces. The notes must be issued in serial order. If a note is somehow ruined, the treasurer must return it to the Bureau of Accounts.

### *Role of Bond Counsel*

Bond counsel plays an important role in the bond issuance process. In order for a municipality to issue bonds, bond counsel must give an approving opinion. This opinion must state that the bonds have been properly issued in accordance with law, that they constitute a binding obligation of the municipality and that they are payable from a described revenue source. The opinion will also describe the tax-exempt nature of the interest to be paid on the bonds.

Bond counsel's approving opinion will be unqualified, stating explicitly that the bonds are valid, and the interest is tax-exempt as described. If the bonds turn out not to be valid or the interest turns out to be taxable, bond counsel may be liable to the purchaser.

The services provided by bond counsel in the process of assuring that bonds are properly issued include:

- Determining whether the municipality or district possesses the requisite legal authority to issue the bonds;
- Drafting a motion for a vote whereby the legislative body can authorize the bond issue;
- Making certain that the bonds were properly authorized, that the issuer possesses the legal power to carry out the project the bonds are intended to finance;
- Ensuring that all requisite steps were taken, and the necessary certification provided to guarantee that interest on the bonds will be tax-exempt.

Because bond counsel plays a critical role in the borrowing process, communities should be careful to select a law firm that possesses an extensive and widely regarded expertise in this area of jurisprudence. Selecting a bond counsel in whom the investment community has confidence substantially assists a community to market its bonds. Of course, bond counsel receives compensation based on the firm's expertise, as well as on the complexity of the work involved and the extent of the services provided.

### *Bond Ratings*

In order to successfully market bonds, an issuer should seek a bond rating on the issue. Through bond ratings, investors, purchasers, underwriters, traders and sellers gauge the relative credit worthiness of municipal bonds. Bond ratings are established by independent, private, rating agencies and reflect the rating agency's judgment as to a community's capacity and willingness to pay interest and principal in a timely fashion.

Ratings have a significant effect on the cost of borrowing; investors will generally accept a lower interest rate for bonds issued by a higher-rated community. The ratings range from Aaa (AAA) to C. The highest four rating categories (Aaa, Aa, A, and Baa by Moody's Investors Service, or AAA, AA, A, and BBB by Standard and Poor's) are considered "investment grade." Institutional investors, such as banks and fiduciaries, are often legally prohibited from purchasing bonds that do not have an investment grade rating.

The three major rating agencies are Moody's Investors Service, Standard and Poor's, and Fitch. Having two rating agencies rate the bond issue gives two perspectives, which can often enhance the view of the community's credit worthiness. Securing one or more bond rating is well worth the cost, except for very small issues.

Most credit agencies issue publications outlining the factors upon which they rate municipalities. They also give seminars to explain the process, and answer questions.

### *Credit Enhancements*

Credit enhancement is the process of using the credit of a stronger, more highly rated entity to enhance the credit of a lower-rated entity. The major forms of credit enhancement are private bond insurance, bank letters, and lines of credit. The most prevalent credit enhancement for long-term debt issues is municipal bond insurance. Bond insurance is a legal commitment by an insurance company to make debt principal and interest payments if the issuer is unable to make those payments on time.

Most providers of municipal bond insurance are rated triple A by both Moody's and Standard & Poor's. Providers offer a variety of options for procuring municipal bond insurance, such as direct purchase by the issuer or by direct or optional purchase by the underwriter. The premium for this insurance is usually expressed as a percentage of the total principal and interest; it is payable at the time of closing.

Today the purchase of insurance for cities, towns and districts is almost exclusively done through the optional purchase by the underwriter. With this method, the decision of whether to purchase the insurance is entirely left to the bidding underwriter.

### *The Offering Documents – the Official Statement or “O/S”*

The two, primary documents utilized in a competitively bid, public sale of long-term debt are the Notice of Sale and a prospectus, called the Official Statement.

The Notice of Sale sets forth the structure of the loan, bidding restrictions, method of award, anticipated time and place of delivery and method of payment. It is a precise, legal document.

The Official Statement provides more general information about the bonds being offered and, more importantly, communicates to the potential investor all the information reasonably necessary to make a prudent investment decision. This information includes the notice of sale, a description of the issue, financial and other economic data about the municipality, the proposed form of the bond counsel's opinion and forms for use in submitting offers.

The financial advisor generally prepares or assists in the preparation of the Official Statement, utilizing audit reports, financial statements and other public records and reports, including information from interviews with key municipal officials. No matter who prepares the statement, however, the primary responsibility for its adequacy and accuracy lies with the treasurer. Federal securities law imposes significant penalties if the statement contains materially false or misleading information or does not disclose material facts.

The Municipal Securities Rulemaking Board, an adjunct of the Federal Securities and Exchange Commission, requires every registered municipal securities dealer to disseminate the information contained in the Official Statement to its customers. The Government Finance Officers Association (GFOA) has promulgated guidelines that have become the industry standard for the content and format of an Official Statement. These documents are typically 30-40 pages in length, with the community's most recent audit attached as an appendix. Depending upon the quality of a community's records

and the diligence of its effort, an Official Statement will take from 4 to 6 weeks to generate.

### *Debt Records & Activities*

The treasurer must maintain records of all municipal borrowings; these records must contain the following information for each issue:

- Loan description;
- Name of purchaser;
- Dates of issuance and maturity;
- Annual interest with due dates;
- Annual principal amortization and due dates;
- Loan balance.

If an issue is a multiple purpose loan, i.e., issued for more than one statutory purpose, the treasurer must keep records of the amount and maturities of each component of the total loan. [\(44:16\)](#) Treasurers must determine the amounts of interest and principal becoming due on debt and must notify the accountant or auditor, the finance committee in towns, and the mayor or selectmen for inclusion of these amounts in the annual budget. [\(41:59\)](#)

The accountant or auditor must notify the assessors in writing of the amount of debt becoming due during the next financial year and explain to them what provision has been made for meeting this requirement. [\(44:16\)](#)

Upon receiving each statement, the treasurer should reconcile the loan accounts shown on the statement. As bonds mature, the bank will either destroy them or cancel them and return the cancelled bonds to the treasurer. In either case, the bank will provide the treasurer with documents for treasury records. If a balance of loan proceeds remains after the completion of the project for which a loan was authorized, that balance may be appropriated for any purpose for which the municipality could borrow for the same or a longer period as the period actually borrowed for the subject project. [\(44:20\)](#)

### *Refunding of Existing Debt*

During periods when interest rates decline, municipalities can save money by refunding some or all of their outstanding debt. The refunding process involves the issuance of refunding bonds and is analogous to refinancing a home mortgage to take advantage of lower rates. New debt is issued in the form of refunding bonds, and the proceeds are

used to retire the outstanding, higher interest debt, i.e., the refunded bonds. The savings is the difference between the higher annual debt service on the refunded bonds and the lower annual debt service on the refunding bonds.

Refunding is generally classified as either current or advanced. In the case of a current refunding, the proceeds of the refunding bonds are used to retire the refunded bonds on the call date. Under Internal Revenue Service regulations, a current refunding must occur no more than 90 days prior to the payment of the refunded bonds.

Advanced refunding is the procedure whereby one bond issue is replaced with another bond issue. This procedure is utilized typically when a municipality discovers that it can borrow with better terms than the terms of an existing bond issue. The treasurer uses the proceeds of the new bond issue to purchase government securities to be held by an escrow agent. The escrow agent invests the principal and income from these securities and uses the earnings to service the outstanding refunded debt. The agent holds the escrow until the first call date of the refunded bonds at which time they are called and paid off. Bonds must be callable in order for a treasurer to utilize a refunding. Moreover, a sufficient present value savings must be available to make the process worthwhile. Strict federal regulations govern the investment of the refunding bond proceeds. A municipality's financial advisor can best advise about the financial feasibility of undertaking a refunding.

### *Qualified Bonds*

[Ch. 44A](#) (the Qualified Bond Act) provides municipalities with marginal credit ratings an opportunity to issue approved debt under what is referred to as the qualified bond program. Under this program, a participating community issues "qualified bonds," and the state treasurer pays the debt service on these bonds directly from the community's local aid, thereby increasing the security of the bonds. "Qualified bonds" may be issued for any legal borrowing purpose authorized by a vote of the municipality's appropriating authority and by approval of the Municipal Finance Oversight Board.

### *Inability to Pay Principal or Interest on Debt - State Distributions to Pay Debt Service*

[Ch. 44 §19A](#) sets out a process to prevent a municipality's defaulting on a debt service obligation. If a Treasurer believes that the municipality is, or is likely to be, unable to make an installment payment on a borrowing, the treasurer must notify the selectmen or mayor. If the selectmen or mayor concur, they must certify the inability or likely inability to the commissioner of revenue. If the commissioner concurs, the commissioner must immediately certify the inability to the state treasurer who must make the payment from

state funds, up to the amount of the municipality's Cherry Sheet entitlement during that fiscal year. Any amounts paid are charged against the amount otherwise due from the state to the municipality.

## Chapter 17 – Financing Capital Improvements

This Chapter is devoted solely to financing capital improvements. The Accounting Officer typically plays a key role in the financing process, especially in regard to development of a Capital Improvements Plan, estimating future revenue sources, and suggesting approaches to finance the improvements.

With ongoing needs to acquire, build and/or replace capital assets and infrastructure, it is best to establish a plan that will operate within the limits of a community's resources. Development of a capital plan or capital improvement program (CIP) can be the responsibility of a town manager or administrator, a finance committee or a separate capital improvement committee and requires the input and analysis of the financial records by the Accounting Officer. A CIP coordinates the city or town's planning, financial capacity and physical development. [Chapter 41, § 106B](#) permits a town to establish a Capital Planning Committee by bylaw.

Some of the tasks that should be completed in a CIP are the following:

- Define expenditures considered capital requests
- Prepare an inventory of capital needs; update annually
- Prioritize capital requests according to objective criteria
- Present a comprehensive capital budget and multi-year capital program annually
- Consideration should be given to a community's resources and plan for financing capital needs.

For more information on this topic, please refer to the DLS publication *Developing a Capital Improvements Program: A Manual for Massachusetts Communities* available on the DLS website [www.mass.gov/dls](http://www.mass.gov/dls) (search for DLS Manual: Developing a Capital Improvements Program.)

Under Proposition 2½, cities and towns may find it increasingly difficult to fund capital expenditure debt within tightened operating budgets. Deferring capital projects to free resources to pay operating expenses can lead to inadequate maintenance, repair, replacement and expansion of local infrastructure.

Deferring infrastructure maintenance and improvement compounds the problem by increasing the cost of performing such work in the future or resulting in emergency spending when infrastructure or assets fail. Delays also result in the deterioration of the quality of public services.

A capital improvements program should include both a capital “budget,” i.e., a spending plan for capital items for the upcoming year, and a capital “program,” i.e., a plan for capital expenditures that extends some number of years, perhaps five, beyond the upcoming year.

Developing a sound CIP requires devoted and effective leadership and the amenable involvement and cooperation of all municipal departments. Accordingly, with skilled leadership and broad cooperation critical to success, the community’s chief executive officer should serve as chairperson.

The benefits of a successful capital improvement program include the following:

- preservation of capital assets;
- coordination of capital needs and operating budgets;
- soundness of municipal credit rating;
- stabilization of tax rate and debt costs;
- and increases in federal and state aid.

### *Steps in Implementing a Capital Improvements Program*

In developing a capital improvements program, a city or town should undertake the following steps. (see also [\*Developing a Capital Improvements Program: A Manual for Massachusetts Communities\*](#), prepared by the Municipal Data Management and Technical Assistance Bureau.)

1. Town meeting/city council adopt(s) a CIP bylaw.
2. Mayor/selectmen appoint(s) a CIP committee.
3. CIP committee:
  - a. Prepares an inventory of facilities and equipment, specifying for each item its current condition;
  - b. Determines the status of previously approved projects, researching the funding situation of each;
  - c. Assesses the community’s capability to fund capital projects;
  - d. Solicits, compiles, and evaluates departmental requests for capital projects and equipment;

- e. Establishes a priority for capital needs;
  - f. Develops a CIP financing plan that recommends a method of financing for each proposed project;
  - g. Submits proposed plan, including recommendations for the upcoming year's capital budget and for capital expenditures for the several following years, to the mayor/selectmen for consideration.
4. Mayor/selectmen consider(s) plan and forward(s) it, with any recommended amendments, to finance committee/city council;
  5. Finance committee/city council reviews plan and makes recommendation on budget issues;
  6. Town meeting/city council adopts plan;
  7. Mayor/selectmen monitor(s) implementation of plan;
  8. CIP committee initiates annual updating cycle by reviewing existing plan, making new recommendations and submitting recommendations to mayor/selectmen.

### *Debt Planning*

As part of debt planning, a municipality must accomplish three things. First, it must determine how it will pay debt costs. Second, it must obtain authority to incur debt from the town meeting or city council. Finally, it must carry out the actual issuance process.

### *Ability to Pay*

Municipalities must choose from among three possible options in funding the debt service of a significant project. These include:

- Paying the debt costs from the existing operating budget;
- Dedicating some specific revenue source, such as water and sewer receipts, to payment of the debt costs;
- Obtaining debt exclusion authority under Proposition 2½ and paying the debt costs from the additional levy capacity.

### *Absorbing the Debt Service within the Operating Budget*

With most cities and towns levying at or near levy capacity, few municipalities can accommodate the payment of new debt costs from existing operational budgets without the necessity of making substantial cuts in existing programs. For loans requiring repayment with annual principal payments, the interest due each year regularly declines, freeing up some additional money in each year's budget during the term of the debt. Most loan repayments are structured with equal annual payments, combining interest and principal. In these cases, only in years following the ultimate retirement of an existing debt issue can an operational budget generally absorb new debt costs.

### *Designated Revenues*

Municipalities sometimes incur debt to pay for capital projects of municipal departments that generate revenue from user fees, such as water and sewer departments. In such an instance, a municipality, in cooperation with the rate setting authority of the particular department, might decide to pay some or all of the debt costs from those fees. Instead of issuing revenue bonds, however, municipalities in such instances generally issue general obligation debt upon the full faith and credit of the municipality because general obligation debt may be obtained at a lower interest rate and substantially lower issuance costs. This is the most common procedure in Massachusetts.

In cases in which a municipality incurs debt to fund improvements for a limited and determinable area, the municipality might decide to pay debt costs from betterment assessments made upon property owners in those areas. [\(80:1\)](#)

When municipalities incur debt for particular projects, such as school construction, library construction or water pollution abatement, they are entitled to receive partial reimbursement from a particular state grant. School construction grants are awarded under [Ch. 70B](#). Under this grant program, the state reimburses communities a set percentage of the total eligible construction cost, including both principal and interest, over the life of the school construction debt. Through its board of library commissioners, the state also provides grants to cities and towns for assistance in constructing facilities to be used as free public libraries ([G.L. c. 78, §§ 19H-19K](#)) and for water pollution abatement projects ([G.L. c. 29C](#)).

### *Proposition 2½ Debt Exclusions*

In a community levying at or near capacity, and therefore unable to fund debt costs for a proposed project from its operating budget, the selectmen, or council, with the mayor's

approval, may vote, by a two-thirds vote, to seek voter approval at a regular or special election to exempt the debt payment from the Proposition 2½ levy limit. ([59:21C\(k\)](#)) If the voters give approval, all debt costs for the project, both long and short-term, will be excluded from the city or town's levy limit. Once the debt costs have been fully paid, however, the exclusion authority lapses. ([IGR No. 02-101](#))

### *Managing Debt*

Municipalities must be diligent in planning and controlling the aggregate of their outstanding debt. The impact of a community's incurring unanticipated debt may be severe. Even though the city or town may approve a Proposition 2½ debt exclusion, the attendant tax increase might very well diminish the taxpayers' willingness to support future projects.

Therefore, as part of its capital planning process, every community should develop a strategy dealing with the issuance, timing and tax impact of current and future debt. All finance officials, including the treasurer, selectmen or mayor, capital planning committee, and the community's financial advisor, should collaborate in developing the strategy. As part of their planning, these officers should constantly monitor the impact of state and federal legislation and administrative rulings on municipal finances. They should also consider debt issuance practices of other relevant governmental agencies, such as regional school districts, and water/sewer districts, and discuss these practices in their planning.

Formalizing planning about municipal debt should not result in necessary project's not obtaining approval. The planning process should, through its effect on controlling a community's borrowing costs and property tax rate growth, help to ensure a financial environment that permits a community to carry out necessary projects, while minimizing taxpayer distress.

Some communities, as part of their debt maintenance strategy, place all capital projects with a cost in excess of some established amount before the voters at a referendum for a Proposition 2½ exemption vote. Others fund a base level of all capital debt within the general operating budget. Still others set an amount that will be borrowed annually for capital projects within the general operating budget. Communities possess broad discretion in their borrowing practices and strategies.

### *Common Financing Options for Capital Improvement Projects*

Prior to commencing a borrowing, municipal officials, in consultation with their financial advisor, should carefully determine the timing, size and category of borrowing that

would best fulfill the community's needs. Their decisions should consider the community's credit status, the current and anticipated conditions of the bond market, and the capacity of the community's budget to accommodate increased debt service payments. Available debt options include the following debt instruments:

- General Obligation Bond;
- Note;
- Bond Anticipation Note (BAN);
- State Aid Anticipation Note (SAAN);
- Federal Aid Anticipation Note (FAAN).

### *Financing Capital Projects at the Best Interest Rate—How Bond Analysts Evaluate Municipalities*

Bond analysts, such as Moody's, Standard & Poor's, and Fitch closely review several indicators when evaluating a municipality's credit risk. Treasurers should thoroughly understand these factors to assist them in securing the best credit rating and interest rates for their municipalities. The indicators fall within four, basic areas:

#### 1. Debt structure and burden

- Long-term debt;
- Long-term debt as a percent of full valuation;
- Debt service as a percent of operating revenue;
- Long-term debt per capita;
- Yearly debt retirement schedules (i.e., the uniformity of annual debt costs);
- Debt authorized but not yet issued;
- Over-lapping debt, such as the town's portion of debt incurred by a regional school district;
- Short-term debt;
- Unfunded pension obligations;
- Unfunded other retirement benefit obligations such as health care.

#### 2. Financial factors

- Unrestricted cash reserves;
- Revenue sources;
- Fixed costs as a percent of operating expenditures;
- Actual vs. estimated local receipts;
- Property tax levy vs. levy limits;

- Property tax collections rate;
- Operating deficit or surplus;
- Liquidity;
- User fees.

### 3. Economic health

- Full valuation of real and personal property;
- Location and natural resources;
- Size and land use characteristics;
- Population change and ages;
- Income;
- Housing characteristics;
- Growth in residential/commercial tax base;
- Unemployment;
- Tax base.

### 4. Management practices

- Professional management capability (including capital improvement programs and revenue and expenditure projections);
- Accounting record-keeping and auditing;
- Municipal services provided;
- Intergovernmental relations;
- Assessment of property;
- Tax administration;
- Legal and regulatory limitations;
- Litigation cases and pending litigation.

By monitoring these factors at least annually, treasurers and other financial officials can help their communities to improve, or at least maintain, their credit positions and to choose capital expense financing strategies most suited to their communities' circumstances.

## Chapter 18 – Overview of the Municipal Audit Process

### Introduction

For purposes of this Chapter, the term “Auditor” will mean the independent auditor, a Certified Public Accountant or CPA, hired by the governmental entity to conduct the annual audit of the financial records.

Uniform audit requirements are established for any non-Federal entities that administer federal awards through OMB (Office of Management and Budget) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, referred to as Uniform Guidance.

A complete audit report includes:

- The auditor’s opinion and the financial statements on which the auditor opined;
- The Management Letter, if one is prepared; and
- The opinions and schedules as required by the Federal Single Audit Act.

The Single Audit Act requires audits based on the amount of federal grant funds the community spends both directly from the federal government and indirectly through a state agency. If the entity spends over \$750,000 in a fiscal year, it is required to have an audit performed in accordance with the government auditing standards, also referred to as the yellow-book audit.

If the entity spends federal funds under only one federal program (excluding research and development) and the federal program’s laws, regulation, or grant agreements do not require a financial statement audit, the entity can have either:

- an audit performed in accordance with the Single Audit Act; or
- a program-specific audit.

If the entity receives less than the \$750,000 threshold, there is no audit requirement, but accounting records must be properly maintained for federal funds and must be available for review or audit by appropriate officials of the federal agency, pass-through entity, and General Accounting Office (GAO). These entities may, however, be required to have an annual audit performed to comply with debt covenants or trust agreements, and the lack of an annual audit could have a negative impact on an entity’s bond rating and could reduce the credibility of the entity’s financial information.

If an entity is not required to have an annual audit under the above criteria, Auditors and regulators generally recommend that an entity have an independent audit of its basic financial statements at a minimum of every three years.

#### How to Obtain an Audit

Currently, there is no state requirement for the competitive procurement of audit services. However, certain federal procurement regulations may apply if federal funds are used to pay for a portion of the audit.

[G.L. c. 30B](#), the Uniform Procurement Act, establishes procedures that most Massachusetts local government jurisdictions must follow for the acquisition and disposition of supplies, equipment, services and real property. This law contains several exemptions including one for audit services provided by Certified Public Accountants.

Despite the exemption under 30B, communities sometimes use a competitive procurement process for obtaining audit services.

To help with the audit procurement process, the Office of Inspector General (OIG) has published [“A Local Official’s Guide to Procuring and Administering Audit Services”](#) which is available on the Inspector General’s website. The most reliable method for soliciting bids for your audit is a written request for proposal. This OIG guide provides detailed guidance for issuing a request for proposal for audit services.

#### Audit Selection Committee

Audit procurement often begins with the selection of a committee consisting of individuals who will be involved in the audit process. In some communities a formal Audit Committee have been established and are responsible for selecting the audit firm.

If no Audit Committee exists, an Auditor selection committee should include the Town Accountant, who maintains the accounting records, and the School Business Manager, who maintains controls over certain federal grants. Other members could include:

- Selectmen;
- Finance Committee members;
- Department heads who receive federal grants; and
- Other finance officials.

Once the committee is formed, it should:

- develop a schedule of federal financial assistance to identify all federal funds received by the entity during the fiscal year;
- develop a timetable for the audit and prepare a Request for Proposal (RFP) to be sent to various audit firms who may propose to conduct the audit;
- send the RFP to several audit firms and advertise it in the local newspaper;
- receive and evaluate proposals from accounting firms to determine which firm best meets the entity's audit needs;
- consider price, staff credentials and expertise, firm experience and technical attributes; and
- prepare and execute a written contract with the chosen firm. Audit contracts are regularly issued in three-year increments.

To ensure that they are making a “best value” decision, communities often require prospective firms to provide separate price and non-price (technical) proposals to enable the community to make their decision based on the “best value” which de-emphasizes using price as a determining factor in selecting an audit firm and places greater emphasis on quality and past performance. A community would first select firms based on their experience and technical attributes and then incorporate the price proposals when making the final decision.

## Introduction to Auditing

### *Purpose of the Audit*

An audit is an examination of systems, procedures, programs and financial data of an entity to provide users of financial reports with independent assurance that an entity's financial statements are reliable, accurate, and complete. Auditing is a process of reviewing systems and testing transactions to ensure that reports generated by these systems are “materially” accurate. The concept of materiality is very important in auditing; Auditors review systems and records only to the extent that the reports are materially accurate; not to uncover fraud or ensure total accuracy. An audit will not necessarily uncover fraud if it occurs; the financial system established by the organization should be such that risk of fraud will be minimized if not eliminated.

The audit process is a verification process. The financial statements which accompany an Auditor's report are management's responsibility, even if the Auditor assists in their preparation. The Auditor's responsibility is limited to the Auditor's report – typically a 1 to 2 page letter describing the audit and providing an opinion on the accompanying financial statements. This report is typically referred to as the "audit opinion."

### *How to Prepare for an Audit*

A planning meeting with the audit firm before they begin the audit fieldwork and testing can ease anxiety about the process and improve the efficiency of the audit. At this meeting, update the audit firm of any significant and relevant issues that could impact the community's financial statements such as:

- any major capital projects;
- debt issuances or refundings;
- any material liabilities or litigation;
- changes in policies or procedures;
- budgetary difficulties; and
- any delays in processing transactions or performing reconciliations.

The community should request that the audit firm provide a checklist of items that can be prepared in advance and a list of items that the firm will require to complete their testing.

It is a best practice to designate one person as the primary liaison with the audit team to coordinate audit timing, departmental staff impact and information gathering.

Any information that can be prepared and provided to the audit team in advance will decrease the questions and pressures on the entity's staff during fieldwork. This gives the audit firm the opportunity to look at documents in advance and gives the community the opportunity to address questions in advance.

### *Audit Phases*

#### *The Planning Phase*

During the planning phase of the audit, the auditor is required to gain an understanding and document the community's system of internal controls. If this is the entity's first year with the audit firm, this requires additional time and more detailed questions. In subsequent audits, the firm will document any changes and may verify that the

documented controls are still in place. The auditor will complete a risk assessment of all facets of the client's operation and design preliminary audit procedures to adequately address the associated risks. The auditor will continue to assess the risks throughout the engagement and may result in changes to the initial plan.

### *The Testing Phase*

During the testing phase, a firm will update the risk that the financial statements will be materially misstated based on their understanding of the entity's internal controls and results of the testing. To properly plan the testing of federal grants, or the "single audit", the firm will evaluate the entity's federal expenditures. It is imperative that an entity can identify all federal programs and federal expenditures and records are up to date so that this process can run smoothly. If a single audit is required, the firm will identify "major federal grants" based on the size and complexity of the programs. Major grants require more detailed compliance testing of laws and regulations. This phase of the audit also includes compliance testing of internal controls using statistical sampling. This portion of the audit can be done before the year has ended and before all transactions have been recorded.

### *The Final Phase*

The final phase of the audit is completed once all the transactions for the year have been recorded and all the account reconciliations have been completed. The entity will be asked to provide a final trial balance and several other reports from the ledger system to be used to assist with the preparation of the financial statements and for audit testing. This part of the audit focuses on substantive procedures to verify balances along with analytical audit procedures. These procedures include receiving independent confirmations for selected balances and to obtain support to verify cash, investments, receivables, debt, payables, etc. The other focus of this phase of the audit is the preparation of the financial statements and the related footnote disclosures. Management should meet with the auditors often during this portion of the audit to verify that all information has been provided timely and to ensure that the audit closes out smoothly.

### *How an Auditor Audits*

Audits are performed in accordance with a set of standards known as generally accepted auditing standards (GAAS). These standards provide a measure of audit quality and the objectives to be achieved in an audit. Auditing procedures differ from

auditing standards. Auditing procedures are the acts that the Auditor performs during the course of an audit to comply with the auditing standards. GAAS are established by the American Institute of Certified Public Accountants (AICPA); and must be followed by members of the AICPA.

In addition to GAAS, most governmental audits must be conducted in accordance with another set of standards known as generally accepted government auditing standards (GAGAS), also referred to as the Yellow Book and Government Auditing Standards issued by the Comptroller General of the United States.

Additionally, entities that receive over \$750,000 in federal funds are subject compliance auditing on each major federal program in compliance with the audit requirements of Title 2 U.S. Code of Regulations Part 20, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

Auditing standards require the Auditor to identify and assess the risks of material misstatement of the financial statements at the relevant assertion level and to prepare a detailed audit plan that appropriately addresses those risks. Management's assertions on the financial statements are what management is saying, either explicitly or implicitly, about the recognition, measurement, presentation, and disclosure of information in the financial statements and related disclosures.

There are 13 categories of assertions to the period end classified separately:

Assertions for classes of transactions:

1. Occurrence. Transactions and events that have been recorded have occurred and pertain to the entity;
2. Completeness. All transactions and events that should have been recorded have been recorded;
3. Accuracy. Amounts and other data relating to the recorded transactions and events have been recorded appropriately;
4. Cutoff. Transactions and events have been recorded in the correct accounting period;
5. Classification. Transactions and events have been recorded in the proper accounts.

Assertions for account balances:

6. Existence. Assets, liabilities and equity interests exist;
7. Rights and Obligations. The entity holds or controls the rights to assets, and liabilities are the obligations on the entity;
8. Completeness. All assets, liabilities and equity interests that should have been recorded have been recorded;
9. Valuation and Allocation. Assets, liabilities and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Assertions for presentation and disclosure:

10. Occurrence and Rights and Obligations. Disclosed events have occurred and pertain to the entity;
11. Completeness. All disclosures that should have been included in the financial statements have been included;
12. Classification and Understandability. Financial information is appropriately presented and described, and disclosures are clearly expressed;
13. Accuracy and Valuation. Financial information is disclosed fairly and at appropriate amounts.

### *The Governmental Accounting Standards Board (GASB)*

GASB is an independent, private-sector, not-for-profit organization that – through an open and thorough due process – establishes and improves standards of financial accounting and reporting for U. S. state and local governments. Governments and the accounting industry recognize that GASB as an official source of generally accepted accounting principles (GAAP) for state and local governments.

GASB standards help constituents to determine the ability of their government to provide services and repay its debt. Those standards also help government officials demonstrate accountability to constituents and help ensure that those who finance government or who participate in the financing process have access to relevant,

reliable, and understandable information that assists them to make better, more informed decisions.

The GASB is not a federal agency and does not have federal funding. Its standards are not federal laws or rules and there is no enforcement authority for compliance. It is an independent body free from inappropriate political pressure or commercial influence. GASB brings objectivity and integrity to the process of issuing neutral, unbiased accounting and financial reporting standards that are relevant in the government environment.

Compliance with the GASB's standards is enforced through the audit process, when Auditors render opinions on the fairness of presentations in conformity with GAAP, and through the laws of individual states, many of which require local governments to prepare GAAP basis financial statements. The municipal bond industry prefers that governments issuing debt prepare their financial statements on a GAAP basis.

The first GASB statement was issued in 1984. Subsequent statements have continued to modify the requirements for GAAP based financial statements for local governments. Currently, GASB has issued 97 Statements as of November 2020.

### *The Products of the Audit*

A municipal audit report should include:

- the basic financial statements;
- the independent auditor's report; and
- required supplementary information.

### *Basic Financial Statements*

The basic financial statements are comprised of three components: 1) government-wide (full accrual) financial statements, 2) fund based (modified accrual) financial statements, and 3) notes to the financial statements. The objective of the financial statement audit is the expression of an opinion on the fairness with which the financial statements present, in all material respects, the financial position, results of operations, and its cash flows of the community in conformity with GAAP. In the opinion, the Auditor states whether the audit has been made in accordance with GAAS that require the Auditor to state whether, in the Auditor's opinion, the financial statements are presented in conformity with GAAP.

The independent Auditor's report states that the financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with GAAP. This opinion may only be expressed when the Auditor has formed such an opinion based on their audit procedures performed in accordance with GAAS.

The highest level of audit opinion that an entity can receive is an "unmodified," "unqualified" or "clean" opinion. Three other opinion types include "qualified," "adverse" or a "disclaimer" of an opinion. The Auditor's decision regarding which type of modified opinion is appropriate depends upon the nature of the matter giving rise to the modification such as circumstances where the financial statements are materially misstated, or if the Auditor is unable to obtain sufficient appropriate audit evidence to provide an unmodified opinion.

### *Required Supplementary Information*

Required supplementary information includes Management's Discussion and Analysis which is a narrative overview and analysis of the entity's financial activities presented before the basic financial statements. Required supplementary information can also include other schedules such as a budget to actual schedule (if not included in the basic financial statements) and pension and other postemployment plan schedules and trend information. The auditor does not issue an opinion on RSI however they are required to perform limited procedures on them.

### *Responsibilities of the Auditor vs Management*

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, authorize, record, process, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities and equity are within the direct knowledge and control of management. The Auditor's knowledge of these matters and internal control is limited to that acquired through the audit. Therefore, the fair presentation of financial statements in conformity with GAAP is an implicit and integral part of management's responsibility.

The independent Auditor may make suggestions about the form or content of the financial statements or draft them, in whole or in part, based on information from management during the performance of the audit. However, the Auditor's responsibility for the financial statements he or she has audited is confined to the expression of his or her opinion.

At least one member of management must possess the knowledge and skills to take responsibility for the financial statements and schedule of federal awards. This person or persons must sign the representation letter. This person is usually the CFO, Finance Director, Auditor or Accountant.

The responsibilities of the Auditor and management should be clearly spelled out in the audit engagement letter as well as in a representation letter that is required to be provided by management to the Auditor at the end of the audit.

### *Additional Governmental Auditing Requirements*

In addition to the basic financial statements required to be presented, the federal Single Audit Act requires the disclosure of other information associated with the review of legal compliance and administrative control procedures which govern the federal grant process. These statements are:

- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance
- Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

These reports are designed to assure federal funding agencies that the funds granted to an entity are controlled properly and have been spent in accordance with law and the grant requirements.

It is the entity's responsibility to implement a system of controls to ensure compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs and to identify all federal expenditures.

### *Management Letter*

In addition to the reports noted above, entities may receive a Management Letter from the auditing firm. This letter can be used to communicate recommendations the firm has to improve the entity's financial systems, operational or administrative efficiency or for improvements in internal control. Accounting Officers should review these letters and determine if they agree with the firm's comments and recommendations. Any

disagreements or questions should be discussed with the audit firm before the report is issued. The entity may or may not want to provide a formal response to the final comments included in the Management Letter.

Many entities and Auditors consider the Management Letter to be a tool to help the entity improve their controls and processes. The Auditor has leeway concerning much of the information to be communicated in the Management Letter. However, if the Auditor identified deficiencies that are considered material weaknesses or significant deficiencies, auditing standards require these deficiencies to be communicated in writing to management and those charged with governance.

### *The Exit Conference*

Many entities choose to have a final meeting with the audit firm as a formal presentation to the Audit Committee (if applicable), or to the Board of Selectmen in a town, the Mayor and/or City Council in a City or in a more informal meeting with key management to review the results of the audit. This commonly referred to as an exit conference. In the exit conference, the audit firm will recap the audit process and the results of the audit. This is an opportunity to discuss any audit findings or Management Letter comments and what corrective actions are planned by management.

Many recommendations contained in audit reports can result in significant savings. Additionally, many communities elect to post an electronic version of the audited financial statements on their website.

## **Frequently Asked Questions on Audit Reports**

### *Who Must Receive Copies of Audit Reports?*

A copy of the audit reports is required to be available in the Town Clerk's office for public inspection. In addition, excerpts from the reports must be published by the Clerk. A copy must also be sent electronically to the Bureau of Accounts. Other copies are sent to:

- DESE;
- the State Auditor's Office; and
- the Federal Audit Clearinghouse as part of a single-audit reporting package (SF-SAC)

Additional copies are required to be sent:

- with the reporting package to the federal clearinghouse for each federal finding; and
- as part of an entity's continuous disclosure requirements if the entity has outstanding debt.

### *What Should We Do With the Audit Report?*

The audit firm should provide you with draft copies of all reports they intend to issue.

- The person/persons that have the knowledge and skills to take responsibility for the financial statements and schedule of federal awards are required to review the draft reports and determine if the statements and disclosures reports are accurate and presented in accordance with GAAP;
- If any changes are required, the person will work with the auditors to amend the statements to reflect those changes;
- Based on the final recommendations contained in the Management Letter and Single Audit Report, the entity should develop a corrective action plan which identifies what will be done to correct the problem, who should perform the corrective actions, and when should the corrective action be completed.
- After a corrective action plan is developed, the work in the plan should be monitored to completion. For example, if the audit report recommends that a purchasing policy be established, then a policy should be developed, approved by appropriate officials, and implemented.
- For transparency, many cities and towns include their audited financial statements on their website.

### *Audit Committees*

An Audit Committee offers an independent view of the government unit and can help keep the government focused on identifying and mitigating risks and ensuring accountability and compliance. In this role, the Audit Committee may be responsible to hire internal and/or external Auditors and to oversee the governmental unit's overall control environment, governance and management processes.

The Audit Committee should be made up of members that have a level of financial and programmatic knowledge to read and understand audit reports and comprehend the associated risks identified. Generally, this committee should have between three and six members and should meet frequently enough to perform its oversight functions.

Once the members have been appointed, the Audit Committee should write a formal charter to define such matters as the committee's authority, structure and responsibilities. At a minimum, an Audit Committee charter should include:

- the Committee's purpose, composition, member qualifications and length of terms, frequency of meetings (many have established a minimum of four meetings per year), topics to be discussed, and the nature and frequency of the committee's communication with the organization's senior managers, as well as its internal and external Auditors;
- The Committee's responsibilities, powers and authority independent of the organization's senior management related to the external audit function, the internal audit function, internal controls, ethics and compliance, risk management procedures, financial statements and reporting.

The Audit Committee should review its charter periodically (typically done annually) in order to assess its continued adequacy and completeness and make any recommendations for change to the full board or governing body of the entity. In performing this review, the committee should consider any new legal or regulatory changes as well as best practices.

## Chapter 19 – Office Management and General Administration

### Introduction

Besides being a public official, the Accounting Officer is oftentimes a department head with reporting staff. As a result, it is imperative to understand matters beyond the general laws for accounting and budgeting.

### Ethics

In 1962, the Massachusetts state legislature enacted [G.L. c. 268A](#), the Conflict of Interest Law, which established a minimum standard of ethical conduct for state, municipal and county officials and employees.

Local officials should be aware that the Conflict of Interest Law applies to all Massachusetts public employees, including employees of municipalities, municipal agencies, and regional organizations, whether elected or appointed, full or part-time, paid or unpaid. Certain employees who are unpaid or part-time can be designated special municipal employees, which means some provisions of the law apply less restrictively. The law restricted activities that occur “on the job” (bribes, gifts, etc.), after hours (prohibited municipal contracts and municipal jobs), and after an employee has left government services (misuse of government connections). There is also a general code of conduct provision.

The State Ethics Commission is responsible for the interpretation and enforcement of the Conflict of Interest Law. It publishes a summary of the law for state, county, and municipal employees on its website and provides it to public employees within 30 days of employment and on an annual basis. Employees must acknowledge receipt of these summaries. Municipal employees receive the summary from their acknowledgements to the city or town Clerk. The Commission also provides on-line training for public employees that must be completed within 30 days of employment and again every two years.

Information regarding the law and its effect on municipal employees can be obtained by contacting the State Ethics Commission. Any community can request that the Commission present a seminar that explains methods for avoiding potential conflicts, provides the principles of the law and gives examples of compliance. Municipal employees should obtain formal opinions through their municipal Counsel about whether a proposed activity would violate the law before engaging in that activity. An employee with a potential conflict has the responsibility to obtain an opinion and avoid the conflict.

For more information on the Conflict of Interest Law, visit <http://www.mass.gov/ethics>.

## Procurement

Public procurement in Massachusetts is governed primarily by [M.G.L. c. 30B](#), the Uniform Procurement Act, which was enacted in 1990. This act established uniform procedures for public officials to follow when contracting for supplies, equipment, services and property. It is based on three principles:

- larger contracts should receive more attention than smaller contracts;
- competing fairly for large contracts is cost effective; and
- the use of uniform contracting procedures promotes competition and fairness.

G.L. c. 30B applies to many types of local government procurement contracts. The procedures outlined by the Uniform Procurement Act apply to agreements for acquiring supplies, equipment and services, and for disposing of unnecessary supplies, equipment and property. Generally speaking, the provisions of Ch. 30B cover contracts not governed by specific provisions in other statutes. For example, other laws govern contracts for public buildings and public works projects.

The Inspector General's Office publishes a [Manual](#) on procurement assistance and provides a [certification program for public purchasing officials](#). Completion of the entire program entitles the participant to the designation of Massachusetts Certified Public Purchasing Official (MCCPO).

Besides individual contracting, municipalities have additional procurement options allowed by [G.L. c. 7, §§ 22A](#) and [22B](#). The former provides for state collective purchasing, or "blanket" contracts. These are negotiated on an as-needed basis by the Commonwealth and offer substantial savings on a wide variety of goods and services. Section 22B allows two or more municipalities to join together for joint purchasing, and only one needs to process a contract. Still another mechanism for joint purchasing and joint operation is cooperative agreements permitted by [G.L. c. 40, § 4A](#).

For more information, contact the [Massachusetts Inspector General's Office](#).

## Municipal Credit Cards

The use of Municipal Credit Cards is a local policy decision. They can provide convenience and sometimes discounts when purchasing. They can also be susceptible to fraud and abuse. If your community opts to use Credit Cards, strong internal control policies should be implemented and closely monitored.

Potential issues with the use of credit cards under municipal finance laws relate to [G.L. c. 44, § 31](#), prohibiting any town department from incurring expenses in excess of appropriation, and [G.L. c. 41, § 56](#), prohibiting prepayment for goods or services.

However, given that the Commonwealth has incorporated the use of credit or procurement cards into state finances with the same restrictions, the Bureau of Municipal Finance Law has determined that these cards can be used in certain situations. Specifically, with the proper internal controls to allow for acquisition of goods or services for which no other method of payment may be made, or as an alternative to requiring an employee to make the purchases on a personal credit card and seek reimbursement from the municipality. The community should require that all other prerequisites are met prior to payment of the bill, including compliance with necessary bidding laws, an available appropriation and receipt of the goods or services.

### P-Cards, Purchasing Cards or Procurement Cards

A municipal P-card differs from a traditional credit card in that it requires full payment at the close of each statement period. Management can manage P-cards more closely than credit cards. Management can limit which vendors may be used how much can be spent. These limits can be easily changed as necessary by management. For staff, P-cards can provide a quick and convenient method of payment and they can allow access to lower prices and more vendors. As with credit cards, the use of P-Cards should be controlled through a well-documented and monitored system of internal controls.

The control policy should include:

- the process for issuing cards
- permitted uses of cards
- card-holder responsibilities for documenting purchases and reconciling the P-card account
- card-holder liability in the case of misuse or a rejected purchase
- the accounting officer's role in reviewing transactions and monitoring accounts
- required action when a card is lost, stolen or otherwise needs to be terminated
- procedures when errors occur or disputes arise
- procedures for rebates or benefits from use of the P-card to flow to the municipality and not to the cardholder, who might be a department manager or employee. Virtually all policies incorporate an agreement, or contract, by which the card holder accepts the P-card and consents to program rules, responsibilities and penalties.

- a statement that the P-card may not be used for private or personal purposes and may only be used by the person assigned the card. Impermissible uses would include cash advances at ATMs or exchanges for traveler's checks, money orders, etc., and charges for alcohol or personal entertainment.
- a statement that expenditures for non-job-related purposes are prohibited even where there is the intention of reimbursing the municipality.

Municipalities have used P-cards to replace blanket purchase orders, payment by manual check and petty cash funds. They have otherwise authorized the cards for small dollar, repetitive purchases, and for phone, or online purchases. Such purchases, with or without pre-approval, might involve materials, supplies, equipment, shipping and fuel, as well as costs for travel or training. Most communities limit purchases to only incorporated vendors.

Cardholders should know that they will be held accountable should they misuse or abuse a P-card. While much is dependent on card-holder behavior, the municipality can help protect its interests with strict financial controls. Responsibility should be imposed on the cardholder and/or the department head to obtain and retain purchase documentation, to keep accurate records and to reconcile the P-Card account. In this regard, the cardholder would typically be required to match monthly P-card statements to purchase receipts, verifying in the process that goods and services are received.

Written safeguards for P-cards should be promulgated by the accounting officer in conjunction with the board of selectmen, or any other officer whose approval is needed for the payment of vendor bills under the municipality's charter, ordinances, or bylaws.

Cardholders should understand that the use of a P-card does not allow avoiding the state c. 30B procurement laws and that controls are in place to monitor compliance.

The accounting officer is still responsible to carry-out statutory obligations to verify that charges are lawful, not excessive and not fraudulent, before placing them on a vendor warrant for payment. A plan to conduct random audits of individual accounts or a regular audit of the entire program can help ensure financial controls work as intended.

### Maintaining Petty Cash

To maintain a strong internal control system over cash and the purchase of goods, in most circumstances municipal funds may only be expended with prior written approval and all payments are subject to the warrant approval process. However, in certain limited situations, communities have approved the use of petty cash accounts to allow added flexibility for making de minimis purchases that require payment at the time of purchase.

Since petty cash accounts are at an increased risk for theft or abuse, it is recommended that their use be limited and controlled through a set of sound policies and procedures.

At a minimum, the following items should be included in petty cash policies and procedures:

1. All petty cash accounts should be formally authorized in writing and should identify a municipal employee who is required to assume personal responsibility for the petty cash funds in their custody.
2. The formal authorization should impose a limit to the amount of petty cash that will be advanced to any individual department.
3. The custodian of petty cash funds should acknowledge, in writing, that they agree with the community's petty cash policies prior to the disbursement of petty cash funds.
4. Petty cash advances should always be maintained in a locked and secured location.
5. In the event of a petty cash theft, the custodian should be instructed to report the theft immediately. Each community should specify how and when to report a theft.
6. Prior to the disbursement of any petty cash funds, the custodian should be required to obtain an original receipt for an authorized purpose from either the vendor providing goods or services or the employee requesting reimbursement.
7. The sum of petty cash receipts and cash on hand must always total the authorized amount for the petty cash account.
8. Unannounced physical counts of petty cash accounts should be performed periodically by the community's finance office and/or the community's independent auditors.
9. Petty cash reimbursement requests may be submitted as frequently as deemed necessary by the custodian, but not less frequently than monthly.
10. Petty cash reimbursement requests must be made through the community's standard accounts payable process, with supporting original receipts and identification of the appropriate expenditure budget accounts to be charged. All such reimbursement requests must be signed by the custodian.
11. Petty cash custodians should provide the community's finance officer with an annual accounting of their petty cash activity at June 30 of each fiscal year.

12. Petty cash should not be used for any of the following purposes:

- Payment of compensation to any employee.
- Purchase of meals, alcoholic beverages, tobacco products, or entertainment.
- Purchase of gifts.
- Out-of-state travel expenses.
- Vehicle use reimbursements.
- Cashing of personal checks.
- Personal advances or loans.
- Any individual purchase of greater than the limit set by the community's petty cash policy.

### Open Meeting Law

The Open Meeting Law provides access to the decision-making processes of government and promotes accountability in public officials.

The Open Meeting Law requires that all meetings of governmental bodies, except executive sessions, be open to the public. It is based on the premise that the public is entitled to see the process of government, not simply its results. Boards, commissions, committees or subcommittees of any city, town, district or regional entity, however elected, appointed or otherwise constituted, are considered governmental bodies required to adhere to the law. A meeting includes any convening of a quorum to discuss or consider public business or policy over which the governmental body has some jurisdiction or advisory power. A meeting must be public, even if there is no vote taken or decision reached. Except in emergencies, the officer in charge of calling a meeting must file a notice of every meeting with the municipal Clerk at least 48 hours before the meeting takes place. (As of July 1, 2010, Saturdays, Sundays and legal holidays are excluded from the 48 hours). Notice of the meeting must be posted for the same amount of time.

A governmental body may meet privately, in executive session to discuss sensitive issues. Executive sessions are limited to the following purposes:

- To discuss the reputation, character, physical condition or mental health, rather than the professional competence, of an individual;
- To consider the discipline or dismissal of, or to hear complaints or charges brought against a public officer, employee, staff member or individual;

- To discuss strategy with respect to collective bargaining or litigation if an open meeting may have a detrimental effect on the government’s bargaining or litigation position. Also, to conduct strategy sessions in preparation for negotiations with non-union personnel; to conduct collective bargaining sessions and contract negotiations with non-union personnel;
- To discuss the deployment of security personnel or devices, e.g.; a “sting operation”;
- To investigate charges of criminal misconduct or to discuss the filing of criminal complaints;
- To consider the purchase, exchange, taking, lease or value of real property if a public discussion may have a detrimental effect on the negotiating position of the governmental body;
- To comply with the provisions of any general or special law or federal grant-in-aid requirements (general privacy);
- To hold an initial screening (including interviews if they are part of the initial screening process) of candidates for employment if an open meeting would have a detrimental effect in obtaining qualified candidates;
- To meet with a mediator regarding any litigation or decision; and
- To discuss trade secrets, or confidential, competitively sensitive or other proprietary information provided in the course of activities conducted by a governmental body in connection with certain of its activities as an energy supplier or distributor.

The Attorney General enforces the Open Meeting Law. Three or more voters may also bring a civil action in court.

For more information visit <http://www.mass.gov/ago>.

## Public Records

The Massachusetts Public Records Law provides that any person shall have access to public records. Public records are defined in [G.L. c. 4, § 7\(26\)](#) as “all books, papers, maps, photographs, recorded tapes, financial statements, statistical tabulations or other

documentary materials or data, regardless of physical form or characteristics...” made or received by state, county and municipal offices.

Access to and the distribution of public records is described in [G.L. c. 66, § 10](#). Any person seeking access to public records may request orally or in writing to view the record or to be provided with a copy of it. If the requested information is not found by the records custodian to be exempt from the public records law, it must be provided without unreasonable delay. A custodian or keeper of public records has the legal responsibility, upon request, to make the records under his or her control accessible to the public. The records custodian may charge a reasonable fee to recover the costs of fulfilling the request. The Secretary of State and Supervisor of Public Records set maximum fees.

There are exceptions to the public records law. These exemptions are enumerated in M.G.L. c. 4, § 7(26). A requester who is denied access to any requested information may petition the Supervisor of Public Records for a review of the request.

A Municipal Records Retention [Manual](#) as well as other useful resources are found under [Public Records/Records Management](#) on the Massachusetts Secretary of State’s website.

Information on the Public Records Law can be found under [Public Records](#) on the Massachusetts Secretary of State’s website.

## Personnel

If office personnel belong to a union, you should be familiar with the relevant provisions of the union contract covering those employees and of any personnel bylaw. You may be required to be certain that employees under your supervision are fully aware of their rights and responsibilities regarding policies such as:

- Protection from sexual harassment – [G.L. c. 151B §3A](#) requires all Massachusetts employers to adopt a policy against sexual harassment, to annually provide an individual written copy of that policy to all employees and to review this policy with their employees on a yearly basis. All new employees should be required to sign an acknowledgment that they have received and understand the policy.
- Protection from discrimination against any disabled individual. State and local governments throughout the U.S. are required by the Americans with Disabilities

Act of 1990 (P.L. 101-336), not to practice discrimination against any disabled individual.

In filling vacancies, you must comply with the Equal Opportunities Employment Affirmative Action Act [42 USC §2000e et seq.], the Immigration Reform and Control Act [8 USC §1101 et seq], as well as with Massachusetts' maternity leave requirements ([G.L. c. 149, § 105D](#)) and Small Necessities Leave Act ([G.L. c. 149, § 52D](#)), the Fair Labor Standards Act [29 USC §201 et seq.] as well as the privacy requirements of [G.L. c. 214, §1B](#) and the antidiscrimination requirements of [Ch. 151B §§ 4\(9\), 4\(9A\) and 4\(16\)](#).

When preparing your department's annual budget, take into account such factors as changes in office operation, salary schedules, yearly increments or steps, cost of living allowances, longevity, the potential cost of additional help to cover vacations and/or family and medical leave, and retirements.

## Chapter 20 – Pensions

### Overview of Massachusetts Pensions

Massachusetts public employees are covered by a defined benefit pension plan that is administered by 102 local retirement boards, the Massachusetts State Retirement Board, and the Massachusetts Teachers Retirement Board. A retirement board governs each system and all boards, although operating independently, are bound together under one retirement law – G.L. c. 32. This chapter establishes benefits, contribution requirements, and an accounting and funds structure for all systems. Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth's public retirement systems.

There are several categories of retirement systems or boards:

*County and Regional Boards* – These boards are the retirement administrators for county employees and employees of smaller towns and units within counties that do not have their own boards. In counties that have been abolished, regional retirement boards are the retirement administrators for retirees and current employees.

*Municipal Boards* – These boards are the retirement administrators for individual cities and larger towns within the Commonwealth.

*State Board* – This is the board for all state employees. There are also some smaller non-state units that are administered by this board.

*Teachers' Board* – This board covers all public-school teachers in Massachusetts, with the exception of Boston teachers. The Boston Retirement Board administers the benefits of the Boston teachers, although the state is responsible for the cost.

*Other Boards* – Six other boards are established by Chapter 32: Massachusetts Housing Finance Agency, Massachusetts Port Authority, Blue Hills Regional School Employees, Greater Lawrence Sanitary District, Minuteman Regional Vocational Technical School District, and Massachusetts Water Resources Authority.

*Pension Reserves Investment Management (PRIM) Board* – This board is not a retirement board but is charged with general supervision of the investment and reinvestment of the Pension Reserves Investment Trust (PRIT) Fund for the state employees, state teachers, and other participating/purchasing retirement systems.

## Pension Benefits

A public employee retirement allowance consists of two parts: an annuity and a pension.

- The annuity consists of the contributions that are deducted during the course of the employee's creditable service and are deposited into an annuity savings fund by the retirement board. The interest that accrues on these contributions is credited to each individual's account. The part of the retirement allowance that is based on the total amount in the employee's annuity savings account on the date of the retirement is the annuity.
- The pension is the difference between the total retirement allowance specified by law and the annuity.

The amount the retirement allowance depends on the employee's age, length of creditable service, the amount of the average annual rate of regular compensation, and the group classification.

Employees are assigned to one of four group classifications. The group classification is determined by the type of occupation, position or duties. Employees who hold positions in more than one group over their career are prorated for the time worked in each group by a formula developed by PERAC. The four groups consist of:

- Group 1 members are officials and general employees including clerical, administrative and technical workers, laborers, mechanics, and all others not otherwise classified.
- Group 2 includes certain employees with hazardous occupations such as mental health hospital attendants.
- Group 3 is made up of state police officers.
- Group 4 consists of public safety officers, officials, and employees, such as police officers, firefighters, and certain correction officers.

## Pension Liabilities

The unfunded pension liability is the difference between the value assigned to the retirement benefits already earned by a municipality's employees and retirees and the assets the local retirement system has on hand to meet these obligations. The dollar value of the unfunded pension liability is periodically recalculated through an actuarial

valuation which is driven by a variety of assumptions including investment rates of return at which a retirement system's assets will grow, projected salary increases and the rate of future costs of living increases to pensioners.

Municipalities are mandated by the State to fund the pensions of all employees except teachers, because teachers are covered by the State pension system. Since 1988, the State has required communities to pay toward their unfunded pension obligations and to complete payment by no later than 2028; this deadline has since been extended to no later than 2040.

As part of the appropriation process, each system is required to have an actuarial valuation every three years at a minimum, however, GAAP requires a valuation every two years that most systems follow. The valuation is a "snapshot" of how well the plan is funded at that time. The valuation compares the plan's liabilities (current and future payments to be made upon retirement, death, disability, or termination of employment discounted to the valuation date) with the plan's assets. The valuation develops a normal cost and an accrued liability (which reflects the liability associated with employee past service). If the accrued liability exceeds plan assets, an unfunded liability exists.

Based on the results of the valuation, each retirement board establishes a funding schedule (or expected series of payments) that will fully fund the total pension liability no later than 2040. The funding schedule of a series of annual payments comprised of a normal cost (which reflects the liability for amounts expected to be earned in the current year) and an amount to amortize the remaining unfunded liability. The funding schedules are revised at least every three years to take into account updated asset and liability amounts. PERAC is responsible for reviewing and approving funding schedules and assessing the progress each retirement system has made.

Each year, member units of a retirement system is required to pay an assessment, based on their proportionate share of the unfunded liability, to their respective systems based on the established funding schedules.

If the amount appropriated by a municipality is less than the assessment, the amount needed to fully fund the assessment must be raised on the Tax Rate Recap, [per G.L.c. 32, § 22 \(7\)\(c\)\(iv\)](#). The full assessment is considered a legal obligation of the government.

Massachusetts pension systems are also funded by investment earnings and employee withholdings. Employees (active members) contribute between 5 and 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired on or after January 1, 1979 contribute an additional 2% of annual regular compensation in excess of \$30,000.

Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

## Financial Reporting of Pension Liabilities

GASB Statements #67, #68 and #71 all relate to improving accounting and reporting of state and local pension plans. The new requirements are intended to:

- Improve financial reporting through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans;
- enhance the decision-usefulness and the value of financial reports for assessing accountability and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year; and
- provide information about whether employers and non-employer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures.

Communities are required to report their net pension liability in their GAAP basic financial statements. Reporting this liability is not required for UMAS balance sheet reporting.

It is critical that retirement systems provide the actuary accurate information related to census data and understand how the assumptions selected by the board impact the funding schedule and unfunded liability.

### *PERAC Audits*

PERAC currently audits retirement systems pursuant to [G.L. c. 32, § 21](#). The examination covers a three year period and is conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation [840 CMR 25.00](#). Due to the GASB requirements for pension reporting, substantially all 104 systems are required to issue annual financial statements in accordance with GAAP that are audited by independent firms. In order to leverage the annual audited financial statements, PERAC is now working closely with audit firms to review the firm's working papers to meet their statutory audit obligation.

## *Pension Obligation Bonds*

Pension Obligation Bonds (POBs) are taxable general obligation bonds that governments may issue to finance pensions. The proceeds of the bonds are transferred to the Retirement System to reduce either all or a portion of the unfunded liability. The financial statement impact reduces the net pension liability and increases the liability for long-term debt.

The potential benefit of POBs is that they can alleviate pressure on the government's cash position and because they may offer a cost savings if the retirement system achieves a long-term investment rate of return are consistently higher than the bond interest rates. The goal of POBs is to eliminate the unfunded liability which will decrease the annual assessment by the actuarial calculated amortization of the unfunded liability. Therefore, if the annual debt service on the bonds is lower than the elimination of the unfunded liability amortization assessment then the government would benefit.

POBs first became popular in Massachusetts in the late 1990s. Special Acts were passed to issue them, usually for 30 years and the Secretary of Administration and Finance had to approve a community's plan demonstrating how it would finance the debt. At that time, two key factors impacted this trend:

1. Borrowing costs for POBs were lower because interest rates had come down; and
2. Actuaries were assuming higher returns for the future because pension funds had increased their equity holdings substantially over the previous decade, which generated higher returns for the plans.

The combination of these factors led some governments to see a potential arbitrage opportunity for taxable POBs.

While POBs may be issued as a means to alleviate fiscal distress or reduce pension costs, they pose considerable risks and are often considered a gamble. Problems can arise with POBs when the stock market declines, and the municipality cannot earn a high enough return on the bond proceeds to exceed their annual interest rate payments on the debt.

In 1998, Worcester was the first municipality in Massachusetts to issue POBs. POB's were much more widely used in other states such as California and Illinois. Following Worcester, several Massachusetts municipalities filed special legislation allowing them to issue POB, but in the end only few actually did and current market conditions have reduced their popularity. There is potential that they could reemerge as pension-related

costs continue to climb and municipalities continue to seek ways to ease budget pressures.

### *Pension Reform*

In an effort to close some of the loopholes in Massachusetts' pension systems and to ensure the long-term viability of the systems, the Massachusetts Legislature passed three rounds of pension reform legislation between 2009 and 2011. The legislative changes have mostly impacted the pensions for employees hired on or after April 2, 2012. Some of the key changes of Pension Reform included increases in retirement ages, reducing the age factors used in the calculation of a member's retirement allowance, expanding the number of high years on which to calculate pensions, capping earnings for purposes of calculating pension benefits, and limiting annual increases on retirement earnings.

## Chapter 21 – Other Postemployment Benefits (OPEB)

### Overview of Other Postemployment Benefits

OPEB refers to the benefits, other than pensions, that a state or local government employee receives once they have retired. For Massachusetts cities and towns, this generally consists of a portion of their health insurance. It may also include some types of life insurance and other benefits. This can represent a substantial liability for local governments. Unlike pensions, cities and towns are not required to pre-fund this liability. The requirements are to pay for the benefits as they are claimed or distributed each year (Pay-as you Go), rather than to pay as benefits are earned.

For GAAP based financial reporting, communities are required to measure the value of the unfunded liability and the annual cost of accumulating this liability and to report the unfunded liability in the full-accrual financial statements. This liability is measured through an actuarial valuation, which, at a minimum, must be performed every two to three years, depending on the size of the plan membership.

Cities and towns may opt to reduce this unfunded liability by appropriating funds into an OPEB Trust Fund through the adoption of [M.G.L. c. 32B, § 20](#). For GAAP reporting purposes this Trust Fund must be considered irrevocable for credit to be recognized in the audited financial statements.

The GASB standards related to OPEB address financial reporting for both the Trust Fund, if a community has implemented one (GASB 74); and for the community to report their OPEB liability (GASB 75).

### Types of OPEB Plans Governments Use

There are two basic forms of postemployment benefit plans. Defined benefit plans are those that specify the amount of benefits to be provided to the employees after the end of their employment. Defined contribution plans stipulate only the amounts to be contributed by a government employer to a plan member's account each year of active employment, and do not specify the amount of benefits employees will receive after the end of their employment.

Plans may also be distinguished by how many employers participate in them. As their name indicates, single-employer plans involve only one government, whereas multiple-employer plans include more than one government. In a cost-sharing multiple-employer plan, governments pool or share the costs of financing benefits and administering the plan and the assets, if any, accumulated to pay benefits. Generally, a single actuarial

valuation is conducted for all of the employees of the participating governments combined.

In agent multiple-employer plans, there is no pooling of benefit costs. Separate actuarial calculations are made for each participating government in the plan, and separate accounts are maintained to ensure that each employer's contributions are used to provide benefits only for the employees of that government. The cost of administering the plan, however, is shared by the participating governments.

For Massachusetts cities and towns, most participate in single-employer defined benefit OPEB plans.

### Unfunded OPEB Liabilities

The unfunded OPEB liability is the difference between the value assigned to non-pension post-retirement benefits earned by a municipality's employees and retirees (mainly health insurance) and the assets the community has set aside in an irrevocable trust solely to meet these obligations. The dollar value of the unfunded OPEB liability is recalculated every one to three years, depending on the number of members in the OPEB plan, through an actuarial valuation which is driven by assumptions such as investment rate of return, discount rates, healthcare cost trend rates and life expectancies.

### Financial Reporting for OPEB under the new GASB Standards

In June 2015, the GASB approved the issuance of two new Statements that are designed to improve the usefulness of information about OPEB in the external financial reports of state and local governmental plans for making decisions and assessing accountability:

- Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, addresses financial reporting by plans that administer OPEB benefits on behalf of governments.
- Statement No. 75, Accounting and Financial Reporting For Postemployment Benefits Other Than Pensions, addresses accounting and financial reporting by government employers.

These new OPEB standards "are designed to improve the information reported on OPEB for decision-making and accountability purposes, comparability across governments, and transparency for those who use it.

They also are designed to equip state and local government policy makers and all users of governmental financial reports with information that would allow them to obtain a more comprehensive understanding of a government's financial portrait.

The standards address important issues including:

- Changes that affect how the long-term obligation and the annual costs of OPEB are measured;
- A requirement to recognize the net OPEB liability on the face of the financial statements; and
- A requirement to present more extensive note disclosures and related schedules.

### The History Behind Pre-Funding the OPEB Liability and Investing Funds in Massachusetts

Prior to 2008, Massachusetts communities were not required to measure or report their OPEB liability and the methods for pre-funding the liability was limited. The implementation of GASB #45 in cities and towns between 2008 and 2010 required an actuarial valuation to calculate the estimated unfunded OPEB liability. Communities began to amortize the unfunded liability in their entity-wide (full-accrual) financial statements and the full unfunded liability was disclosed through expanded financial statement disclosures and additional required supplementary schedules.

In response, communities began to find ways to put funds aside to reduce the unfunded liability. Once adopted, G.L. c. 32B, § 20 allows communities to establish a trust fund and to appropriate into this fund for future OPEB costs. At this time, funding the OPEB liability is still not a requirement of a governmental entity. However, as more communities begin to set aside and invest funds to address this liability, communities that have not addressed the liability through a form of pre-funding are becoming the outliers.

### Common Reporting Issues

The new GASB standards require a new valuation every two to three years and they require annual updates based on the amount of funding in an OPEB trust. Since the value of the OPEB trust is measured as of the end of the fiscal year, there is a need to coordinate timing of providing year-end information to an actuary and receiving the actuarial update in time to complete a community's full-accrual financial statements and annual audit.

## Chapter 22 – Cybersecurity

The number of cyber-attacks on local municipalities is continually increasing. Cyber criminals have been hacking critical systems and holding municipalities hostage and demanding ransoms. Another common scheme has been to redirect payroll through sending emails to change banking information for direct deposits. Communities are encouraged to take action to protect themselves to the extent possible. Recommended steps include:

- Perform a cyber risk assessment either through the community's IT department or through an outside specialist. The assessment should include the strength of the community's system to protect data from an attack and the system to be able to respond to an attack timely by limiting access and restoring systems.
- Develop a written cyber risk policy to document the process to be followed in the event of an attack, including the chain of command for reporting an attack and determining the community's response.
- Based on the results of the assessment, develop and implement a system of internal controls to protect against attacks.
- Ongoing training of all employees to reduce the risk of attack.
- Requiring in-person verification to change any direct deposit banking information.
- Require verification for electronic payments to vendors.
- Purchase cyber insurance to reduce the potential financial impact of an attack.

## **Appendix A – Glossary of Terms**

**Abatement** – *A reduction or elimination of a levy imposed by a governmental unit, applicable to tax levies, motor vehicle excise, fess, charges, and special assessments.*

**Accounting System** – *The total structure of records and procedures which identify, record, classify, and report information on the financial position and operations of a governmental unit or any of its funds, balanced account groups, and organizational components.*

**Accrued Interest** – *In an original governmental bond sale, accrued interest is the amount of interest which has accumulated on the bonds from the day they are dated, up to but not including, the date of delivery (settlement date).*

**Amortization** – *The gradual elimination of an obligation, such as a bond, according to a specified schedule of times and amounts. The principal amount of a home mortgage, for example, is amortized by monthly payments.*

**Appropriation** – *An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended. Only a town meeting, council or the school committee can authorize money appropriated for one purpose to be used for another. Any amount which is appropriated may be encumbered. Any part of a “general” appropriation not spent or encumbered by June 30 automatically reverts to the undesignated fund balance which may result in Free Cash. If departments know of remaining unpaid bills at the close of the fiscal year and properly notify the accountant (Chapter 41, § 58), the departmental appropriation is encumbered to extend the general spending authorization until such time that the bill is paid or it is decided not to spend the funds. If these encumbrances are not acted on within a year, the accountant generally notifies the department and closes them out. A special warrant article/appropriation, on the other hand, may carry forward from year to year until spent for the designated purpose or transferred by town meeting vote to another account.*

**Arbitrage** – *As applied to municipal debt, the investment of tax exempt bond or note proceeds in taxable higher yielding securities. This practice is restricted under Section 103 of the Internal Revenue Service (IRS) Code, and (beyond certain limits) earnings are required to be rebated (paid) to the IRS.*

**Assessed Valuation** – *A valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, assessed valuation is based on “full and fair cash value,” the amount a willing buyer would pay a willing seller on the open market. Assessors must collect, record, and analyze information about the*

*physical characteristics of the property and the market in order to estimate the fair market value of all taxable properties in their communities.*

**Audit** – *An examination of systems, procedures and financial data by a certified accountant, reporting on the fairness of financial statements and compliance with statutes and regulations. (The audit is a valuable management tool for evaluating the fiscal performance of a community).*

**Audit Report** – *The product of an audit prepared by an independent auditor. The report often includes (a) a statement of the scope of the audit; (b) explanatory comments as to application of auditing procedures; (c) findings and opinions; (d) financial statements and schedules; and (e) statistical tables, supplementary comments, and recommendations.*

**Authentication** – *see Certification.*

**Available Funds** – *These are funds established through previous appropriations or results of favorable conditions. These may be appropriated to meet emergency or unforeseen expenses, large one-time or capital expenditures. Examples: Free Cash, Stabilization Fund, Overlay Surplus, Water Surplus and enterprise retained earnings.*

**Balance Sheet** – *A statement which discloses the assets, liabilities, reserves, and equities of a fund or governmental unit at a specified date.*

**Basis of Accounting** – *Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported on the financial statements. Basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds and expendable trust and agency funds could be accounted for using the modified accrual method of accounting. Their revenues are recognized when they become measurable and available, as net current assets, with the following guidelines: Property taxes, excise taxes, departmental and governmental receivables are recorded as revenue when received in cash, as well as amounts received during the first 60 days of the following fiscal year. Expenditures are generally recognized under the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. All proprietary funds and nonexpendable trust and pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.*

**Betterments (Special Assessments)** – *Whenever a specific area of a community receives benefit from a public improvement (e.g. water, sewer, sidewalk, etc.), special*

property taxes may be assessed to reimburse the governmental entity for all or part of the cost it incurred. Each parcel receiving benefit from the improvement is assessed for its proportionate share of the cost of such improvements. The proportionate share may be paid in full or the property owner may request the assessors apportion the betterment over 20 years. Over the lifetime of the betterment, one year's apportionment along with one year's committed interest computed from October 1 to October 1 is added to the tax bill until the betterment has been paid.

**Bond** – A written promise to pay a specified sum of money, called the face value (par value) or principal amount, at a specified date or dates in the future, called maturity date(s), together with periodic interest at a specified rate. The difference between a note and a bond is that the latter runs for a longer period of time.

**Bond Anticipation Note (BAN)** – Once borrowing for a specific project has been approved by two-thirds vote of town meeting or city council and prior to issuing long-term bonds, short-term notes may be issued to provide cash for initial project costs. BANs may be issued for a period not to exceed five years, but with the reduction of principal after two years (Chapter 44, § 17). The final maturity date of the project borrowing, beginning from the date the short-term note was issued, may not exceed the term specified by statute (Chapter 44, §§ 7 and 8). BANs are full faith and credit obligations.

**Bond Authorization** – see Debt Authorization.

**Bonds Authorized and Unissued** – Bonds which a government has been authorized to sell but has not yet done so. Issuance at this point is only contingent upon action by the Treasurer and Mayor or Selectmen.

**Bond Counsel** – An attorney or law firm engaged to review an opinion upon legal aspects of a municipal bond or note issue.

**Bond Issue** – Generally, the sale of a certain number of bonds at one time by a governmental unit.

**Bonds Payable** – The face value of bonds issued and unpaid.

**Bond Premium** – The excess of the price at which a bond is acquired or sold over its face value. An example is a \$1,000 bond which sells for \$1,010. The premium equals \$10.

**Budget** – A plan of financial operation embodying an estimate of proposed revenues and expenditures for a given period and the proposed means of financing them. A

*budget may be “preliminary” – the financial plan presented to the Town Meeting, or “final” – the plan approved by that body. The budget should be separated into basic units, either by department, program or service. The format is important because by classifying by service or department, the budget is clearly defined and more easily understood by both local officials and Town Meeting.*

**Capital Budget** – *An annual appropriation or spending plan for capital expenditures (tangible assets or projects that cost at least \$25,000 and have a useful life of at least five years). This budget should recommend the method of financing for each item recommended and identify those items which are recommended to be deferred due to scarce resources.*

**Capital Expenditures/Improvements** – *These are items generally found in the capital budget, such as construction, acquisitions, site development, major repairs or replacement to capital facilities and public ways and overhead costs. The fees for architects, engineers, lawyers, and other professional services plus the cost of financing, advance planning may be included.*

**Capital Improvement Program** – *A comprehensive schedule for planning a community’s capital expenditures. It coordinates community planning, fiscal capacity and physical development. While all of the community’s needs should be identified in the program, there should also be a set of criteria which prioritizes the expenditures. The capital program is a plan for capital expenditures that extends five years beyond the capital budget and is updated yearly.*

**Capital Outlay Expenditure Exclusion** – *A vote by a community at an election to exclude payments for a single year capital project from the levy limit. The exclusion is limited to one year and may temporarily increase the levy above the levy ceiling.*

**Cash** – *Currency, coin, checks, postal and express money orders, and bankers’ drafts on hand or on deposit with an official or agency designated as custodian of cash and bank deposits.*

**Cash Management** – *The process of managing monies of a local government in order to insure maximum cash availability and maximum yield on short-term investment of idle cash.*

**Cemetery Perpetual Care** – *These funds are donated by individuals for the care of grave sites. According to Chapter 114, § 25, funds from this account must be invested and spent as directed by perpetual care agreements. If no agreements exist, interest (but not principal) may be used as directed by the cemetery commissioners for the purpose of maintaining cemeteries.*

**Certification** – The action of a bank or trust company (or DOR’s Bureau of Accounts for State House Notes) in certifying the genuineness of the municipal signatures and seal on a bond issue. The certifying agency may also supervise the printing of bonds and otherwise safeguard their preparation against fraud, counterfeiting, or over-issue. Also known as Authentication.

**Cherry Sheet** – Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification from the Commissioner of Revenue of the next fiscal year’s state aid and assessments to communities and regional school districts. State aid to municipalities and regional school districts consists of two major types – distributions and reimbursements. Distributions provide funds based on formulas while reimbursements provide funds for costs incurred during a prior period for certain programs or services. In addition, communities may receive “offset items” which must be spent on specific programs. Cherry Sheet Assessments are advanced estimates of state assessments and charges and county tax assessments. Local assessors are required to use these figures in setting the local tax rate. (Because these figures are estimates, it should be noted that based on filing requirement and/or actual data information the final aid or assessment may differ.)

**Cherry Sheet Offset Items** – Local aid accounts which may be spent without appropriation in the budget, but which must be spent for specific municipal and regional school district programs. Current offset items include School Choice Receiving Tuition and Public Libraries.

**Classification of Real Property** – Assessors are required to classify all real property according to use into one of four classes: Residential, Open Space, Commercial, and Industrial. Having classified its real properties, local officials are permitted to determine locally, within limitations established by statute and the Commissioner of Revenue, what percentage of the tax burden is to be borne by each class of real property and by personal property owners (see Classification of the Tax Rate).

**Classification of the Tax Rate** – In accordance with Chapter 40, § 56, the Selectmen vote to determine the tax rate options. Based on the residential factor adopted (see Residential Factor), any community may set as many as four different tax rates for: residential property; open space; and commercial, industrial and personal property.

**Collective Bargaining** – The negotiations between an employer and union representative regarding wage, hours, and working conditions.

**Conservation Fund** – This fund may be expended for lawful conservation purposes as described in Chapter 40, § 8C. This fund may also be expended for damages related to

*the taking of land by eminent domain provided that such taking has first been approved by a two-thirds vote of the city council or town meeting.*

**Debt Authorization** – *Formal approval to incur debt by municipal officials, in accordance with procedures stated in Chapter 44, specifically §§ 1, 2, 3, 4a and 6-15.*

**Debt Burden** – *The level of debt of an issuer, usually as compared to a measure of value (debt as a percentage of assessed value, debt per capita, etc.). Sometimes debt burden is used in referring to debt service costs as a percentage of the annual budget.*

**Debt Exclusion** – *This is a vote by a municipality at an election to exclude debt service payments for a particular capital project from the levy limit. The amount necessary to cover the annual debt service payment is added to the levy limit for the life of the debt only. A debt exclusion may temporarily increase the levy above the levy ceiling.*

**Debt Limit** – *The maximum amount of debt which a municipality may have authorized for qualified purposes under state and self-imposed ceilings.*

**Debt Service** – *The cost (usually stated in annual terms) of the principal retirement and interest of any particular issue.*

**Default** – *Failure to pay principal or interest when due.*

**Encumbrance** – *Obligations in the form of purchase orders, contract, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.*

**Enterprise Funds** – *An accounting mechanism which 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. 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 so 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 at year end. According to Chapter 44, § 53F½, all the services that may be treated as enterprises include, but are not limited to, water, sewer, hospital and airport services.*

**Equalized Valuations (EQVs)** – *The determination of the full and fair cash value of all property in the Commonwealth which is subject to local taxation. EQVs have historically been used as variables in distributing certain state aid accounts, and for determining county assessments and certain other costs. The Commissioner of Revenue, in*

accordance with Chapter 58, § 10C, is charged with the responsibility of biannually determining an equalized valuation for each town and city in the Commonwealth.

**Estimated Receipts** – Estimates of state and local miscellaneous receipts based on previous year's receipts deducted by the Assessors from gross amount to be raised by taxation.

**Excess and Deficiency** – Also called the “surplus revenue” account, this is the amount by which cash, accounts receivable and other assets exceed the liabilities and reserves.

**Excess Levy Capacity** – The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year. Annually, the board of Selectmen and council must be informed of excess levying capacity and evidence of such acknowledgement must be submitted to DOR when setting the tax rate.

**Exemptions** – Upon approval of an application to the Board of Assessors, these are full or partial discharges from the obligation to pay a property tax by statute on particular categories of property or persons. Examples include hospitals, schools, houses or worship, and cultural institutions that are of benefit to the community. In addition, exemptions may be granted for qualified veterans, blind individuals, surviving spouses, persons over 70 years of age, and certain financial hardships.

**Expenditure** – The spending of money by the town or city for programs within the approved budget.

**Federal Aid Anticipation Note (FAAN)** – A short-term loan issued to be paid off at the time of receipt of a federal grant. FAANs are full faith and credit obligations.

**Fiduciary Funds** – Fiduciary funds account for assets held by the municipality in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. These include expendable trust, non-expendable trust, pension trust, and agency funds. Non-expendable trust and pension trust funds are accounted for in essentially the same manner as proprietary funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**Financial Advisor** – An individual or institution which assists municipalities in the issuance of tax exempt bonds and notes. This function in Massachusetts is performed either by the public Finance Department of a commercial bank or a non-bank advisor.

**Fiscal Year** – The Commonwealth, state and municipalities (as of 1974) operate on a fiscal year which begins on July 1 and ends on June 30. The number of the fiscal year is that of the calendar year in which the fiscal year ends; e.g. the 2016 fiscal year, July 1, 2015 to June 30, 2016, usually written as FY16 or FY2016. This, however, no longer coincides with the fiscal year followed by the federal government, for beginning in 1976 the federal fiscal year was changed to begin on October 1 and end on September 30.

**Fixed Costs** – These are costs which are legally or contractually mandated. (Examples: retirement, FICA/Social Security, insurances, debt service or interest.)

**Float** – The amount of money making up the difference between the bank balance for a local government's account and its book balance at the end of the day. The primary factor creating float is clearing time on checks and deposits. Delays in receiving deposit and withdrawal information also influence float.

**Foundation Budget** – The target set for each school district defining the spending level necessary to provide an adequate education for all students. The Foundation Budget is comprised of both local effort and state aid.

**Free Cash** – (Also Budgetary Fund Balance) Funds remaining from the operations of the previous fiscal year which are certified by DOR's Director of Accounts as available for appropriation. Remaining funds include unexpended free cash from the previous year, receipts in excess of estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount of remaining funds which can be certified as free cash. The calculation of free cash is made based on the balance sheet, which is submitted by the community's Auditor, Accountant or Comptroller. Typically, a community will attempt to maintain a free cash balance of between 3 and 5 percent of its total budget as a hedge against unforeseen expenditures, to insure there will be an adequate reserve to prevent sharp fluctuations in the tax rate, and to prevent expensive short-term borrowing. (Maintenance of an adequate free cash level is not a luxury but a necessary component of sound local fiscal management. Credit rating agencies and other members of the financial community expect municipalities to maintain free cash reserves; judgments regarding a community's fiscal stability are made, in part, on the basis of free cash.) Also see Available Funds.

**Full Faith and Credit** – A legal pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

**Fund** – An accounting entity with a self-balancing set of accounts which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

**Fund Accounting** – Organizing the financial records of a municipality into multiple funds. A fund is a distinct entity within the municipal government in which financial resources and activity (assets, liabilities, fund balances, revenues and expenditures) are accounted for independently in accordance with specific regulations, restrictions or limitations. Examples of funds include the General Fund and Enterprise Funds. Communities whose accounting records are organized according to the Uniform Massachusetts Accounting System use multiple funds.

**General Fund** – This non-earmarked fund is used to account for most financial resources and activity governed by the normal Town Meeting/City Council appropriation process.

**General Obligation Bonds** – Bonds issued by a municipality which are backed by the full faith and credit of its taxing authority.

**Governing Body** – The board, committee, commissioners or other legislative body of a governmental unit, including the school committee of a municipality.

**Indirect Cost** – Costs of a service not reflected in the service's operating budget. A determination of these costs is necessary to analyze the total costs of service delivery. (An example of an indirect cost of providing water service would be health insurance costs for water employees.)

**Interest** – Compensation paid or to be paid for the use of money, including interest payable at periodic intervals or as discount at the time a loan is made.

**Interest Rate** – The interest payable, expressed as a percentage of the principal available for use during a specified period of time. It is always expressed in annual terms.

**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.

**Land Fund** – A fund established in FY86 to which may be added an annual appropriation earmarked for the acquisition of land or debt service on designated land purchases.

**Law Enforcement Trust Fund** – A revolving fund established to account for a portion of the proceeds from the sale of property seized from illegal drug-related activities. Funds may be expended to defray certain qualified law enforcement costs as outlined in Chapter 94C, § 47. Funds from this account may be expended by the police chief without further appropriation.

**Legal Opinion** – An opinion by an attorney or law firm that bonds have been legally issued by a public body, and that the bonds are exempt from federal income taxes and some Massachusetts taxes under existing laws, regulations and rulings.

**Levy Ceiling** – The maximum tax assessed on real and personal property may not exceed 2.5 percent of the total full and fair cash value of all taxable property (Chapter 59, § 21C). Property taxes levied may exceed this limit only if the community passes a capital outlay expenditure exclusion, a debt exclusion or a special exclusion.

**Levy Limit** – The maximum amount a community can levy in a given year. The limit can grow each year by 2.5 percent of the prior year's levy limit (Chapter 59, § 59C(f,g,k)) plus new growth and any overrides. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion or special exclusion.

**Line-Item Budget** – A budget which focuses on inputs of categories of spending, such as supplies, equipment, maintenance, or salaries, as opposed to a program budget.

**Local Aid** – Revenue allocated by the Commonwealth to towns, cities and regional school districts. Estimates of local aid are transmitted to towns, cities and districts annually by the "Cherry Sheet." Most of the Cherry Sheet aid programs are considered revenues of the municipality's or the regional school district's General Fund and may be spent for any purpose subject to appropriation.

**Local Appropriating Authority** – In a town, the town meeting has the power to levy directly a property tax. In a city, the city council has the power.

**Local Receipts** – Locally generated revenues other than real and personal property taxes and excluding enterprise fund revenues. 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.

**M.G.L. (or G.L.)** – Massachusetts General Laws, Annotated

**Massachusetts Clean Water Trust** – formerly the Massachusetts Water Pollution Abatement Trust – established in 1989 to improve the water quality in the Commonwealth through the provision of low cost capital financing to cities, towns and other eligible entities.

**Massachusetts Municipal Depository Trust** – Founded in 1977, it is an investment program in which municipalities may pool excess cash. It is under the supervision of the State Treasurer.

**Massachusetts School Building Authority** – a quasi-independent government authority created to reform the process of funding capital improvement projects in the Commonwealth’s public schools

**Maturity** – The date upon which the principal of a bond becomes due and payable.

**Minimum Required Local Contribution** – The minimum that a town or city must appropriate from property taxes and other local revenues for the support of schools.

**Moody’s Investment Services, Inc.** – One of the leading municipal bond rating agencies.

**Municipal(s)** – (As used in the bond trade) “Municipal” refers to any governmental unit below or subordinate to the state. “Municipals” (i.e., municipal bonds) include not only the bonds of all local subdivisions such as towns, cities, school districts, special districts, but also bonds of states and agencies of the state.

**Municipal Revenue Growth Factor** – An estimate of the percentage change in a municipality’s revenue growth for a fiscal year.

**Municipal Finance Oversight Board** – A board authorized by M.G.L. to review and approve applications by municipalities to exceed their statutory debt limit, define the term of borrowing for certain purposes and designate issues of “Qualified Bonds” under chapter 44a.

**Net School Spending (NSS)** – Includes both 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 be equal or exceed the NSS Requirement established annually by the Department of Elementary and Secondary Education.

**New Growth** – the taxing capacity added by new construction and other increases in the property tax base. New growth is calculated by multiplying the value associated with new construction by the tax rate of the previous fiscal year. For example, FY2016 new growth is determined by multiplying the value of new construction in calendar 2014 (as valued on January 1, 2015) by the FY2015 tax rate.

**Note** – A short-term loan, typically of a year or less in maturity.

**Notice of Sale** – A detailed statement which is published to advertise the sale of municipal bonds by competitive bid.

**Objects of Expenditures** – A classification of expenditures that is used for coding any department disbursement, such as “personal services,” “expenses” or “capital outlay.”

**Official Statement** – A document containing information about a prospective bond issue or a note issue which contains information about the issue and the issuer, and is intended for the potential investor. The Official Statement is sometimes published with the Notice of Sale. It is sometimes called an Offering Circular or Prospectus.

**Operating Budget** – The plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Other Amounts to be Raised** – The amounts raised through taxation, but which are not appropriation items. Generally, these are locally generated expenditures (e.g., overlay, teacher pay deferral, deficits) as well as state, county and other special district charges. Because these must be funded in the annual budget, special consideration should be given to them when finalizing the budget recommendations to Town Meeting. (see Tax Rate Recapitulation Sheet)

**Overlay** – (Overlay Reserve or Reserve for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements and exemptions in that year. The overlay reserve is not established by the normal appropriation process, but rather on the tax rate recapitulation sheet.

**Overlay Deficit** – A deficit that occurs when the amount of overlay raised in a given year is insufficient to cover abatements and statutory exemptions for that year. Overlay deficits must be provided for in the next fiscal year.

**Overlay Surplus** - Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account (see Overlay). Within ten days of a written request by the chief executive officer of a town or city, the assessors must provide a certification of the excess amount of overlay

available for transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue; i.e. it becomes a part of free cash.

**Override** – A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit to no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount. (see Underride)

**Override Capacity** – The difference between a community’s levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

**Par Value** – The face amount of a bond, e.g. \$1,000 or \$5,000.

**Parking Meter Receipts Reserved for Appropriation** – This fund allows a community to charge for parking and to reserve these proceeds in a separate account. In accordance with Chapter 40, § 22A, the process may be used to offset certain expenses for the acquisition, installation, maintenance and operation of parking meters and the regulation of parking and other traffic activities.

**Paying Agent** – A bank or other institution which acts as the agent for a municipality in making bond interest and principal payments.

**PERAC** - The Public Employee Retirement Administration Commission – created for and dedicated to the oversight, guidance, monitoring and regulation of the Massachusetts Public Pension Systems.

**Performance Budget** – A budget which stresses output both in terms of economy and efficiency.

**Personnel Services** – The cost of salaries, wages and related employment benefits.

**Premium** – The amount by which the price exceeds the principal amount of a bond or par value.

**Principal** – The face amount of a bond, exclusive of accrued interest.

**Program Budget** – A budget which relates expenditures to the programs they fund. The emphasis of a program budget is on output.

**Property Tax Levy** – The amount of community can raise through the property tax. The levy can be any amount up to the levy limit plus exclusions.

**Purchased Services** – The cost of services that are provided by a vendor.

**Ratings** – Designations used by credit rating services to give relative indications of quality. Mood's ratings range from the highest Aaa down through Aa, A-1, A, Baa-1, Baa, Ba, B, Caa, Ca, C. Standard & Poor's ratings include: AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D.

**Refunding** – System by which an issue is redeemed by a new bond issue under conditions generally more favorable to the issuer.

**Reserve Fund** – An amount set aside annually within the budget of a town (not to exceed 5 percent of the tax levy for the preceding year) or city (not to exceed 3 percent of the tax levy for the preceding year) to provide a funding source for extraordinary and unforeseen expenditures. In a town, the Finance Committee can authorize transfers for this fund for "extraordinary and 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.

**Residential Factor** – Adopted by a community annually, this governs the percentage of the tax levy to be paid by property owners. If local officials choose a low residential factor, (for example the statutory minimum set by the Commissioner of Revenue) residential property owners will pay a proportionately lower share of the total levy (split or multi-tax rate). A residential factor of "1" will result in the taxation of all property at the same rate (single tax rate).

**Retained Earnings** – An equity account reflecting the accumulated earnings of an enterprise fund, which may be used to fund capital improvements, to reimburse the General Fund for prior year subsidies, to reduce user charges and for enterprise deficits (operating loss).

**Revaluation (or recertification of property values)** – The Assessors of each community are responsible to develop a reasonable and realistic program to achieve a fair cash valuation of property in accordance with constitutional and statutory requirements. The nature and extent of that program will depend on the Assessors' analysis and consideration of many factors including, but not limited to, the results of an in-depth sales ratio study, the location and style of properties, and the accuracy of existing property record information. Every three years, Assessors must submit property values to the state Department of Revenue for certification. Assessors must also maintain these values in the years between certifications. This is done so that each property taxpayer in the community pays his or her share of the cost of local

government – no more or less – in proportion to the amount of money the property is worth.

**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 Chapter 44, § 4, towns, cities and districts may borrow up to one year in anticipation of such revenue.

**Revenue Anticipation Note (RAN)** – A short-term loan issued to be paid off by revenues, such as tax collections and state aid. RANs are full faith and credit obligations.

**Revenue Bond** – A bond payable from and secured by specific revenues and thereby not full faith and credit obligations.

**Revolving Fund** – Allows a community to raise revenues from a specific service and use those revenues to support the service without appropriation. For departmental revolving funds, Chapter 44, § 53E stipulates that each fund must be reauthorized each year at an annual town meeting or by city council action, and that a limit on the total amount which 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 town or city in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single department or board. No revolving fund expenditures shall be made for the purpose of paying any wages or salaries for full-time employees. Revolving funds for other programs as provided by statute are still allowed, and a departmental revolving fund may be implemented in addition to or in conjunction with other existing statutory revolving funds, provided that the departmental revolving fund does not conflict with provisions of other revolving funds.

**Sale of Cemetery Lot Fund** – This fund is established to account for proceeds of the sale of cemetery lots. The proceeds must be used to offset certain expenses of the Cemetery Department under provisions of Chapter 114, § 43C.

**Sale of Real Estate Fund** – This fund is established to account for the proceeds of the sale of municipal real estate other than proceeds acquired through tax title foreclosure. Chapter 44, § 63 states that such proceeds shall be applied first to the retirement of debt on the property sold. In the absence of such debt, funds may generally be used for purposes for which the town or city is authorized to borrow for a period of five years or more.

**Security** – For Massachusetts municipalities, bonds or notes evidencing a legal debt on the part of the issuer.

**Serial Bond** – A bond of an issue which has maturities scheduled annually over a period of years.

**Special Assessment** – see *Betterments*.

**Special Exclusion** – For a few limited capital purposes, a community may assess taxes above the amount of its levy limit or levy ceiling without voter approval. see Proposition 21/2 chapter in this Manual.

**Stabilization Fund** – An account from which amounts may be appropriated for any lawful purpose. Towns may appropriate into this fund in any year an amount not to exceed ten percent of the prior year's tax levy or a larger amount with the approval of the Director of Accounts. The aggregate of the Stabilization Fund shall not exceed ten percent of the town's equalized value, and any interest shall be added to and become a part of the fund. A two-thirds vote of town meeting or city council is required to appropriate money from the Stabilization Fund.

**Standard & Poor's Corporation** – One of the leading municipal bond rating agencies.

**State Aid Anticipation Note (SAAN)** – A short-term loan issued in anticipation of a state grant or aid.

**State House Notes** – Notes for towns, cities, counties and districts certified by the Director of Accounts. State House Notes are generally less costly and easier to issue than conventional issues for borrowings. Therefore, these notes are more commonly used for temporary loans and smaller long-term issues.

**Surplus Revenue** – The amount by which cash, accounts receivable and other floating assets exceed the liabilities and reserves.

**Tailings** – This fund is reserved for unclaimed checks written on city or town accounts. The procedures for retaining money from unclaimed checks is outlined in Chapter 200A, § 9A. Written notice must be filed with the Clerk if these procedures are to be followed.

**Tax Rate** – The amount of tax stated in terms of a unit of the tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable property.

**Tax Rate Recapitulation Sheet (also Recap Sheet)** – A document submitted by a town or city to the Department of Revenue in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations which affect the property tax rate. (In order to issue the first-half semiannual property tax bills before October 1st, the recap sheet should be submitted to the Department of Revenue in September, or in December in order to issue the third quarterly property tax bills before January 1st.)

**Tax Title** – Collection procedure which secures a lien on real property and protects the municipality's right to payment of overdue property taxes. (Without following this procedure, the lien on real property expires if three years elapse from the October first following the assessment date, and the property is transferred. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the Collector may take the property for the city or town. After properly recording the instrument of taking, the Collector transfers responsibility for collecting the overdue amounts to the Treasurer).

**Term Bond** – Bonds the entire principal of which matures on one date. Massachusetts municipal general obligation bonds are required by law to be retired on a serial basis.

**Trust Fund** – In general, a fund held for the specific purpose stipulated by a trust agreement. The Treasurer acts as custodian of trust funds and invests and expends such funds as stipulated by trust agreements or 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, interest but not principal may be expended as directed.

**Underride** – A vote by a community to permanently decrease the tax levy limit. As such, it is the exact opposite of Override.

**Underwriter** – For municipal debt issues, a commercial bank or securities dealer which purchases all or part of a new issue in order to sell the securities to investors. A group of underwriters is called a syndicate.

**Unfunded Pension Liability**- Unfunded pension liability is the difference between the value assigned to the retirement benefits already deemed by the town's employees and the assets the town's retirement system will have on hand to meet these obligations. The dollar value of the unfunded pension liability 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.

**Uniform Massachusetts Accounting System (UMAS)** – A comprehensive and practical municipal accounting system that conforms to Generally Accepted Accounting

*principles (GAAP) for local governments. UMAS is regarded by the Department of Revenue as the professional standard for modern municipal accounting in Massachusetts. (Among the benefits of conversion to UMAS are increased consistency in reporting and record keeping and enhanced comparability of data among cities and towns.)*

**Unreserved Fund Balance** – Also referred to sometimes as “surplus revenue account,” this is the amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to “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).

**Valuation (100%)** – Requirement that the assessed valuation must be the same as the market value for all properties; 100 percent valuation may offer greater equity in the redistribution of state aid to cities and towns based upon local real estate values.

**Warrant** – A list of items to be acted on by Town Meeting. (A treasury warrant and the assessors’ warrant authorize the Treasurer to pay specific bills and the tax Collector to collect taxes in the amount and from the persons listed, respectively.)

**Water Surplus** – For water departments operating under Chapter 41, § 69B, any revenues in excess of estimated water receipts or unspent water appropriations close to a water surplus account. Water surplus may be appropriated to fund water-related general and capital expenses or to reduce water rates.

**Waterways Improvement Fund** – An account into which 50 percent of the proceeds of the boat excise are deposited. Use of these proceeds is limited to certain waterway expenses as outlined in Chapter 40, § 5G.

**Yield** – The net annual percentage of income derived from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or accrual of discount. (Also referred to as “yield to maturity.”)

## **Appendix B – Glossary of Common Municipal Acronyms**

BLA	– Bureau of Local Assessment
BMFL	– Bureau of Municipal Finance Law
BOA	– Bureau of Accounts (or Board of Assessors)
DLS	– Division of Local Services
GIC	– Group Insurance Commission
HIPPA	– Health Insurance Portability and Accountability Act
MAAO	– Massachusetts Association of Assessing Officers
MASBO	– Massachusetts Association of School Business Officials
MCTA	– Massachusetts Collectors and Treasurers Association
MCWT	– Massachusetts Clean Water Trust –
MFOB	– Municipal Finance Oversight Board
MIIA	– Massachusetts Interlocal Insurance Association
MMA	– Massachusetts Municipal Association
MMAAA	– Massachusetts Municipal Accountants and Auditors Association
MMDT	– Massachusetts Municipal Depository Trust
MSBA	– Massachusetts School Building Authority –
MWRA	– Massachusetts Water Resources Authority
MSCPA	– Massachusetts Society of Certified Public Accountants
OPEBs	– Other Post-Employment Benefits
PERAC	– The Public Employee Retirement Administration Commission

## Appendix C – Links to Additional Information

Mass. Department of Revenue Division of Local Services [www.mass.gov/dls](http://www.mass.gov/dls)

Bureau of Municipal Finance Law – [Legal Index for Municipal Officials](#)

Bureau of Municipal Finance Law – [In Our Opinion](#)

Mass. Department of Elementary and Secondary Education [www.doe.mass.edu](http://www.doe.mass.edu)

Mass. Department of Housing and Community Development [www.mass.gov/dhcd](http://www.mass.gov/dhcd)

Mass. Office of the Inspector General [www.mass.gov/ig](http://www.mass.gov/ig)

Mass. State Auditor’s Office [www.mass.gov/sao/localmandate.htm](http://www.mass.gov/sao/localmandate.htm)

Mass. State Ethics Commission [www.mass.gov/ethics](http://www.mass.gov/ethics)

Mass. Supervisor of Public Records [www.mass.gov/sec](http://www.mass.gov/sec)

Mass. Association of Assessing Officers [www.maaao.org](http://www.maaao.org)

Mass. Collectors and Treasurers Association [www.masscta.com](http://www.masscta.com)

Mass. Government Finance Officers Association [www.mgfoa.org](http://www.mgfoa.org)

Mass. Municipal Association [www.mma.org](http://www.mma.org)

Mass. Municipal Auditors and Accountants Association [www.mmaaaa.com](http://www.mmaaaa.com)