



Glossary of Terms

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

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

APPROPRIATIONS: A legal authorization to expend money and incur obligations for specific public purposes. Massachusetts municipal finance laws require that all general-purpose expenditures be authorized by a majority vote of Town Meeting.

There are two basic types of appropriations - operating appropriations, and special article appropriations. Operating appropriations last for one fiscal year only, and any unobligated balance is closed at the end of the fiscal year. Salaries are an example of an operating appropriation. Special Article appropriations are generally voted for a specific project, such as the completion of a capital improvement or the purchase of a piece of capital equipment. Special article appropriations are closed upon completion of the project for which the funds were voted.

ARTICLE: An article or item on the Town Warrant.

ASSESSED VALUATION: The valuation of real estate or other property determined by the Town Assessor for tax levying purposes in accordance with the legal requirement that property be assessed at "full and fair cash value" certified periodically by the Commonwealth's Commissioner of Revenue (no less frequently than once every three years).

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

AUDIT: A comprehensive examination as to the manner in which the government's resources were actually utilized concluding in a written report of its findings. An accounting audit is intended to ascertain whether financial statements fairly present the financial position and results of operations of the Town. The Town is required to conduct an audit annually. An outside Certified Public Accountant (CPA) audit is directed primarily toward the expression of an opinion as to the fairness of the financial statements and submission of a management letter.

An auditor must be independent of the executive branch of government. A state auditor, private CPA, public accountant, or elected auditor meets this test.

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

BOND ANTICIPATION NOTE (BAN): A temporary note issued typically for one year. This is commonly used to defer the initial pay down of debt or to accommodate reimbursement for borrowed notes from a private source or other governmental entity.

BUDGET: The budget is the Town's financial plan for a given fiscal period. The annual budget includes an estimate of proposed expenditures, as well as a forecast of estimated revenues and other financing sources. The Advisory Committee reviews the Town's Recommended Budget in detail and forwards its recommendations to Town Meeting. Town Meeting adopts the budget by voting a series of appropriations, which may not; in the absence of an override of Proposition 2 ½ exceed the estimated total amount of revenues and other financing sources for the fiscal period.

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

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

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

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

CLASSIFICATION: Massachusetts municipal finance law requires that all real estate and personal property be appraised at "full and fair cash valuation" for purposes of assessing property taxes. Once the Commissioner of the Massachusetts Department of Revenue certifies that properties are appraised at "full and fair cash valuation" (once every three years), the Selectmen may impose a tax classification plan, whereby a portion of the residential tax burden may be shifted to the commercial / industrial class taxpayers.

DEBT EXCLUSION: The amount of taxes assessed in excess of the Proposition 2-1/2 levy limit for the payment of debt service costs attributable to a vote of the electorate. These funds are raised to retire the debt service for the project. They are not added to the tax levy limit for the following fiscal year.

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

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

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

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

ENTERPRISE FUNDS: Enterprise Funds, authorized by MGL Ch. 44§53F ½, are used to account for operations which are financed and operated in a manner similar to business operations and where the costs of providing goods or services are financed in whole or in part by user charges (charges for services). Services accounted for in Enterprise Funds are tangible and can be measured for determining the charge for services.

In Massachusetts, the most common types of government enterprises include utility services for water treatment and delivery, sewerage collection and treatment, and electricity generation and distribution. Less common but prevalent operations include hospitals, airports, parking, swimming pools, and golf courses.

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

related interest and estimates for depreciation.

EXPENDITURE: The spending of money by the Town for the programs or projects within the approved budget.

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

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

FUND BALANCE: The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. Monies in the various governmental funds as of June 30 that are neither encumbered nor reserved and are therefore available for expenditure once certified as part of Free Cash.

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

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

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

LEVY LIMIT: The maximum amount of money which the Town can raise from the property tax levy, without an override of Proposition 2 ½.

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

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

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

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

NEW GROWTH: In addition to a standard 2 ½% annual increase in the property tax levy, Proposition 2 ½% allows the levy to be increased further by the sum of certain qualifying new construction valuation, multiplied by the prior year tax rate. Qualifying new construction valuation is known as "New Growth".

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

OVERLAY: The amount raised in the tax levy for funding abatements granted by the Board of Assessors.

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

PROPOSITION 2 ½: A tax limitation measure passed by Massachusetts voters in 1980 which limits the growth of the total property tax levy to 2.5% per year. The total revenue allowed to be raised through real estate and personal property taxes cannot increase by more than 2.5% from one fiscal year to the next unless the residents of the town vote to approve a debt exclusion or an operating override. New construction values are in addition to this limit.

RESERVE FUND: An amount set aside annually within the budget of the town to provide a funding source for "extraordinary and unforeseen" expenditures. The Advisory Committee can authorize transfers from this budget.

RETAINED EARNINGS: The accumulated earnings of the enterprise funds.

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

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

REVOLVING FUND: As authorized under M.G.L. Ch. 53 E ½, departmental revolving funds allow communities to raise revenues from a specific service and use those revenues without appropriation to support the service. The total amount that may be spent from each revolving fund must be re-authorized each year at annual town meeting. Wages or salaries for full-time employees may be paid from the revolving fund only if the fund is also charged for all associated fringe benefits.

SCHOOL BUILDING ASSISTANCE PROGRAM: A program started by the Commonwealth of Massachusetts with a mission to partner with Massachusetts communities to support the design and construction of educationally appropriate, flexible, sustainable, and cost-effective public-school facilities.

SEWER & WATER CHARGES: The Town operates a Water and Sewer Enterprise Fund to manage these municipal operations. Users of sewer and water services provided by the Town pay charges depending upon usage. Revenue received from charges for sewer and water services is used to fully support the costs of utility operations, assessments, debt service obligations, personnel costs, and capital projects.

STABILIZATION FUND: Massachusetts General Law Ch.40, Sec. 5B, authorizes a Town to create one or more stabilization funds and appropriate funds to them for any lawful purpose. Fairhaven has two Stabilization Funds: The General (Rainy Day) Stabilization Fund and the Capital Stabilization Fund. The Treasurer shall be custodian of the funds and may invest the proceeds legally; any interest earned shall remain with the respective funds.

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

TAX LEVY LIMIT: The maximum amount that can be raised within the restrictions imposed by Proposition 2 ½.

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

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

