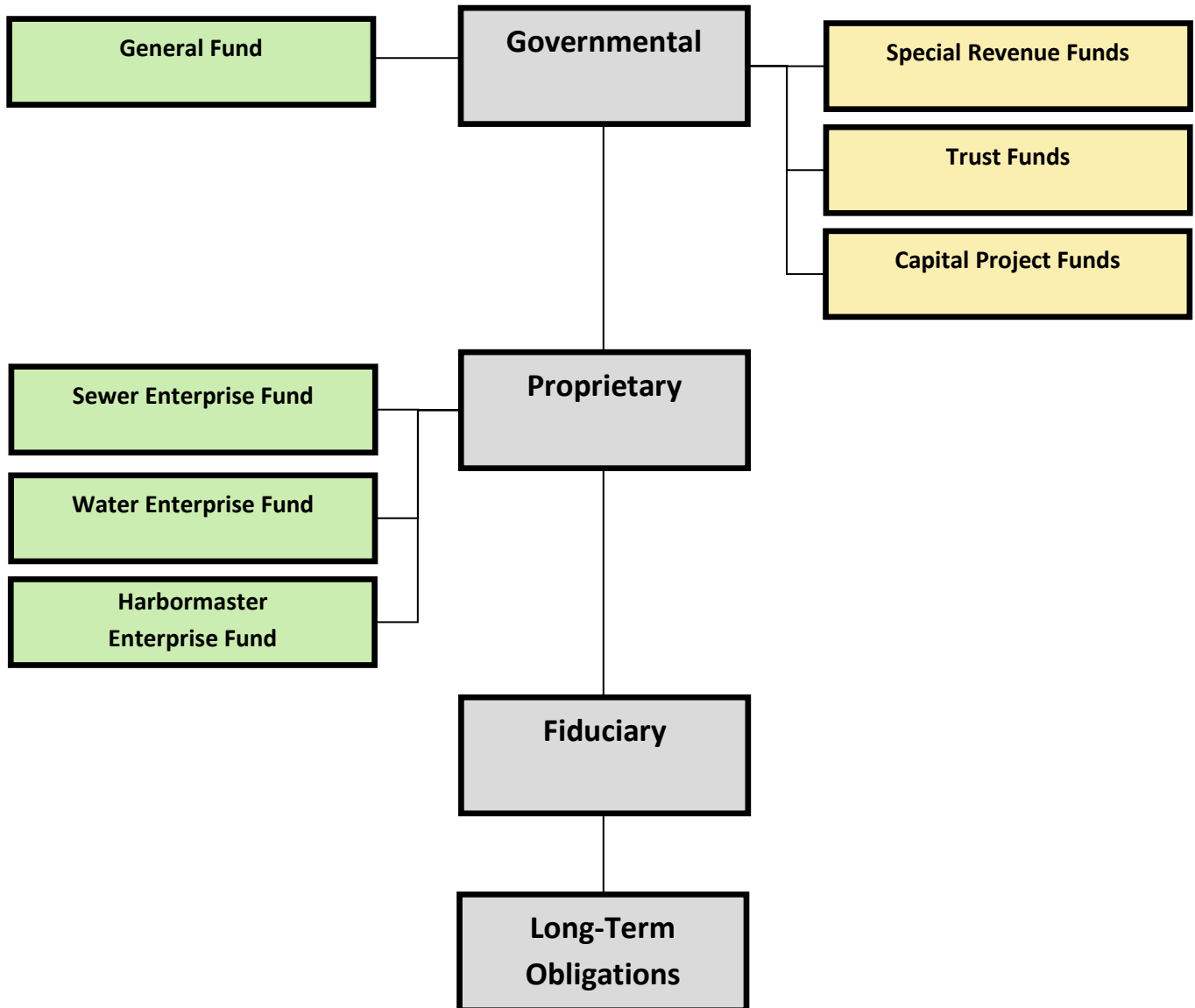


D. FUND DESCRIPTIONS & BALANCES

All Funds

Budgeted Funds

Non-Budgeted Funds



FUND DESCRIPTIONS

The financial operations of the City are organized into funds and account groups, each of which is a separate fiscal and accounting entity. All revenues received or expenditures made by the City are accounted for through one of the funds or account groups listed below.

A. GOVERNMENTAL FUNDS

Most City functions are financed through what are called Governmental Funds. These are the activities generally supported by “non-exchange” revenue, such as taxes. There are four types of governmental funds maintained by the City: the General Fund, Special Revenue Funds, Permanent Funds, and the Capital Projects Fund.

General Fund: The General Fund is the major operating fund of the City government and it encompasses a majority of City operations, and it is defined as covering all resources that are not required to be accounted for elsewhere. The General Fund is supported by revenues from real estate & personal property taxes, state aid, excise taxes, investment income, fines & forfeitures, and fees & charges. Most of the City’s departments including the Schools are supported in whole or in part by the General Fund.

Special Revenue Funds: Special Revenue Funds are used to account for revenues that are legally restricted to specific purposes, with the exception of major capital projects and permanent funds. These revenues must be accounted for separately from the General Fund for a variety of reasons, and often span multiple fiscal years. The City’s Special Revenue Funds are grouped into five categories:

1. **Revolving Funds:** Revolving Funds allow the City to raise revenues from a specific program and use those revenues to support the program without appropriation. Revolving Funds are established by statute or by-law and may require reauthorization each year by the City Council. The City maintains revolving funds for a number of purposes, such as Plumbing Inspector, Gas Inspector, Electrical Inspector, Council on Aging, City Hall Maintenance, Animal Control, Transient Vendors, Medicare/Medicaid, Library, Downtown Paid Parking, Historical Commission, Planning and Zoning, Engineering Services, Disabilities Commission, Veterans Benefits and Youth Services.
2. **Receipts Reserved for Appropriation:** The funds in this grouping are restricted to a specific use by statute and also require appropriation by the City Council.
3. **School Grants:** The School Grant Funds account for specially financed education programs using revenue from grants received from the Federal or State government. These include the State Kindergarten Enhancement grant, the State Special Education Revolving Fund (Circuit Breaker), and Federal Title I and Title IIA grants.
4. **Other Intergovernmental Funds:** These funds account for revenues received by the City from the Federal or State government for specific purposes other than education. These include a variety of grants such as the Chapter 90 Highway Program, State Election Grants, State Library Aid, and the Elderly Formula Grant.
5. **Other Special Revenue Funds:** These funds account for any other miscellaneous special revenues not included in the previous categories. These include private donations for specific purposes, such as grants received from private or non-profit foundations, gifts made to specific departments, and payments from developers for infrastructure improvements related to proposed projects. This category also includes the Community Preservation Fund and the Conservation Fund.

Trust Funds: Trust (Permanent) Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the government and its citizens. The acceptance of such funds generally involves acceptance by the City Council for each fund's individual specifications and/or requirements. There are two accounts associated with each permanent fund, the expendable income, and the non-expendable principal.

1. **Expendable Trust Funds:** This heading accounts for the expendable income portion of the permanent trust funds. This heading is also used to account for funds received by the City in a trustee capacity where both the principal and earnings of the fund may be expended on a restricted basis for the benefit of the City or its Citizens.
2. **Non-expendable Trusts:** are used to account for trusts where the principal must remain intact. Generally income earned on the non-expendable trust principal may be expended in accordance with the conditions of a trust instrument or statute, and is accounted for in the previous category.

Capital Project Funds: The Capital Projects Fund is used to account for monies used for the acquisition or construction of major capital facilities (buildings, roads, etc.) other than those financed by other dedicated funds, such as the Community Preservation Act Fund or Chapter 90.

B. PROPRIETARY (ENTERPRISE) FUNDS

Proprietary Funds cover the City's "business-type" activities, and are referred to as such in the financial statements. These statements comprise the Sewer, Water, and Harbormaster Enterprise Funds of the City. All direct and indirect costs including overhead of each service are intended to be captured by user fees and/or general fund subsidies. These funds account for their own fixed assets and long term liabilities. Although the long term debt of the funds is ultimately the legal obligation of the general fund, it is budgeted and paid for by the Enterprise Fund for which the project was approved. The City Council has approved the use of the Enterprise Fund accounting for the sewer, water, and harbormaster operations. However, for the purposes of the financial statements only the sewer and water operations are considered to be major funds.

C. FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. The City is the trustee, or fiduciary, and the government and its citizenry do not benefit directly from such funds. This means that the City is responsible for assets in a purely custodial manner that can be used only for the trust beneficiaries and Agency Funds. Under this heading the City maintains only Agency Funds, such funds for "special detail" for overtime labor billed to outside parties, firearms licenses and fishing permits payable to the Commonwealth, and fees derived from and expenses related to the use of school facilities by outside parties.

D. LONG-TERM OBLIGATIONS

The last category of fund account entities maintained by the City is for long-term obligations, which accounts for the balances due on long-term debt that the City has authorized. The liabilities accounted for in this fund extend to future years, versus those that affect the current year alone shown in other funds. When borrowing is approved the liability is increased in this fund, and when debt is paid down or rescinded the liability is reduced.

BASIS OF ACCOUNTING

By necessity, the City produces financial reports that have different bases of accounting. Since the goal of financial reporting is to provide useful information to its users, the measurement focuses of reporting must change with respect to the needs of the audience.

The day to day method of accounting used by the City is UMAS, the Commonwealth of Massachusetts' Universal Municipal Accounting System. This accounting system is prescribed by the Commonwealth of Massachusetts Department of Revenue and is intended to demonstrate compliance with state statutes and local near-term decisions (e.g. budget). This system prescribes the use of the modified accrual basis of accounting, which is the basis used by all governmental fund types. Under the modified accrual basis, revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available).

The full accrual basis of accounting is used for the City's financial statements, which are produced based on generally accepted accounting principles (GAAP). The statements report information about the City with a broad overview. The statements use accounting methods most similar to those used by a private-sector business and are typically used to demonstrate the long-term financial position of the City. The users of this information are often bond rating agencies and others seeking information consistent with entities in other states. The Government Accounting Standards Board (GASB) issues guidance for how GAAP-based financial statements should be prepared for government entities. The accrual basis of accounting is utilized by the proprietary and agency funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

BASIS OF BUDGETING

An annual budget is adopted for the City's General and Enterprise Funds. The City's annual budget is adopted on a statutory basis, specific to the Commonwealth of Massachusetts, and it differs in some respects from GAAP. The major differences between the budget and GAAP basis are that:

1. Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
2. For the budget, encumbrances are treated as expenditures in the year the commitment is made. Also, certain appropriations do not lapse and are treated as budgetary expenditures in the year they are authorized as opposed to when the liability is actually incurred (GAAP).
3. The depreciation of Fixed Assets is not recognized as a current expense on a budgetary basis, except to the extent that actual maintenance costs are included in departmental budgets.

On the following page are two tables which are excerpted from the City's financial statements prepared on a GAAP basis. These tables display the results of operations for the most recently audited fiscal year.

The City implemented GASB Statement #54 *Fund Balance Reporting and Governmental Fund Type Definitions*. In general, amounts previously reported as undesignated fund balance, are now reported

as unassigned fund balance. Additionally, amounts previously reporting in stabilization funds, are now required to be presented as committed fund balance in the general fund.

General Fund Financial Statements

Balance Sheet

	<u>FY17</u>	<u>FY18</u>	<u>Amount Change</u>	<u>Percent Change</u>
Assets				
Cash and Short-Term Investments	\$10,300,561	\$10,401,191	\$100,630	1.0%
Investments	\$697,223	\$697,924	\$701	0.1%
Receivables	\$2,721,591	\$2,182,430	(\$539,161)	-19.8%
Total Assets	\$13,719,375	\$13,281,545	(\$437,830)	-3.2%
Liabilities				
Warrants Payable	\$1,543,474	\$1,108,907	(\$434,567)	-28.2%
Accrued Liabilities	\$1,619,000	\$1,913,106	\$294,106	18.2%
Tax Refunds Payable	\$152,128	\$0	(\$152,128)	-100.0%
Other	\$333,703	\$348,887	\$15,184	4.6%
Total Liabilities	\$3,648,305	\$3,370,900	(\$277,405)	-7.6%
Deferred Inflows				
Unavailable revenues	\$2,756,184	\$1,879,789	(\$876,395)	-31.8%
Fund Balances				
Committed	\$900,382	\$739,211	(\$161,171)	-17.9%
Assigned	\$278,178	\$622,851	\$344,673	123.9%
Unassigned	\$6,136,326	\$6,668,794	\$532,468	8.7%
Total Fund Balances	\$7,314,886	\$8,030,856	\$715,970	9.8%
Total Liabilities, Deferred Inflows and Fund Balances	\$13,719,375	\$13,281,545	(\$437,830)	-3.2%

Balance Sheet Highlights

- Assets (resources owned) = Liabilities (amounts owed) + Deferred Inflows (resources to be recognized in the future) + Fund Balance (reserves).
- Fund balance has specific restrictions: Committed (Mayor/City Council appropriations for a specific purpose), Assigned (purchase orders), and Unassigned (available).
- FY18 assigned fund balance increased due to a greater number of purchase orders (encumbrances) at year-end.
- FY18 unassigned funds increased due to stronger than estimated revenue.

Statement of Revenues, Expenditures and Changes in Fund Balance

	<u>FY17</u>	<u>FY18</u>	<u>Amount Change</u>	<u>Percent Change</u>
Revenues				
Property Tax	\$51,860,623	\$55,099,038	\$3,238,415	6.2%
MV Excise Tax	\$2,707,801	\$2,710,467	\$2,666	0.1%
Local Receipts	\$2,670,650	\$2,883,601	\$212,951	8.0%
State Aid	\$4,561,934	\$4,582,123	\$20,189	0.4%
Other	\$332,401	\$241,256	(\$91,145)	-27.4%
Total Revenue	\$62,133,409	\$65,516,485	\$3,383,076	5.4%
Expenditures				
City Services	\$17,244,060	\$17,435,912	\$191,852	1.1%
Schools	\$28,198,472	\$29,137,276	\$938,804	3.3%
Employee Benefits	\$12,754,684	\$13,230,191	\$475,507	3.7%
Debt Service	\$4,111,685	\$3,971,947	(\$139,738)	-3.4%
Total Expenditures	\$62,308,901	\$63,775,326	\$1,466,425	2.4%
Excess (deficiency) of revenues over expenditures	(\$175,492)	\$1,741,159	\$1,916,651	-1092.2%
Other Financing Sources (Uses)				
Refunding of Bonds	\$0	\$0	\$0	0.0%
Transfers In	\$343,946	\$218,222	(\$125,724)	-36.6%
Transfers Out	(\$1,047,435)	(\$1,243,411)	(\$195,976)	18.7%
Total Other Financing	(\$703,489)	(\$1,025,189)	(\$321,700)	45.7%
Changes in Fund Balance	(\$878,981)	\$715,970	\$1,594,951	-181.5%
Fund Balance				
Beginning of Year	\$8,193,867	\$7,314,886	(\$878,981)	-10.7%
End of Year	\$7,314,886	\$8,030,856	\$715,970	9.8%

Statement of Revenues, Expenditures and Changes in Fund Balance Highlights

- Total revenues increased by \$3.4 million, or 5.4%, from FY17 to FY18.
- Local receipts increased by 8.0% due to greater tax title collections, meals tax receipts and investment returns.
- Expenditures for employee benefits increased due to more employees, higher insurance costs and an annual 5% increase to the pension assessment.
- Debt service decreased to the roll-off of old debt issues.
- Fund balance remains strong at 12.6% of total expenditures and unassigned fund balance at 10.5% of total expenditures.

This information is a condensed version of the City's audited financial statements for June 30, 2017 and June 30, 2018, which are accessible in full via the City website.