



Financial Management in Local Government: Frequently Used Terms

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Introduction

It is helpful to have a standard set of terms to describe common local government financial processes, fund accounts, and budgets. While there is a great deal of variation in the size, style and complexity of budgets prepared by our state's town, city, village and county governments, state reporting and accounting requirements have created more uniformity over recent years. Many of the following frequently used financial and budgeting terms are used regularly at all levels of local government. This glossary of terms should make what used to be a mysterious language clearer to all who are trying to understand and monitor local finances.

Glossary

Account A classification established for the purpose of recording revenues and expenditures. (The various classifications used are likely to be drawn from a "chart of accounts" developed or adopted by the unit of government.)

Accounting Basis The method adopted for treating revenues and expenditures. The methods most likely to be found in use among small and medium-size units of government include:

1. The **Accrual Basis** of accounting under which revenues are recorded when earned (whether or not actual payment is received at that time) and expenditures are recorded when goods and services are received (whether or not payment is made at that time).
2. The **Cash Basis** of accounting under which revenues are recorded when received in cash and expenditures are recorded when payment is made in cash.
3. The **Modified Accrual Basis** under which (most kinds of) revenues are recorded when received in cash, but (most kinds of) expenditures are recorded when goods and services are received.

Activity A specific, identifiable unit of work or service performed.

Adopted Budget Every governing body must adopt by a majority vote a financial plan for the ensuing fiscal year. It must contain a general summary, detailed estimates of all anticipated revenues, all planned expenditures, and a compensation schedule.

Amended Budget Legal alterations to the Adopted Budget as provided by Wisconsin Statutes that require a two-thirds vote of the governing body.

Appropriation A legal authorization granted by the governing body which permits public officials to incur obligations and make expenditures up to the amount of money allocated and within time limits set by the governing body. Does not mean it will be fully expended.

Assessed Valuation A dollar value placed upon real estate for personal property by the local assessor, to be used as a basis for levying property taxes.

Audit A careful examination, using generally accepted accounting principles and practices, giving the independent auditor's opinion whether or not revenues are fairly reported and whether expenditures are fairly reported. Audits are reported with an "opinion."

1. An "**Unqualified**" audit opinion suggests that the audited government has satisfactorily met all audit requirements, is in general compliance with GAAP, and there are no significant deficiencies in how funds are being managed. It is essentially a "clean bill of health."
2. A "**Qualified**" audit opinion suggests there is some deviation from Generally Accepted Accounting Procedures (GAAP). An auditor presenting a "qualified" audit will often use the term "except for" In most cases, a qualified audit means there is some policy or procedure that needs to be changed, updated or corrected but it is not so critical as to place the organization in financial jeopardy.
3. An "**Adverse**" opinion is offered when the auditor concludes the financial statements are so misstated or misleading that they do not fairly present the income, financial position or cash flows of the organization Adverse audits are relatively rare but, when expressed, indicate severe problems with how the organization is accounting for its finances

Balance Sheet A statement which discloses the financial condition of an entity by assets, liabilities, reserves, and equities of a fund or account group at a specific date to exhibit financial position.

Bond A bond is a debt [security](#), in which the authorized issuer owes the holders a debt and, depending on the terms of the bond, is obliged to pay [interest](#) (the [coupon](#)) and/or to repay the principal at a later date, termed [maturity](#). A bond is a formal contract to repay borrowed money with interest at fixed intervals. Thus a bond is like a [loan](#): the *issuer* is the borrower (debtor), the *holder* is the lender (creditor), and the *coupon* is the interest. Bonds provide the borrower with external funds to finance long-term [investments](#), or, in the case of some government bonds, to finance current expenditures. [Certificates of deposit](#) (CDs) or [commercial paper](#) are considered to be [money market](#) instruments and not bonds. Bonds must be repaid at fixed intervals over a period of time.

A municipal bond is a bond issued by a city or other local government, including schools, special purpose districts, airports and seaports to secure funding for major projects. Municipal bonds may be general obligation bonds repaid by general funds or special revenue bonds secured by specified revenues and may be tax exempt, depending upon the circumstances and type of bond.

Budget The managerial and political document in which the costs associated with various activities are estimated, anticipated revenues projected and decisions made which result in appropriations, tax levies and borrowing authority.

Also a plan forecasting the amounts of money to be expended, revenues and their sources. Two kinds of budgets are commonly used:

The **Operating Budget** is the plan for current or annual expenditures and the proposed means of financing them.

The **Capital Budget** is the financial plan that details expenditures for (many kinds of) equipment, repair projects, the purchase or construction of buildings and facilities, and the means of financing each over longer periods of time.

(Also see “Performance budget”, “Program budget” and “Zero based budget”.)

Budget Calendar The schedule of events that need to occur and the date or period of time for each to occur in the preparation, review and adoption of a budget.

Capital Assets Buildings, machinery, equipment or other items having a useful life of several years and/or costing a significant amount of money to acquire. (Also called fixed assets. Local policy determines the criteria for treating proposed budget items as capital assets.)

Capital A plan listing priorities for major capital improvement

1. **Improvement Plan** projects anticipated over a fixed number of years, their costs, and methods of financing the expenditures. (Among small to medium size units of government, a capital improvement program will typically span three to seven years.)
2. **Capital outlay** Expenditures for the acquisition of new or replacement of current capital assets.

Cash Flow Plan A projection of the cash receipts and disbursements anticipated during each week or month of the fiscal year. Usually requiring a cooperative effort by the clerk and treasurer, the plan helps determine the most opportune time to expend funds, helps avoid unnecessary short term borrowing, and earns the highest return on idle funds.

Contingency Funds Assets or other resources set aside to provide for unforeseen expenditures or for anticipated expenditures of uncertain amounts.

Coupon A bond’s **coupon** is the annual interest rate paid on the issuer’s borrowed money, generally paid out semi-annually on individual bonds. The coupon is always tied to a bond’s face or **par value** and is quoted as a percentage of par.

For example, you invest \$5,000 in a six-year bond paying a coupon rate of five percent per year, semi-annually. Assuming you hold the bond to maturity, you will receive 12 coupon payments of \$125 each, or a total of \$1,500.

Debt An obligation resulting from the borrowing of money or purchase of goods and services. Government debt includes bonds, time warrants and notes.

Debt Limit The maximum amount of debt legally permitted. In Wisconsin, General Obligation debt is limited to 5% of the jurisdiction's equalized value.

Debt Service The amount of money a unit of government must spend to repay in full and on schedule the principal and the interest owed on what it borrows from outside lenders.

Deficit An excess of expenditures/uses over and above revenues/resources.

Depreciation That portion of the total expended to acquire a capital asset charged as an expense during a particular period of time. Depreciation is usually estimated in a straight line calculation in which the original value is decreased each year as a percentage of full value over the expected life of the asset.

Eminent Domain The power of a government to acquire private property for public purposes. It is used frequently to obtain real property that cannot be purchased from owners in a voluntary transaction. When the power of eminent domain is exercised, owners normally are compensated by the government in an amount determined by an independent appraisal of the property.

Encumbrance Commitments to pay for equipment, goods or services without payment actually being made. Purchase orders and contracts are typical ways in which government agencies encumber funds charged against an appropriation for contracts yet to be performed.

Endowment Funds or properties that are donated with either a temporary or permanent restriction as to the use of the principal and/or interest. Such funds are "restricted" and their balances cannot be used to offset deficits in General Funds.

Enterprise Fund An accounting method for revenues and expenditures of an activity that is treated much like a business enterprise because it is expected to be self supporting, with little or no subsidy provided from general funds, and with an ongoing independent revenue source.

Equalized Valuation The statutory full market value of all real property within each jurisdiction (except agricultural land which is valued based on production/earning potential). The State Department of Revenue analyzes market sales statewide to estimate the full market (or equalized) value for each jurisdiction. Equalized values provide a means of comparing different jurisdictions, even if they are assessed at different percentages of market value. Equalized values are used to apportion the levies of overlying districts (for example, schools and counties) to the municipalities within them. The state values are needed because municipalities assess property at varying percentages of the market value.

Expenditures Expenditures include current operating expenses which require the current or future use of net current assets, service and capital outlays.

Fixed Assets See “Capital assets”.

Fiscal Year A twelve-month period of time used for budgeting, accounting and tax collection purposes which may differ from a calendar year. Wisconsin municipal entities operate on a calendar basis from January 1 to December 31 while the State operates on a July 1 to June 30 basis.

Forecasting A forecast of the expected financial position and the results of operations and cash flows based on expected conditions. In local government, this generally means anticipating what revenues are anticipated from property taxes, state shared revenues and fees for services and comparing those “forecasted” revenues with expected obligations and expenditures.

FTE (Full Time Equivalent) A term used to compare the hours budgeted for regular full-time and regular part-time, temporary part-time and overtime based on 2,080 hours annually of a full time position.

Fund An independent accounting entity with its own set of accounts to record revenues and expenditures, obligations, and reserves. (Most local units of government establish a general fund along with several special revenue funds and, if appropriate, enterprise funds.)

GASB The mission of the independent, not-for-profit, nongovernmental **Governmental Accounting Standards Board** is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports. Most local governments adhere to GASB standards.

General Reserves Revenues received but not needed until a future date in order to meet obligations; these revenues can be invested in a variety of authorized ways to generate additional income. (The investment of idle funds requires coordination between cash flow planning and budget planning.)

GFOA (Government Finance Officers Association) The professional organization for government finance officers that provides training and a venue for discussion of issues related to government finance.

ICMA The **International City/County Managers Association** is the professional organization for City Managers and County Administrator and provides professional training, information sharing, and guidance on local government issues.

Impact Fees Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements (e.g. parks, sidewalks, etc.) that will be necessary as a result of the development.

In-Lieu of Tax Payment made in place of a tax or taxes. Payments can be negotiated with non-taxable property owners who will make a payment on property not subject to property tax.

Levy To impose taxes, special assessments or service charges for the support of government activities and services.

Liquidity The ability to convert an investment (of idle funds) quickly in order to meet obligations with minimum loss of earning power.

Line-item/object The classification of expenditures on the basis of categories called

1. **-of- expenditure** objects-of-expenditure (personal services, contractual services,
2. **budget** capital outlay, etc.) and within each category more detailed line-items (salaries, travel, telephone expense, etc.). (This type of budget, traditionally used among local units of government, focuses attention on how much money is spent and for what purpose rather than the activity affected or its outcomes.)

Management Letter A letter from the independent auditors that is usually a series of findings or recommendations on ways the financial management policies and practices may be improved.

Mil Rate The amount of taxes levied for each \$1,000 (mil) of assessed property valuation. For example, a tax levy budget of \$2.5 million (total property tax assessment) with a property tax base of \$1 billion (value of all taxable property) would generate a levy rate of \$2.50 per \$1,000 of assessed value. On a house value at \$100,000, the property tax would equal \$250 (100X \$2.50)

Municipal Any county, city, village, town, technical college district, special purpose district or board or commission and any public or quasi-public corporation or board or commission created pursuant to statute, ordinance, or resolution, but does not include the state, a state, agency, or corporation chartered by the state or a school district.

Municipal Bond A municipal bond is a bond issued by a city or other local government. Municipal bonds may be general obligations of the issuer or secured by specified revenues. Interest income received by holders may be tax exempt.

Obligations Amounts a government may be required legally to meet out of its resources.

Operating Budget A financial, programmatic, and organizational plan for furthering the goals of the governing body for the current year.

Par Value The stated value of a security as it appears on its certificate. A bond's par value is the dollar amount on which interest is calculated and the amount paid to holders at maturity. Par value of preferred stock is used in a similar way in calculating the annual dividend.

Performance The classification of expenditures on the basis of specific activities

Budget (resurfacing streets, investigating traffic accidents, etc.), the number of units performed and their costs. (This type of budget focuses attention on what a work unit does, how frequently it does it, and at what cost rather than a detailed, line-item accounting of expenditures.)

Per Capita Income Total income divided by the population.

Personnel Costs Budget category used to denote salaries and wages as well as all associated benefits such as employer paid pension costs; social security; health, life, dental, and disability insurance; vacation; holidays; and sick leave.

Principal In the context of bonds, the face value or par value of a bond or issue of bonds payable on stated dates of maturity.

Program Group of activities, operations, or organizational units directed to attaining specific purposes or results. (A group of activities related to crime prevention can be made part of the same program even though the activities involve separate work units within the same program under the same governing body. The same may be true of activities related to fire prevention, health care centers, road maintenance, etc.)

Program Budget The classification of expenditures on the basis of programs, significant problems or policy issues each attempts to deal with, and alternatives for dealing with them. (This type of budget focuses attention on the kinds of problems and policy issues chief executives and governing bodies are expected to resolve and, in a summary fashion, the resources needed to resolve them.)

Property Tax Taxes levied and revenue received based on both real and personal property assessed valuation and the tax rate.

Reimbursements Payments remitted on behalf of another party, department, or fund. Recorded as expenditures, or expenses, in the reimbursing fund, and as reductions of the expenditure, or expense, in the fund that is reimbursed.

Restricted Assets An account set up to control monies or other resources, the use of which is restricted by legal or contractual requirements.

Reserve for An account, included as part of most budgets, set aside for **Contingencies** emergencies or other unanticipated needs not otherwise included as part of a budget. (Since a contingency fund is usually included in the adopted budget, it takes a simple majority of the governing body to approve spending from it.)

Special Assessment A compulsory levy made against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit primarily those properties.

TIF Tax Increment Financing is a tool to use future gains in taxes to finance current improvements (which theoretically will create the conditions for those future gains). When a public project such as a road, school, or hazardous waste cleanup is carried out, there is often an increase in the value of surrounding [real estate](#), and perhaps new investment (new or rehabilitated buildings, for example). This increased site value and investment sometimes generates increased tax revenues. The increased tax revenues are the “tax increment.” Tax Increment Financing dedicates tax increments within a certain defined district to finance debt issued to pay for the original improvement project. TIF is designed to channel funding toward improvements in distressed or underdeveloped areas where development might not otherwise occur. TIF creates funding for “public” projects that may otherwise be unaffordable to localities, by borrowing against future property tax revenues.

Transfer of Funds An approved movement of monies from one separate fund to another fund. Often budgets call for Transfers In to the General Fund to pay for centralized expenditures such as utilities, insurance, or fringe benefits. Transfers Out from the General Fund may be required to subsidize new special activity funds or those with insufficient or unreliable revenue source.

Unreserved Available funds from prior year budgets that the local **fund balance** auditors have determined are not pledged for any purpose that may be used as a guarantee for the credit of the government's long term bonds, or for any legal general purpose. (Unreserved funds are considered outside the normal operating budget unless applied as "Funds Forwarded" to reduce the tax levy. Expenditure of these funds requires a 2/3 vote.)

Zero-base budget A budgeting approach whereby the expenditure amount for each line item is examined in its entirety each year, regardless of prior funding. Those items that cannot be justified are subject to elimination. In most cases, Zero-Based Budgeting (ZBB) organizes information into decision packages, i.e. incremental spending levels that reflect varying levels of effort and costs. In theory, each department prepares at least three (3) packages: a base-level, meeting the program's minimum requirements; current-level funding; enhanced package – to address unmet needs. Packages from all departments are then ranked according to perceived need for the package. The packages are then ranked and either selected for adoption or rejected.

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