



TOWN & COUNTY OF NANTUCKET
BOARD OF SELECTMEN
COUNTY COMMISSIONERS

FINANCIAL ACCOUNTING POLICY AND PROCESS

Effective date: 09/15/2011

Adopted: 09/14/2011

Applicability: Town, School, and Enterprise Departments

I. Purpose

In a concerted effort to improve financial management, the Town and County will conform to Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board (GASB) and the General Laws of Massachusetts (MGL).

The purpose of this policy is to:

1. Create transparency to the citizens, Board of Selectmen / County Commissioners, and Town / County Administration on the financial condition of the Town and County.
2. Provide a notification mechanism of major exceptions that will have a positive or negative impact on the Town and/or County reserves and/or budget.

II. Accounting Basis

Governmental funds are accounted for using the current financial resources measurement focus incorporated in the modified accrual basis of accounting. Using this basis, revenues are recognized when they are subject to accrual or when they become measurable and available. Likewise, expenditures are recorded as the liabilities are incurred with the exception of principal and interest on general long-term liabilities which are recognized when they are due. Revenues which are subject to accrual include grants from other governments and interest on investments. Revenue from property taxes is subject to accrual but is not accrued because funds are not collected in an appropriate time period after the fiscal year's end to pay the liabilities of the current reporting period. Local revenues are generated from excise taxes, fees, licenses, permits, rentals, penalties, and interest. Local revenues are not subject to accrual as they are neither measurable nor available prior to receipt of revenue.

Proprietary funds, including enterprise funds and internal service funds, are accounted for on the accrual basis of accounting. Revenues are recognized when they are earned and become measurable. Expenses are recognized when incurred, if measurable. Unbilled

receivables at the years end for the Airport, Siasconset Water, Wannacomet Water, Our Island Home, Sewer, and Solid Waste enterprise funds are not accrued since they are not significant to the general fund current operations.

The Town and County also report fiduciary funds which do not adopt budgets. These funds are accounted for on an accounting basis consistent with the funds measurement focus. Fiduciary funds include the health insurance trust fund, expendable trust funds, and private purpose trust funds.

III. Budgetary Basis

Annual budgets are adopted for the general fund, special revenue funds (revolving funds), and enterprise funds. All budgets are adopted on a basis consistent with Generally Accepted Accounting Principals (GAAP) and the General Laws of Massachusetts (MGL).

The level at which expenditures may not legally exceed the budget is contained within each category (salaries and expense) in the fund. Any change in the appropriation level of the fund must be approved by Town Meeting or at fiscal year end by the Board of Selectmen and Finance Committee. Line item adjustments within departmental budgets do not require Town Meeting approval; however transfers within a category of the budget require the signature of the Finance Director or his/her designee. With the exception of appropriations pertaining to capital improvements projects and outstanding purchases, appropriations lapse at year end. Appropriations for capital improvement projects are carried forward until such time as the project is completed or no longer occurring.

IV. Process – Single Audit

The audit function is contained within the Finance Department. The Finance Director is accountable to the Town Manager to ensure the annual audit is conducted in a timely manner.

As recipients of federal and state assistance, the Town and County are also responsible for ensuring an adequate internal control structure is in place to secure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by the Finance Director, Town Manager, external auditing staff; and Audit Committee.

V. Process – Budgeting Controls

The Town and County also maintain budgetary controls to ensure compliance with legal provisions. Balanced annual budgets are adopted for the general fund, special revenue funds, and enterprise funds. The Finance Director and appropriate staff monitor expenses and revenues, adjusts departmental line item budgets as needed, and prepares interim financial reports for Town Administration and the Board of Selectmen.

VI. Process – Monthly Financial Reports

The Finance Director and/or appropriate staff will prepare monthly reports for Town Administration, Board of Selectmen, and Finance Committee that analyze and evaluate

revenue and expenditure financial performance. Anomalies or one-time occurrences will be explained in a summary section of the report. In the event a major revenue or expense exception occurs, the Finance Director will inform Town Administration of the potential long-term impact on the Town and County budget and financial condition. A major exception threshold is a revenue decline or expense increase in excess of Two Hundred Fifty Thousand Dollars (\$250,000).

VII. Financial Structure

Financial transactions of the Town and County are budgeted and recorded in separate funds. A fund is an independent financial and accounting entity; it is a set of interrelated accounts used to record revenues and expenditures associated with a specific purpose. A fund has a balanced set of accounts and records, cash and other financial resources in conjunction with all related liabilities and residual equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations or restrictions. Funds include but are not limited to:

FUND	PURPOSE*
General Fund	The fund used to account for most financial resources and activities governed by the normal town meeting appropriation process. Examples include the Police Department, Fire Department, and School Departments.
Special Revenue Funds	Funds, established by statute or local bylaw only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special Revenue for departmental purposes, in accordance with MGL Ch 44 Section 53E1/2, must be reauthorized each year by Town Meeting with a limit established on the total amount that may be spent from each fund. Examples include the Ambulance Reserve Fund, the Beach Improvement Revolving Fund, and Waterways Improvement Fund.
Capital Improvements Projects Fund	Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities.
Enterprise Funds	An enterprise fund, authorized by MGL Ch 44 Section 53 F1/2 is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. It allows a community to demonstrate to the public the portion of total costs of a

	<p>service that is recovered through user charges and the portion that is subsidized by the tax levy, if any. 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 chooses. Enterprise accounting also enables communities to reserve the “surplus” or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. In Nantucket, the six enterprise funds are Nantucket Airport, Siasconset Water, Wannacomet Water, Our Island Home, Sewer, and Solid Waste.</p>
Community Preservation Fund	<p>The purpose of the Community Preservation Fund, as stated in the legislation, is <i>“the acquisition, creation and preservation of open space, the acquisition, creation and preservation of historic structures and landscapes and the creation and preservation of community housing”</i>.</p>

*Source: Excerpts from Municipal Finance Glossary, Massachusetts Department of Revenue, May 2008. Retrieved on August 14, 2008 from:
<http://www.mass.gov/Ador/docs/dls/publ/misc/dlsmfgl.pdf>