

## **BUDGET TERMINOLOGY GLOSSARY**

### **ACCOUNT CODE**

A numerical code consisting of eleven digits used to define the following:

Digits 1 & 2	Fund
Digits 3 thru 7	Program
Digits 8 thru 11	Object Code

### **ACCOUNTING METHOD**

The Borough uses a modified accrual method of accounting. Under this accounting method, revenues are recognized when received except for those susceptible to accrual. Revenues are recognized when billed through utility billing or accounts receivable subsystems, or at time of receipt for non-billed revenues. Expenditures are recognized by accruing the liability upon receipt of vendor invoice, except for unmatured interest on long-term debt, which is recorded when due. Management expenditure reports include encumbrances for all outstanding purchase orders, although these encumbrances are not reflected as liabilities in the accounting system until receipt of invoice.

### **ACTIVITY**

Discrete segments of a program with measurable objectives and definite resource requirements.

### **ADMINISTRATION CHARGE**

Charges by the General Fund to other operating departments for General Fund personal services expenditures in which administrative and technical personnel costs are allocated to the other operating funds.

### **APPROPRIATION**

Approval of expenditure authority with specific limitations as to the amount, purpose, and time.

### **BUDGET**

Plan for the accomplishment of programs and activities related to objectives and goals within a definite time period, including an estimate of the resource required and an estimate of the resource available.

### **CAPITAL BUDGET**

This budget deals with large, one-time expenditures for capital items appropriate to be financed by borrowing over a period of twenty years, representing the first year of a five-year program.

### **CAPITAL IMPROVEMENTS**

Expenditures that result in the acquisition of land or major equipment, construction costs, or improvements to land or buildings.

## **CAPITAL OUTLAY**

Expenditures for construction, vehicles, or machinery that result in the acquisition or addition of fixed assets having a useful life in excess of one (1) year.

## **CAPITAL/RESERVE FUNDS**

Borough funds established to hold specific revenues and cash reserves pending expenditures for capital projects or equipment.

## **DEPARTMENT**

A basic organizational unit of the Borough that is responsible for specific assigned activities.

## **ECONOMIC DEVELOPMENT FUND**

This Special Revenue Fund is used to account for revenues acquired from the sale of property and used for economic development efforts in the Borough.

## **ELECTRIC FUND**

An enterprise fund from which the Borough operates its electric utility, distributing electric energy to all residences and commercial/industrial establishments within the Borough.

## **ENCUMBRANCE**

Purchase orders, contracts, salaries or other commitments which are chargeable to an appropriation and for which all or part of the appropriation is reserved. When an encumbrance is recorded, the budgeted appropriation is reduced by the encumbrance amount, limiting available dollars for future expenditures.

## **ENTERPRISE FUND**

A fund established to account for operations financed in a manner similar to a private business enterprise, i.e., where the costs of providing goods and services to the public are financed or recovered through user charges.

## **EXPENDITURE**

The payment of cash on the transfer of property or services for the purpose of acquiring an asset, service or settling a loss.

## **FISCAL YEAR**

The fiscal year for the Borough runs from January 1 - December 31.

## **FUND**

A fiscal or accounting entity with a self-balancing set of accounts containing its own revenue and expenditure authorities. A fund is established for the purpose of carrying on specific activities and attaining certain objectives in accordance with special regulations, restrictions, or limitations.

## **GENERAL FUND**

This fund is used to account for all financial transactions applicable to the general operations of the Borough. Revenues are derived principally from property taxes, earned income taxes, departmental earnings, administrative charges, fines, licenses and permits, and grants.

## **GENERAL OBLIGATION DEBT**

Long-term, non-electoral guaranteed debt, in which the general taxing power of the jurisdiction is pledged to pay both principal and interest. Tax supported general obligation debt is considered a superior form of debt by the market because of its standing as a full-faith obligation of the unit. This form of debt is typically to finance capital projects.

## **GOVERNMENTAL FUND**

A fund used to account for the acquisition, use and balances of expendable financial resources. Under Generally Accepted Account Principles, all Borough funds except the enterprise and internal service funds are Governmental Funds.

## **HIGHWAY AID FUND**

The fund used to account for revenues received through the Pennsylvania Liquid Fuels Tax Fund grants and restricted to expenditures for roadway maintenance and improvements.

## **INTERNAL SERVICE FUND**

A fund used to account for financing of goods or services provided by one or more activities on behalf of other activities supported by other funds. The Mobile Equipment and Self Insurance Funds are internal service funds.

## **OBJECT CODE**

The last four (4) digits of each expenditure account that refer to the article or service purchased rather than the purpose for which the article or service is obtained. Object codes are standardized throughout all funds.

## **OPERATING FUNDS**

Funds that deal with recurring activities. Except for certain encumbrances, the appropriations of operating funds lapse at the end of a fiscal year. General, Water, Electric, Sewer and Sanitation Funds in Ephrata Borough are operating funds.

## **REVENUE BONDS**

Long-term debt payable from the earnings of a specific enterprise, such as, electric or sewer. Revenue Bonds are not serviced from the general revenues of the Borough. Therefore, revenue bonds are not subject to the constitutional or statutory limitations imposed on the issuance of general obligation bonds.

## **SANITATION FUND**

An enterprise fund from which the Borough provides refuse collection and recycling services under contract with a private vendor. Refuse collection services are available to most Borough residential units on an optional basis. Recycling services are mandatory for most residential units. Special collections of yard waste, white goods, etc. are also recorded in this fund.

## **SEWER FUND**

An enterprise fund from which the Borough operates its water pollution control services activities, including regional wastewater treatment activities.

## **SPECIAL REVENUE FUND**

A fund used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. The Highway Aid Fund is a special revenue fund.

## **WATER FUND**

An enterprise fund used to account for expenditures to operate the Ephrata Area Joint Authority water system and reimbursement from the Authority for the Borough's contractual operation of the Authority water system.

## **BOROUGH OF EPHRATA: FINANCIAL MANAGEMENT POLICIES**

### **BUDGET POLICIES**

- Pursuant to the Pennsylvania Borough Code, the Borough shall adopt its annual operating and capital budgets on or before December 31 each year for the following fiscal year.
- In accordance with Borough Ordinance and Borough Code provisions, the Borough Manager shall submit a proposed budget for the next fiscal year to Borough Council at or before its first regular meeting in November. The Borough Manager has the responsibility to review all departmental budget requests, revising requests as needed to serve the best interest of the community. The Borough Manager shall attempt to follow established Financial Management Policies in preparation of the annual budget.
- The Borough Manager shall prepare a multi-year capital improvements program each year for the ensuing fiscal years. The capital improvements program shall indicate each project to be accomplished, the year each project is scheduled for accomplishment, and the estimated capital and future operating costs of each project. This program shall form the basis for capital and reserve fund budgets for the following year.
- The budget document submitted to Borough Council shall be prepared in a "program" format, describing specific activities to be provided to the community, the cost of providing the level of service proposed, and the means of measuring service effectiveness.
- Capital and operating budgets are considered a guide for allocation of scarce resources according to the priorities established by Borough Council. During the course of any fiscal year, changes of circumstances and priorities may necessitate exceeding the specific appropriations authorized to an activity or project, or reallocating resources from one activity to another. Borough Council recognizes the need to provide the Borough management staff with flexibility to respond to changing circumstances and priorities while maintaining overall fund expenditure limitations established through budget adoption.
- The Borough Manager shall establish administrative procedures for this fiscal year and thereafter, under which budget managers will be permitted to exceed authorized individual expenditure account appropriations. Managers will have flexibility to transfer budget appropriations from one expenditure account to another within an activity and between programs within the same fund. Borough Council shall be advised of all instances in which circumstances and priorities dictate exceeding overall program or fund appropriations.

## FINANCIAL MANAGEMENT POLICIES

### Budget Policies Con't

- Borough Council and management staff recognize that Borough Council general policy direction drives changing budgetary priorities. The budget acts as a framework in which to evaluate responses to priority changes before and after Council action is taken. The budget is not intended to present roadblocks to accommodating fiscal changes. Rather, adopted Fiscal Management Policies should dictate whether or not a proposed activity or project can be supported through available or future resources.
- Council adoption of an annual budget provides a structure of local government response to community priority needs. Since Council is apprised of changing circumstances and, in most instances, directs staff to accommodate budgetary changes, Borough Council endorses budgetary flexibility. The Borough Manager is therefore authorized to adapt established budgets to new circumstances and changing service priorities without specific Council approval for each adaptation required. Borough Council approval is required for any of the following situations:
  - When expenditures of any fund will exceed overall appropriations approved by Council for that fund in the budget adoption process.
  - When a staffing pattern change is proposed.
  - When a change in fixed assets other than as detailed in the adopted budget is proposed.
- At the end of any fiscal year, all operating fund appropriations lapse with the exception that major expenditure commitments budgeted in a fiscal year and for which encumbrances exist may be carried forward to the next fiscal year at the discretion of the Borough Manager.
- At the discretion of the Borough Manager, Capital and Reserve Fund appropriations may be carried forward from one fiscal year to the next for any capital project that has not been completed during the fiscal year.
- Appropriations rolled forward from one fiscal year to the next shall remain within the fund, and program of origination, and shall have the effect of increasing specific expenditure account budget amounts in the following fiscal year. The Borough Manager shall prepare a schedule of appropriations rolled forward for review by Borough Council.
- Timely reporting and full disclosure of financial information is a cornerstone of effective budget monitoring efforts. Borough Council shall from time to time direct the Borough Manager to provide financial and budget reports suitable to Council's needs.

## FINANCIAL MANAGEMENT POLICIES

### OPERATING MANAGEMENT

- General Fund revenues are sensitive to local and regional economic activity. Accordingly, revenue estimates prepared by the Administration and adopted by Borough Council should be on the conservative side.
- The annual budget should continue to show fiscal restraint. An integral part of this restraint is the creation of a positive cash balance (surplus) in all funds at the end of the fiscal year. If necessary, spending during the fiscal year should be reduced sufficiently to create such a cash surplus. Annual operating budgets should disclose beginning and ending fund balances.
- The annual budget should continue to be prepared, adopted and maintained in such a manner as to avoid the following situations:
  - (1) Two consecutive years of operating fund deficits.
  - (2) A current operating fund deficit greater than the previous year.
  - (3) An operating fund deficit in two or more of the last five years.
  - (4) An abnormally large deficit in any one-year of more than 5 to 10 percent of net operating revenues.
- The Borough liquidity position (the extent to which cash and other assets are available to pay short-term obligations) should show a working capital surplus; i.e., cash and short-term investments should exceed current liabilities.
- When deficits appear to be forthcoming, the Borough should avoid the use of "fiscal mirrors" in order to balance the budget. Only three alternatives are available: reduce appropriations; increase revenues; or a combination of the two techniques.
- The Borough should continue to pursue a prudent but aggressive cash management and investment program, in order to meet daily cash requirements, increase the amount available for investment, and earn the highest possible rate of return on invested funds.
- All retirement plans should continue to be funded and administered in accordance with State Act 205 of 1984.
- Contingency reserves should be maintained at a level sufficient to provide for unanticipated expenditures of a nonrecurring nature. The Borough will strive to maintain operating fund balances at a level at least equal to five percent (5%) of budgeted expenditures.
- The unappropriated reserve balance in the Electric Fund should be established at a target amount of 10% of the budgeted Electric Fund appropriations plus \$1,000,000.
- Insurance reserves should be maintained at a level that, together with purchased insurance policies, adequately indemnifies the Borough's assets and officers/employees against loss.

## FINANCIAL MANAGEMENT POLICIES

### Operating Management Cont'd

- Borough staff should minimize the financial burden on the taxpayers through systematic program reviews and evaluations aimed at improving the efficiency and effectiveness of Borough programs. These periodic reviews should consider past trends and experiences elsewhere, and revisions to annual budget guidelines should be based on current need and program efficiency. Such information should be integral to the preparation of the annual budget.
- The Borough should maintain a budget that provides for adequate maintenance, repair, or replacement of the Borough's infrastructure and equipment stock.
- Grant applications to fund new service programs with state or federal funds should be reviewed by the Borough, with significant consideration given to whether locally generated funds will be required to support these programs when original grant funding is no longer available.
- The Borough will continually oppose and discourage programs and actions by the federal or state legislatures and administrations which would mandate cost increases to Borough government without providing an equal amount of federal or state supplied revenue to offset such mandated increases.
- All fee schedules and enterprise or user charges should be reviewed and adjusted periodically to ensure that rates are equitable and cover the total cost of the service or that portion of the total cost deemed appropriate by the Borough.
- All enterprise funds should pay to the General Fund their fair share of administrative costs budgeted in the General Fund. The Electric Fund shall contribute annually an amount not to exceed ten percent (10.00%) of gross electric sales revenue as a contribution to the General Fund.



## **FINANCIAL MANAGEMENT POLICIES**

### **CAPITAL AND DEBT MANAGEMENT**

- Any capital project financed through the issuance of general obligation bonds should be financed for a period not to exceed the expected useful life of the project up to a maximum of twenty years.
- The Comprehensive Plan of the Borough should be used to evaluate the projects in the Capital Improvements Program.
- The Capital Improvements Program should reflect the relationship between the Borough's planning and budgeting processes, wherein the planning effort defines the Borough's anticipated capital facility needs and the budgeting effort defines the financial parameters of sound capital expenditure policies to meet those needs.
- Bond sales should be planned and structured in order to maintain or improve the Borough's bond rating and to obtain interest rates at or below the published bond yield averages for bonds of similar ratings.
- Capital facility improvements should be scheduled in such a manner as to levelize the Borough's annual debt service payments to the maximum extent possible and to minimize fluctuations in tax rates caused by debt-financed capital improvements.
- Short-term (less than five years) debt outstanding at the end of the fiscal year should not exceed five percent (5%) of operating revenue.
- The Borough should continue to use, whenever possible, current revenues or short-term general obligation notes to support the Capital Improvements Program.
- The Borough should use short-term financing such as revenue and bond anticipation notes to provide temporary financing for improvement projects or land acquisition, only when market conditions warrant such action.
- Net direct debt should be maintained below \$1,000 per capita.
- Net direct debt per capita should not exceed ten percent (10%) of per capita personal income.
- The level of net direct debt should not exceed fifty percent (50%) of the State mandated legal debt limit for the Borough.
- Debt service payments should not exceed ten percent (10%) of governmental fund expenditures, in order to minimize the impact on tax rates while providing for the normal replacement of public facilities.

## **FINANCIAL MANAGEMENT POLICIES**

### **ACCOUNTING, AUDITING AND FINANCIAL PLANNING**

- The Borough should maintain the highest level accounting practices. Accounting systems should be maintained in order to facilitate financial reporting in conformance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, and the Financial Accounting Standards Board.
- An annual audit should be performed as required in state law by an independent public accounting firm in accordance with generally accepted auditing standards.
- Full disclosure should be provided in the Annual Financial Report, Official Statements and all other financial reports.
- Revenues and expenditures for all operating funds should be projected annually for five years beyond the current budget in a multi-year fiscal forecast publication.
- Financial systems should be maintained to monitor expenditures, revenues and performance of all municipal programs on an ongoing basis.
- Operating expenditures should be programmed to include the cost of implementing capital improvements.
- The Borough should institute a "trained-observer" capital plant assessment process, in order to evaluate and monitor the condition of its major physical assets.

## FINANCIAL MANAGEMENT POLICIES

### COMMUNITY NEEDS AND RESOURCES

- The Borough should continue to diversify and stabilize its economic base in order to protect the community against economic downturns and to take advantage of economic upswings.
- The Borough should continue its joint private/public economic development efforts to "market" Ephrata as a desirable place for present business and industry to expand and for outside business and industry to relocate.
- The Borough should continue to encourage economic development goals that provide growth in tax base and employment for Borough residents.
- The Borough should continue providing leadership in issues facing the Ephrata region, particularly in the areas of planning for public water and sewer regional systems.
- The Borough staff should continue to supply staff assistance and support to the Ephrata Area Joint Authority, the Ephrata Area Recreation Center, and other agencies serving the greater Ephrata area.

## BOROUGH OF EPHRATA: INVESTMENT MANAGEMENT POLICIES

### ➤ SCOPE

The Statement of Investment Policy covers all investments of the Borough's pooled cash that includes cash and investment balance of the following funds:

General	Sewer Permit
Water	Capital Reserve
Electric	Mobile Equipment
Sewer	Self Insurance
Sanitation	

The pooled cash includes short-term or operating funds and capital project funds. The policies set forth herein do not apply to the two employee pension funds of the Borough or depositories for defeased debt.

### ➤ OBJECTIVES

Safety of principal and interest is the foremost objectives of the Borough. Each investment transaction shall first seek to ensure that loss of capital is avoided, whether from default or from decline of market value.

The investment portfolio of the Borough shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the Borough's investment risk constraints and the cash flow characteristics of the portfolio.

All cash should be maintained in interest-bearing accounts.

### ➤ DELEGATION

In accordance with applicable State laws and Borough ordinances, the responsibility for conducting investment transactions resides with the Borough Manager. Management responsibility for the investment program is hereby delegated to the Director of Budget and Finance. The Director of Budget and Finance shall establish written procedures for the operation of the investment program. Such procedures shall include explicit delegation of authority to persons responsible for routine transactions such as soliciting proposals for CD interest rates, wire transfers of funds, etc. The Director of Budget and Finance shall be responsible for all transactions and shall establish a system of internal accounting and administrative controls to regulate the activities of subordinates.

## INVESTMENT MANAGEMENT POLICIES

### ➤ PRUDENCE

The standard of prudence to be used by the investment officer shall be the "prudent person" rule and shall be applied in the context of managing the overall portfolio.

The Director of Budget and Finance, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported to the Borough Manager and that appropriate action is taken to control adverse developments.

### ➤ INTERNAL CONTROLS

The Director of Budget and Finance shall establish a system of internal accounting and administrative controls that shall be documented in writing. The internal controls shall be reviewed by the Borough Manager and shall be subject to an annual operation audit by the firm performing the annual Borough audit.

The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties or imprudent actions by employees, officers or elected officials. The controls shall also be designed to provide for appropriate accounting for investment transactions.

### ➤ DIVERSIFICATION AND MATURITY

Assets of the Borough pooled cash shall be invested in a diversified manner in order to eliminate risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer, or a specific class of securities.

Short-term or operating funds shall be invested in insured or collateralized certificates of deposit (CD's), Treasury bills (T-bills), Pennsylvania Local Government Investment Trust (PLGIT), or repurchase agreements (repos). Maturity of CD's or T-bills shall not exceed one year and maturity of repos shall not exceed 16 days.

Proceeds of bonds or notes issued by the Borough shall be invested either under the same restraints as short-term or operating funds, or in longer-term instruments with maturities not exceeding the reasonably anticipated construction time of capital improvement projects financed through the specific bond issue. Such longer-term instruments shall be Treasury notes or bonds or Guaranteed Investment Contracts (GIC's).

With respect to short-term or operating funds, liquidity shall be maintained by staggering maturities in amounts sufficient to cover payrolls and vendor check disbursements.

## INVESTMENT MANAGEMENT POLICIES

With respect to CD's, all approved financial institutions that are approved for investment purposes. Banks shall provide their most recent Annual Report at the request of the Borough. The Borough shall conduct an annual evaluation of each bank's creditworthiness to determine whether it should be on the "qualified institution" listing.

### ➤ ASSET SECURITY

The assets of the Borough shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. The Director of Budget and Finance, who shall also be Borough Treasurer, shall be bonded to protect the public against possible embezzlement and malfeasance. Collateralized securities, such as repurchase agreements, shall be purchased using the "hold in custody" procedure. Ownership of collateralized securities shall be protected through third-party custodial safekeeping.

The Borough's independent auditor shall review custody and safekeeping procedures annually and shall have the authority to conduct periodic audits of such procedures/systems as deemed necessary.

### ➤ ETHICS

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees shall disclose to the Borough Manager any material financial interests in financial institutions that conduct business within the Borough and shall further disclose any large, personal financial/investment positions that could be related to the performance of the Borough's portfolio.