COMMON MUNICIPAL FINANCE TERMS

TERM	DEFINED
Abatement:	A complete or partial cancellation of a tax levy imposed by a government.
Accrual Accounting:	A basis of accounting that utilizes a current financial resource measurement focus thereby recognizing revenue as it is earned and realizable and recognizing expenditures when they are incurred.
Actuarial Liability:	A retirement system's projected benefit obligation due to past service by employees and retirees.
Alternate Revenue:	General obligation bonds that, rather than being repaid by Village-wide property taxes, are retired by a specifically pledged revenue stream.
Amortization:	Gradual reduction, redemption, or liquidation of the balance of an account according to a specified schedule of times and amounts. Also, a provision for the extinguishment of a debt by means of a Debt Service Fund.
Appropriation:	Spending authority from a specific fund for a specific amount, purpose and time period. [2]
Assessment Level:	The percentage of full value at which property is being assessed.
Assessed Value (AV):	The dollar amount certified by assessing officials as the value of property for real estate tax purposes. The assessed value should be a certain percentage of the property's market value, depending on the classification of that particular parcel of property. [4]
Assets:	Property owned by a government that can be converted to a monetary value.
Balanced Budget:	A budget in which the expenditures incurred during a period are matched by revenues.
Bond:	A written promise to pay (debt) a specified sum of money (principal) at a specified future date (maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt. When a government pledges its full faith and credit to the repayment of the bonds it issues, then these are known as general obligation bonds. Bonds with principal and interest that are payable exclusively from the earnings of an Enterprise Fund are known as revenue bonds.
Budget:	Plan of financial operation, embodying an estimate of proposed expenditures for a given period and the proposed revenue estimates of financing them. Used without qualification, the term usually indicates a financial plan for a single fiscal year.
Budget Calendar:	The schedule of key dates or milestones that Village departments follow in the preparation, adoption and administration of the budget.
Budget Document:	The official written document prepared by the Finance Department that presents the Operating Budget to the legislative body. The document includes written summaries, schedules of revenues, expenditures, and transfers, and charts and graphs to ease the understanding of the effect of the Operating Budget on the Village's financial condition.
Capital Improvement Program:	Plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying its expected beginning and ending date, the amount to be expended in each year, and the method of financing those expenditures
Capital Equipment:	Expenditures for the acquisition of capital assets, i.e., operating equipment, office equipment .
Capital Projects:	Projects involving the purchase or construction of capital assets. Typically a

TERM	DEFINED
	capital project encompasses a purchase of land and/or the construction of a building or facility.
Cash Basis Accounting:	A basis of accounting in which transactions are recorded when cash is either received or expended for goods and services.
Cash Management:	The management of cash necessary to pay for government services while investing temporary cash excesses in order to earn interest revenue. Cash management refers to the activities of forecasting the inflows and outflows of cash, mobilizing cash to improve its availability for investment, establishing and maintaining banking relationships, and investing funds in order to achieve the highest interest and return available for temporary cash balances.
Contingency Account:	A budgetary reserve set aside for emergencies or unforeseen expenditures not otherwise budgeted for.
Continuing Appropriation:	(State of Illinois) Statutory authority for the Comptroller and Treasurer to spend funds in the event the legislature fails to appropriate or appropriates an insufficient amount for a specific purpose. Examples of continuing appropriations are for debt service on State bonds or for payments to State retirement systems. [3]
Continuing Services Ratio:	This indicator measures unrestricted net assets for all funds as a percentage of expenses for all funds. The ratio reflects the degree to which unrestricted net assets can support continuing government services.
Debt Service:	Payment of principal, interest and other obligations associated with retirement of debt. [3]
Debt Service Expenditure Ratio:	This indicator measures debt service expenditure, which includes principal retirement, interest and other fiscal charges made in the current fiscal year, as a percentage of total governmental fund expenditures. The ratio can be used to assess service flexibility with the amount of expenses committed to annual debt service.
Debt Service Funds:	Funds created to pay for the principal and interest of all bonds and other debt instruments according to a predetermined schedule.
Deficit:	The excess of expenditures over revenues during an accounting period.
Defined Benefit Plan:	A type of pension plan in which employers and employees annually contribute fixed amounts to investments intended to cover future benefit payments. Upon retirement, the employee receives an annuity based upon his or her highest salary (usually based on an average of several years) and length of service. If the amounts contributed to the plan over the term of the employee’s employment (plus accrued earnings) are insufficient to support the benefits (including health and survivor’s benefits), the former employer is required to pay the difference.
Defined Contribution Plan:	A type of pension plan in which the employee and the employer contribute fixed amounts. Upon retirement, the employee receives an annuity and interest based upon the amount contributed to the plan over the term of his or her employment. Once the employee retires, the employer has no further liability to the employee (except, perhaps, for ancillary health benefits). Two common examples of defined contribution plans are 401(k) and 403(b) plans, named after the governing sections of the Federal tax code.
Depreciation:	The process of estimating and recording the lost usefulness, expired useful life or diminution of service from a fixed asset that cannot or will not be restored by repair and will be replaced. The cost of the fixed asset's lost usefulness is the depreciation or the cost to reserve in order to replace the item at the end of its useful life.
Effective Property Tax Rates:	A measure of property tax burden for homeowners and businesses. They translate the tax rates on property tax bills into rates that reflect the percentage of full market value that a property owed in taxes for a given year.

TERM	DEFINED
Eliminations:	When funds are consolidated, transactions between funds are eliminated in order to eliminate double accounting.
Encumbrance:	The commitment of appropriated funds to purchase an item or service. To encumber funds means to set aside or commit funds for future expenditures.
Enterprise Fund:	A fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Village Board is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, i.e.,water utility.
Equalized Assessed Value (EAV):	The EAV is the taxable value of property. In Illinois it is determined by multiplying the assessed value of property as determined by assessing officials by the county equalization factor. [4]
Expenditure:	Expenditure - This term refers to the outflow of funds paid or to be paid for an asset obtained or goods and services obtained regardless of when the expense is actually paid. This term applies to all funds. Note: an encumbrance is not expenditure. An encumbrance reserves funds to be expended.
Federal Funds:	(State of Illinois) Accounts that use federal revenues (other than those designated for General Funds) to support a variety of state programs.
Federal Medical Assistance Percentage:	Known as FMAP. The rate at which the federal government reimburses a state for its Medicaid expenditures.
Fiduciary Funds:	Fiduciary Funds - Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs.
Fixed Assets:	Fixed Assets - Assets of long-term character that are intended to continue to be held or used, such as land, buildings, machinery, furniture and other equipment.
Full Faith and Credit:	Full Faith and Credit - A pledge of the general taxing power of a government to repay debt obligations (typically used in reference to bonds).
Full-Time Equivalent (FTE):	A calculated measure of full-time employment for comparison purposes, in which each full-time employee works 37.5 hours per week for 52 weeks per year. [3]
Fund:	A budgetary and accounting entity that is segregated from other funds for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.
Fund Balance:	The fund equity of governmental funds and trust funds (excess of assets over liabilities).
Fund Balance Ratio:	This indicator measures unrestricted General Fund fund balance as a percentage of General Fund operating revenues or expenditures. The ratio represents savings that the government has accumulated. The Government Finance Officers Association (GFOA) recommends that governments maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures, which is approximately 17%.
Funded Ratio:	The percentage of a retirement system's actuarial liability that is covered by a system's assets.
General Funds:	(State of Illinois) Accounts that support the regular operating and administrative expenses of most State agencies and over which the State has the most control. The General Funds consist of the General Revenue Fund, the Education Assistance Fund, the Common School Fund and the General Revenue-Common School Special Account Fund.
General Fund:	General Fund - The fund used to account for all activities of a government except those required to be accounted for in another fund.
General Obligation Bond:	General Obligation Bond - Bonds that have the full faith and credit of the issuing government or agency to be used or expended for a specified purpose or

TERM	DEFINED
	activity.
General State Aid:	An unrestricted formula-driven grant that comprises the largest portion of State assistance to local school districts. The amount of funds a district receives depends on its financial need measured by three factors: its average daily attendance, its equalized assessed valuation of property and its local tax measured by its statutory tax rate. [3]
Governmental Funds:	Governmental Funds - Funds generally used to account for tax-supported activities.
Grant:	A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the state and federal governments. Grants are usually made for a specified purpose.
Hybrid Plan:	A type of pension plan that offers a combined defined benefit and defined contribution to employees.
Home Rule:	A home rule unit of government is one that is permitted to do anything not expressly prohibited by the Illinois Constitution or statutes. Article VII of the Illinois Constitution designates as a home rule government any municipality with a population over 25,000, any municipality that has adopted home rule by referendum, and a county with a chief executive officer (i.e., Cook). All special districts including school districts, community college districts, forest preserve districts, park districts, townships and sanitary districts are non-home rule. Non-home rule units of government are only allowed to take actions explicitly permitted by the Illinois Constitution and statutes. [1]
Increment:	The increase in equalized assessed value of property within a TIF district. Taxes levied on the increment are used to pay for TIF projects. [4]
Intergovernmental Revenues:	Revenues from other governments in the form of grants, entitlements, shared revenues or payments in lieu of taxes.
Investment:	Securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals or base payments.
Lapse Period:	(State of Illinois) The period following the end of the State's fiscal year on June 30 during which agencies can liquidate liabilities incurred before the end of that fiscal year.
Level of Assessment:	Ratio of assessed value to the sale price.
Line Item:	Specific purpose of an appropriation, such as personal services, retirement, printing or travel. [3]
Line-Item Budget:	A budget that lists each expenditure category separately, along with the dollar amount budgeted for each specified category.
Liquidity:	Available cash or the capacity to obtain it on demand.
Long-Term Debt:	Debt with a maturity of more than one year after the date of issuance.
Lump sum:	Appropriation line for a general program purpose without specific line items identified. [3]
Managed Competition:	A form of alternative service delivery that requires in-house service units of a government to compete with external providers under a controlled or managed process.
Market Value of Assets:	A method of reporting the value of pension assets that recognizes unrealized gains and losses immediately in the current year and can produce significant fluctuation year-to-year. This measure is subject to volatility in the market.
Medicaid:	A joint federal-state program that finances healthcare for certain categories of low-income people, including children, pregnant women, the elderly and the disabled.

TERM	DEFINED
Modified Accrual Accounting:	A basis of accounting in which expenditures are accrued but revenues are accounted for on a cash basis. This accounting technique is a combination of cash and accrual accounting since expenditures are immediately incurred as a liability while revenues are not recorded until they are received or are "measurable" and available for expenditure. Since this type of accounting basis is a conservative financial approach, it is recommended as the standard for most governmental funds.
Net Assets:	A government's net assets are the difference between all its assets and all its liabilities. Net assets are reported in three categories: invested in capital assets (net of related debt), restricted and unrestricted. The first category shows the value of capital assets minus the outstanding debt that was incurred to build the assets. Restricted net assets are limited to a specific purpose, such as activities funded by grants from other governments or revenues set aside for payment of debt service. Unrestricted net assets are the net assets not included in the other two categories and can generally be used for any purpose. They are not necessarily cash assets and may in fact be a negative number, or deficit, because they include offsetting liabilities. For example, large unfunded pensions or retiree health care liabilities may contribute to an unrestricted net assets deficit even though those long-term liabilities are not all due in the current year.
Normal Cost:	The portion of the cost of projected pension benefits allocated to the current plan year. The normal cost is computed differently under different funding methods. The employer's normal cost equals the total normal cost reduced by employee contributions. [3]
Obligations:	Amounts that a government may be required legally to meet out of its resources. They include not only actual liabilities, but also un-liquidated encumbrances .
Operating Budget:	The authorized revenues and expenditures for on-going municipal services and is the primary means by which government is controlled. The life span of an operating budget typically is one year or less. The use of annual operating budgets is usually required by law.
Operating Deficit Ratio:	This indicator measures the General Fund surplus or deficit as a percentage of total operating expenses. The ratio reflects the difference between revenues and expenditures in completed fiscal years, or on an actual basis and not a budgeted basis.
Ordinance:	A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, such as state statute, it has the full force and effect of the law within the boundaries of the municipality to which it applies.
Other Post Employment Benefits (OPEB):	Non-pension benefits provided to employees after employment ends. OPEB includes health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage. It does not include termination benefits such as accrued sick leave and vacation.
Other State Funds:	(State of Illinois) Accounts for activities funded by specific revenue sources that may only be used for specific purposes.
Property Tax Levy:	The property tax levy is the amount of property tax revenue a unit of local government or taxing district requests from taxpayers. [1]
Property Tax Extension:	The property tax extension is the final amount of property tax revenue that a unit of local government is authorized to receive and that is billed to taxpayers. [1]
Property Tax Rate:	Property tax rates are calculated using two primary pieces of information: the Equalized Assessed Value (EAV), or taxable value of property, and the taxing district's levy, which is the amount of property tax revenue the district requests from taxpayers. Conceptually, a property tax rate = levy ÷ EAV. [1]
PTELL:	Illinois' property tax extension limitation law which limits property tax levy increases to 5% of the rate of inflation, whichever is less.

TERM	DEFINED
Rating:	The credit worthiness of a Village as evaluated by independent agencies.
Reappropriation:	(State of Illinois) An unspent appropriation that continues into the next fiscal year, typically for a capital or multi-year project or liability. [3]
Referendum:	A measure proposed or passed by a legislative body that is referred to the vote of the electorate for approval or rejection.
Requisition:	A written demand or request, usually from one department, to the purchasing office to another department for specific articles or services.
Reserve:	An account used to indicate that a portion of a fund's balance is legally restricted for a specific purpose and is, therefore, not available for general appropriation.
Revenue:	Funds that the government receives as income. It includes such items as tax payments, fees from specific services, receipts from other governments, fines, forfeitures, grants, shared revenues and interest income.
Revenue Bonds:	Bonds usually sold for constructing a project that will produce revenue for the government. The revenue is used to pay the principal and interest of the bond.
Risk Management:	An organized attempt to protect a government's assets against accidental loss in the most economical method.
Rule of Conservatism:	Accounting conservatism will recognize all probable losses as they are discovered and most expenditures as they are incurred. Having strict revenue-recognition criteria is one of the most common forms of accounting conservatism. Revenues are reported ultra conservative to allow for any unforeseeable changes in the economy or collections.
Securities:	Bonds, notes, mortgages, or other forms of negotiable or non-negotiable instruments.
Smoothed Value of Assets:	A method of reporting the value of pension assets that mitigates the effects of short-term market volatility by recognizing each year’s investment gains or losses over a period of three to five years.
Supplemental Appropriation:	(State of Illinois) Additional spending authority given by the General Assembly during the fiscal year, following passage of the initial budget. [3]
Surplus:	An excess of the assets of a fund over its liabilities and reserves.
Tax Anticipation Notes:	Notes issued in anticipation of collection of taxes and retired from the proceeds of the tax levy whose collection they anticipate.
Tax Caps:	Under the provisions of the Illinois Property Tax Extension Limitation Law, the levy of non-home rule governments in Illinois may only increase annually by 5% or the rate of inflation, whichever is less. The value of new construction is not subject to the tax cap for the year in which it occurs. [4]
Tax Levy:	Tax Levy - The total amount to be raised by general property taxes for purposes specified in the Tax Levy Ordinance.
Tax Extension:	The amount of property tax dollars that local governments receive. The County Clerk calculates tax extensions by: 1) multiplying the EAV of each property by the composite tax rate and 2) applying the various limitations provided by statute such as rate limits for individual funds, tax caps and prior year EAV limitations (Cook County only). Cook County collects tax extensions and remits them to local governments. Governments receive an amount less than the total extension because all taxes are not collected, and the County charges an administrative fee for its collection activities. [4]
Tax Increment Financing (TIF):	An economic development tool intended to generate economic development activity that would not have occurred “but for” the incentives offered. TIF works by establishing a specifically defined district, using incremental growth in revenues over a frozen baseline amount to pay for redevelopment costs. Taxing districts other than the one establishing the district (which is usually a municipality) do not have access to increases in incremental revenues over the

TERM	DEFINED
	life of the TIF district. Once a development project is completed and has been paid for, the TIF district is dissolved and the tax base is returned to full use by all eligible taxing bodies. In Illinois, TIF is authorized for a period of up to twenty-three years, with the possibility of renewal for an additional twelve years. [4]
Tax Levy:	The total dollar amount of a local government's annual budget appropriations which it requests to be collected in property taxes. [4]
Tax Rate:	A percentage calculated by dividing a government's final tax extension by its total EAV. [4]
Transfers In/Out:	A legally authorized funding transfer between funds in which one fund is responsible for the initial receipt and the other fund is responsible for the actual disbursement.
Transmittal Letter:	The opening section of the budget provides the Village Board with a general summary of the most important aspects of the budget, changes from the current and previous fiscal years, and the objectives and assumptions that provide guidance to the development of the budget.
Unfunded Liability:	The difference between the value of a retirement system's actuarial liability and the value of its assets.
Unfunded Actuarial Accrued Liability (UAAL):	Calculated by subtracting the actuarial value of the assets from the actuarial accrued liability (AAL) of each fund.
Unspent Appropriations:	Funding authorizations that remain unspent because insufficient funding is available or expenses do not reach budgeted levels.
User Charges:	The payment of a fee for direct receipt of a public service by the party benefiting from the service.
Voucher:	(State of Illinois) Document requesting payment submitted to the Comptroller, who then writes and issues a warrant. [3]
Warrant:	(State of Illinois) Check issued by the Comptroller to a third party who cashes it with the Treasurer. [3]

[1]Source: Civic Federation's "The Cook County Property Tax Extension Process: A Primer on Levies, Tax Caps, Tax Bills and the Effects of Tax Increment Financing Districts" (September 7, 2011).
[2]Source: Illinois State FY2014 Budget, pp. 9-1 to 9-8.
[3]Source: Commission on Government Forecasting and Accountability, *State of Illinois Budget Summary Fiscal Year 2014*, August 2013, pp. 296-305.
[4]Source: Civic Federation's "Tax Increment Financing, A Civic Federation Issue Brief" (November 12, 2007).