



# TOWN OF HUBBARDSTON

## FINANCIAL MANAGEMENT OBJECTIVES, POLICIES & PROCEDURES

Revised: May 2015

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## OBJECTIVES

The following financial objectives are broad statements of the financial position the Town of Hubbardston seeks to attain:

- To provide full value to the residents and business owners of Hubbardston for each tax dollar by delivering quality services efficiently and on a cost-effective basis;
- To preserve the Town's quality of life by providing and maintaining adequate financial resources necessary to sustain a sufficient level of municipal services, and to respond to changes in the economy, the priorities of governmental and non- governmental organizations, and other changes that may affect our financial well- being;
- To develop and maintain a strong credit rating in order to minimize to taxpayers the cost of borrowing for capital needs of the Town;
- To guide Town decision makers on management and policy decisions which have significant fiscal importance;
- To set forth operating principles that minimize the cost of government and financial risk;
- To employ balanced and fair revenue policies that provide adequate funding for desired programs;
- To maintain appropriate financial capacity for present and future needs;
- To maintain public confidence in the Town's financial management;
- To promote sound financial management by providing accurate and timely information on the Town's financial condition in accordance with generally accepted accounting principles;
- To ensure the legal use of financial resources through an effective system of internal controls.

To achieve these objectives, the Board of Selectmen and Finance Committee adopt the following policies:

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

#### **A. Accounting Standards and Audit Policies**

1. The Town will utilize accounting practices that conform to generally accepted accounting principles as set forth by the Government Accounting Standards Board (GASB). The Town will comply with GASB Statement 34 and continue to track, report, and depreciate capital assets as required.
2. An annual audit will be performed by an independent public accounting firm. An examination of a community's financial systems, Financial Policies & Procedures, and

data by a certified public accountant (independent auditor), and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a valuable management tool for evaluating the fiscal performance of a community.

3. The Town should enter into multiyear agreements of at least three years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.

The Town should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements, by actively seeking the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. The Town should consider changing auditing firms for each multi-year contract to ensure a fresh set of eyes is involved in the independent annual audits.

4. A Management Letter, a by-product of an annual audit, shall be provided by the independent public accounting firm no later than March 1 and reviewed by the Town Administrator, Accountant and Treasurer. A report shall be made to the Board of Selectmen and Finance Committee regarding the audit findings.
5. A five-year financial projection shall be prepared annually by the Town Administrator, Accountant and Treasurer, projecting revenues and expenditures for all operating funds. This projection shall be used as a planning tool in developing the following year's operating budget and capital improvements plan. Revenue forecasts for property tax, local receipts and state aid shall be conservative, using generally accepted forecasting techniques and appropriate data. Revenue deficits will be avoided at all costs. To avoid any potential for such a deficit, estimates for local receipts (i.e. inspection fees, investment income, departmental user fees) will generally not exceed 100% of the prior year's actual collections without firm evidence that revenues are achievable.
6. Accounting procedures are outlined in Section II - General Procedures.

## **B. General Fund Policies**

The purpose of this policy is to maintain a fiscally sound operating position for the Town by promoting Hubbardston's ability to balance its budget on a current basis, maintain reserves for emergencies, and have sufficient liquidity to pay bills on time to avoid short-term borrowing costs. The Town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as delaying expenditures until the next fiscal year, or rolling over short-term debt.

1. All current operating expenditures should be paid for with current operating revenues.

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Debt will not be used to fund current operating expenditures.

2. Reserves: The Town maintains reserves in order to provide budgetary flexibility for unexpected events, to withstand financial emergencies and to protect the town from unusual unevenness in revenue and expenditure patterns.

Reserves fall into three categories:

- a. Finance Committee Reserve Fund - to be used for unforeseen events.

The Reserve Fund, managed by the Finance Committee, can only be used for extraordinary or unforeseen expenditures. State law defines these as “expenditures that could not be anticipated before setting the tax rate, or could not be determined when the budget was approved.” If a diligent budget process could have anticipated the cost, then it does not qualify as unforeseen. A transfer out of the Reserve Fund requires a majority vote of the Finance Committee. Expenditures cannot be made directly from the Reserve Fund; funds must be transferred to another account. A 10-year strategy was adopted by the Board of Selectmen on April 19, 2006 so as to achieve and maintain 1% of the prior year’s property tax levy (less debt service) in its Reserve Fund.

- b. Free Cash – a reserve that can be used for any purpose.

The use of Free Cash requires an appropriation at Town Meeting, once it is certified by the Department of Revenue. Free Cash will only be used for one-time or Capital expenses. This includes the funding of the general stabilization fund or targeted stabilization funds. Free Cash will not be used to fund any operating expenditures, except in urgent or emergency financial situations.

A ten-year strategy was adopted by the Board of Selectmen on April 19, 2006 so as to accumulate and maintain Free Cash equal to a minimum of 3% of the prior year’s general Fund operating budget. See Appendix B for strategy schedule). To achieve this 10-year strategy, only a certain percentage of each year’s certified free cash can be appropriated in any given year. Of that percentage, a scheduled percentage shall be dedicated to funding the general and targeted stabilization funds. The remaining percentage of unappropriated free cash will be rolled into the year-end Undesignated Fund Balance as part of the next fiscal year’s Free Cash calculation.

This goal is a widely accepted measure of good financial standing and will be a key factor in a future Hubbardston bond rating. The Free Cash balance is an important indicator of whether the Town is living within its means. A declining balance means that the Town is spending more on an annual basis than it is collecting in revenues.

Free Cash provides a source of funds to be used for capital investments, as well as a financial cushion against events such as a sudden loss of a revenue source after Annual Town Meeting has approved the operating budget for the next fiscal year, an economic downturn, emergency or other unanticipated expenditures, non-recurring capital expenditures, and uneven cash flow.

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- c. Stabilization Funds – reserves dedicated for specific use at some future time.

Under state statutes, a town may appropriate up to 10% of the previous year's tax levy into the fund(s), as long as the balance does not exceed 10% of the town's equalized valuation (EQV).

The Stabilization Accounts are accounts from which amounts may be appropriated for any lawful purpose. Interest earned on the fund balance is retained as part of the fund. A two-thirds vote by Town Meeting is required to appropriate money in/out of these funds.

The town maintains two types of stabilization funds:

- a) General Stabilization Fund – The town shall seek to maintain a General Stabilization Fund balance equal to 5 – 7% of the prior year General Fund Operating Budget (net of debt exclusions and operating budget debt service). The Town will endeavor to maintain a Stabilization Fund large enough to buffer the General Fund from the impact of two to three years of reduced state aid and/or declining local receipts. Funds are appropriated into this fund from each year's certified Free Cash according to the Free Cash and Stabilization 10-year plans. Appropriations from this fund are targeted for non-recurring expenses, which include capital purchases or catastrophic or emergency events that are in excess of an amount that the Finance Committee Reserve Fund can support. If and when the Town draws monies from the General Stabilization Fund, the Town should also present a plan for replenishing the fund.

- b) Municipal Capital Stabilization Fund – Funds are appropriated into this fund from each year's certified Free Cash according to the Free Cash and Stabilization 10-year plans. Appropriations from this fund shall be for the purchase of equipment or other capital needs of the town departments.

- 3. One-time revenues will be used for capital improvements, additions to reserves or as legally restricted to a specific purpose.
- 4. The year-to-year increase of actual revenue from the property tax levy shall generally not exceed 2.5% pursuant to the limitations of Proposition 2 ½.
  - a. Excluding the value gained through new construction (new growth);
  - b. Excluding expenditure increases funded outside the tax limit cap.

Note: The Town's costs to educate children and to deliver Town services are likely to increase at an annual rate that exceeds core inflation rates. Each year these escalating costs are likely to exceed the Town's ability to raise tax revenue within the limits of Proposition 2½. The Town also needs to undertake major capital projects, such as the construction of a public safety building, senior center and renovation of town offices.

- 5. Property values shall be re-assessed annually.

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6. The Collector and Treasurer will carefully and routinely monitor all amounts due the Town. A proactive policy of collection will be followed for all receivables, including property taxes. A target of 98% property tax collection rate by fiscal year end will be achieved.
7. The Town will strive to be informed and aware of all grants and other aid that may be available to us. All potential grants and other aid shall be carefully examined for matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that our participation in such grants will be beneficial and cost-effective. When positions are funded with grants, a portion of the grant funding should be allocated to recover the cost of employee benefits if allowed by the granting agency.
8. Fees and user charges should be reviewed annually in relation to the costs of providing the service. As state and federal assistance has declined and/or been eliminated, the Town's local non-property tax revenue base can provide more funding for local services. In order to continue to provide these services without an additional burden on the property tax, these fees should be reviewed to cover, where appropriate, any cost increase or decrease associated with delivering that program or service.
9. Each year and whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that the Town is maximizing its revenue potential.

### **C. Capital Planning Policies**

1. Article 5, Section 2 of the Hubbardston Town Charter requires the Town Administrator, with the advice of a joint capital planning committee comprised of representatives from the finance committee, planning board, and At-large citizen representatives, shall develop a capital improvement program to be completed in such time as to allow for consideration as part of the annual budget process.
2. The Capital Planning Committee will update and readopt annually a five-year capital improvement plan, including the upcoming annual capital improvement budget and a four-year projection of capital needs and expenditures which details the estimated cost, description and anticipated funding sources for capital projects. This plan will be developed in conjunction with the 5-year Financial Forecast.
3. The first year of the five-year capital improvement plan will be the basis of a formal fiscal year appropriation request during the annual budget process.

The criteria for determining if an item qualifies as a Capital is that it has a useful life of three (3) years or more, and a cost of \$10,000 or more. Among the items properly classified as capital improvements are:

- New public buildings, or additions to existing buildings, including land



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acquisition costs and equipment needed to furnish the new building or addition for the first time;

- Major alterations, renovations, or improvements to existing buildings that extend the useful life of the existing buildings by at least ten (10) years;
- Land acquisition and / or improvement, unrelated to a public building, but necessary for conservation or park and recreation purposes;
- Major equipment acquisition, replacement or refurbishment, including but not limited to vehicles, furnishings, and information technology systems' hardware and software or other items that combined in purpose together make it a Capital Project;
- New construction or major improvements to Town's physical infrastructure, including streets, sidewalks, storm water drains, the water distribution system, and the sanitary sewer system. Infrastructure improvements must extend the useful life of the infrastructure by at least ten (10) years to be appropriately classified as a capital improvement;
- A feasibility study, engineering design services, or consultant services which are ancillary to a future capital improvement project.

a. Guidelines for prioritizing capital projects (not necessarily in priority order):

- Imminent threat to health and safety of citizens, employees or property (e.g. police cruisers and radios, self- contained breathing apparatus for firefighters, mold abatement);
- Requirement of state or federal law (e.g. asbestos cleanup program mandated by federal law in 1986, removal of gas tanks, etc);
- Maintenance and improvement of capital assets (e.g. major repairs of buildings, replacement of vehicles and equipment, park and play area renovations);
- Improvement of an overburdened situation (e.g. Town Hall renovations, cemetery expansion program);
- Improvement of the infrastructure (e.g. streets and sidewalks, water and sewer programs);
- Improvement/maintenance of productivity (e.g. equipment replacement, computer hardware / software);
- Newly identified need (e.g. recreation fields);

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- Priority assigned by Department (Very High, High, Medium, Low); and
  - Consistency with and in furtherance of long-term planning objectives and debt policies of the Town.
4. All capital purchases are subject to the Capital Improvement Policies and Procedures regardless of their funding source. The capital program will be funded by a combination of property taxes and the special purpose Capital Stabilization fund of the Town, as well as other special purpose funds, and grant funds from the federal and state governments. The capital committee shall determine the most advantageous financing method for all new projects. The Town will use grants and other special funds to finance only those capital improvements that are consistent with the Capital Improvement Plan and priorities.

Note: An example of a Special Purpose fund is the Ambulance Fund. Grant funding examples include state Chapter 90 grants for road repair/reconstruction and equipment, public safety equipment grants, state grants for economic development infrastructure and parks improvements and federal Community Development Block Grants (CDBG).

5. The annual budget should include a Capital Program that includes debt service obligations and cash-funded capital projects (funded from current revenues equal to at least 5% of the estimated property tax levy). This does not include capital projects funded via debt exclusions (debt excluded from Proposition 2 ½ limits). If in any year funds for the capital program recommended to Town Meeting are below the target allocation of 5% of the estimated property tax levy, a plan will also be presented to replenish funding of the capital program to 5% within a reasonable timeframe.

Note: Much of the Town government's wealth is invested in our capital plant i.e. buildings, fields, infrastructure, equipment, and vehicles. Long-term debt is an appropriate source of funding for certain types of projects, while current revenues should be used for those assets with a short useful life. This goal will provide for a source of funding that does not compete with the operating budget, but increases or decreases in relation to growth in the tax levy and growth in the community.

6. All Town departments will maintain all their assets at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs. The Town will emphasize preventive maintenance as a cost-effective approach to infrastructure maintenance. Exhausted capital goods will be replaced as necessary.
7. The annual operating cost of a proposed capital project, as well as debt service costs, will be identified before any long-term bonded capital project is recommended.

Note: Capital projects may increase future expenses, decrease future expenses, or cost-neutral. The funding of capital projects may fall within available revenues (taxes or fees) or new revenue sources (debt or capital exclusions). It is important to project the impact that the proposed capital project has on the operating budget so that operating budget funding sources could also be identified or new funding sources recommended.

## **D. Debt Management Policies**

1. The Town will confine long-term debt borrowing to capital improvements or projects that cannot be financed in total from current revenues, and only for objects or purposes authorized by state law. The Town will not use long-term debt to finance current operations.
2. Requirements for debt financing shall be an expenditure of at least \$25,000 and should have a useful life in excess of five (5) years for only those projects not able to be financed from current revenues.
3. The length of debt service for any capital project shall not exceed the expected useful life of the purchase or project.
4. The Town will attempt to maintain a long-term debt schedule so that at least 50% of outstanding principal will be paid within 10 years.
5. On all debt-financed purchases or projects, debt-financing planning will include the impact/benefit of a down payment on debt to be incurred.
6. Free cash and the Town's general stabilization fund will not be used to fund debt.
7. The total debt service level, current and projected, will be evaluated each year in light of the Town's financial condition based on the 5-year financial forecast.
8. Long-term debt should not be incurred without a clear identification of its financing sources.
9. Total debt service for the upcoming fiscal years general obligation debt will not exceed 3% of the total annual locally generated operating revenue for the current fiscal year. Debt above this level will be funded through debt exclusion, bond issuance or other funding source.
10. The Town will maintain good communications with bond rating agencies about its financial condition. The Town will provide full disclosure on every financial report and bond prospectus.
11. Purchases to be made from bonded funds shall not be obligated by signing of a contract until the Treasurer has received confirmation from Bond Counsel that the vote of bonding authorization is adequate.

Note: Debt is an effective way to finance capital improvements or to even out short-term revenue flows. For certain capital projects with a long useful life, debt financing is an equitable financing strategy that allows current and future beneficiaries of a capital investment to share in the cost of that improvement. Unlike most personal or private debt, towns have access to capital at very competitive tax exempt rates.

Properly managed debt helps to preserve the Town's credit rating, provides flexibility in current and future operating budgets, and provides the Town with long-term assets that maintain or improve our quality of life.

State law strictly regulates both the purposes for which cities and towns can borrow and the time periods for which these borrowings can occur. Borrowing purposes and maximum loan durations are set out in Chapter 44 §§7 & 8.

Chapter 44 enunciates numerous limitations and procedures that govern local debt issues.

One of these limitations places a ceiling on the maximum amount of debt a town may have authorized at any one time. Chapter 44 §10 sets this limit at 5% of the equalized valuation (EQV) for towns. The statute permits municipalities to exceed these limits only with the approval of the Emergency Finance Board (EFB), established under the provisions of Chapter 10 §47. With EFB approval, the Town's borrowing limit may be increased by an additional 5%. As of June 30, 2006, the Town's debt service equaled only 0.12% of EQV.

The credit rating agencies, such as Moody's Investor Services, consider debt service exceeding 20% of net operating revenues as a potential problem. Dramatic increases in debt service also indicate potential problems unless revenue sources increase to keep pace with these additions to fixed costs. The 10% benchmark provides a policy to apply to new projects and the growth of revenues to finance such projects.

Debt service costs include annual principal and interest payments. Debt service costs are also a significant portion of fixed costs. A reasonable maturity schedule not only reduces interest costs, but recognizes that capital needs will continue to be identified and recommended. Credit rating bureaus review these maturity schedules and future capital needs.

## **Post-Issuance Tax Compliance Procedures For Tax-Exempt Obligations and Other Tax-Benefited Obligations**

### **I. Introduction**

These post-issuance compliance procedures of the Town of Hubbardston, Massachusetts (the "Town") are designed to provide for the effective management of the Town's post bond issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

### **II. Post-Issuance Tax Compliance**

The Treasurer of the Town shall be the primary bond compliance officer responsible for each issuance by the Town of tax-exempt (or otherwise tax-benefited) bonds, notes, financing leases, or other obligations (herein, collectively referred to as "bonds"). All information related to each bond issue and the facilities, equipment and other assets financed by such issue shall be maintained by or on behalf of the Treasurer and the actions taken under subsections A through C of this Section II shall be taken by or on behalf of the Treasurer by the Treasurer or such other officers or employees of the Town as appropriate, including but not limited to, the Treasurer and the Town Accountant.

#### **A. Tax Certificate and Continuing Education**

1. ***Tax Certificate*** – A Tax Certificate is prepared for each issuance of Bonds. Immediately upon issuing any bonds, the Treasurer, in conjunction with the Town's bond counsel and financial advisor, shall review the Tax Certificate and make notes regarding specific compliance issues for such bond issue on the Post-Issuance Compliance Notes form at Exhibit A. The Tax Certificate and Notes shall clearly

define the roles and responsibilities relating to the ongoing compliance activities for each bond issue and will identify specific compliance requirements.

2. ***Continuing Education*** – The Treasurer will actively seek out advice of bond counsel on any matters that appear to raise ongoing compliance concerns and may attend or participate in seminars, teleconferences, etc. sponsored by organizations such as the Massachusetts Collectors and Treasurers Association and the Massachusetts Government Finance Officers Association that address compliance issues and developments in the public finance bond arena. In addition, national organizations such as the Securities Industry and Financial Markets Association (SIFMA) and the National Association of Bond Lawyers (NABL) offer numerous training opportunities and materials which may be useful to the Treasurer.

## **B. Tax-Exempt Bonds Compliance Monitoring**

1. ***Restrictions against Private Use*** – The Treasurer will continuously monitor the expenditure of bond proceeds and the use of facilities or equipment financed or refinanced with bonds to ensure compliance with Section 141 of the Internal Revenue Code (the “Code”) which generally establishes limitations on the use of bond-financed facilities by non-state or local governmental entities, such as individuals using bond-financed assets on a basis other than as a member of the general public, corporations and the federal government and its agencies and instrumentalities.
  - a. ***Use of Bond Proceeds*** – The Treasurer will monitor and maintain records with respect to expenditures to ensure that bond proceeds are being used on capital expenditures for governmental purposes in accordance with the bond documents and document the allocation of all bond proceeds. Such monitoring is required not only for tax-exempt bonds, but also for tax credit bonds.
  - b. ***Use of the Bond-Financed Facility or Equipment***
    - i. **Equipment assets financed with bonds** – These assets will be listed in a schedule for each bond issue, which schedule may be included in the Tax Certificate. Equipment assets generally are not to be disposed of prior to the earlier of (a) the date the bonds and all subsequent refundings of such bonds are fully paid, or (b) the end of the useful life of such equipment. The Treasurer will maintain the list of all bond-financed equipment for each bond issue, together with the equipment’s expected useful life.
    - ii. **Constructed or acquired assets financed with bonds** – In order to ensure that assets constructed or acquired using bond proceeds, such as infrastructure assets, are not leased, sold or disposed of prior to the end of the term of the bonds and of all subsequent refundings of such bonds:
      - Any asset constructed or acquired with bond proceeds shall be flagged in the Town’s records, and
      - These projects will be monitored by the Treasurer.
    - iii. If there is any proposal to change the use of a bond-financed facility from a governmental purpose to a use in which a private entity may have the use or benefit of such a facility on a basis that is different from the rest of

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the general public, the Treasurer will consult with bond counsel prior to the occurrence of the proposed change in use.

**2. *Qualification for Initial Temporary Periods and Compliance with Restrictions against Hedge Bonds***

**a. *Expectations as to Expenditure of “New Money” Bond Proceeds***

- i. In order to qualify under the arbitrage rules for an initial temporary period of 3 years for “new money” issues during which bond proceeds can be invested without regard to yield (but potentially subject to rebate), the Town must reasonably expect to spend at least 85% of “spendable proceeds” by the end of the temporary period. In general under Code Section 149, in order to avoid classification of an issue of bonds as “hedge bonds,” the Town must both (x) reasonably expect to spend 85% of the “spendable proceeds” of the bond issue within the 3 year period beginning on the date the bonds are issued and (y) invest not more than 50% of the proceeds of the issue in investments having a substantially guaranteed yield for 4 years or more. These expectations have been documented for the Town’s outstanding bond issues in the tax certificates executed in connection with each bond issue.
- ii. If, for any reason, the Town’s expectations concerning the period over which the bond proceeds are to be expended change from what was documented in the applicable tax certificate, the Treasurer will consult with bond counsel.

**b. *Project Draw Schedule Compliance Monitoring*** – While there are unspent proceeds of a bond issue, the Treasurer will compare and analyze the original anticipated project draw schedule and the actual expenditure payouts and reimbursements on each bond-financed project on an annual or more frequent basis. The purpose of this analysis is to determine the variances from the original expected draw schedule for each project and to document the reasons for these variances to provide a continual record on the spending progress of each bond-financed project. Factors relevant to the analysis include unexpected delays in the project timelines, extreme weather, contract time extensions due to unexpected events, supplemental agreements and any other factor with a potential to impact the progress or completion of the projects. Generally, there should be no effect on the tax-exempt status of the bonds under either the temporary period rules or the hedge bond rules if the actual disbursements do not meet the original project draw schedule, unless circumstances surrounding the actual events cast doubt on the reasonableness of the stated expectations on the issuance date. Therefore, it is important for the Treasurer to update the progress of each project at least annually, and consult with bond counsel as to any variance from the original schedule.

**c. *Bond Proceeds Expenditure Schedule Compliance Monitoring*** – While there are unspent proceeds of bonds, the Treasurer will compare and analyze the bond proceeds expenditure schedule and the actual investment earnings on each project on an annual or more frequent basis. The purpose of this analysis is to

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determine any variances from the expected expenditure schedule and to document the reasons for these variances.

### **3. *Arbitrage Rebate Compliance***

- a.** Bonds may lose their tax-favored status, retroactive to the date of issuance, if they do not comply with the arbitrage restrictions of section 148 of the Code. Two general sets of requirements under the Code must be applied in order to determine whether governmental bonds are arbitrage bonds: the yield restriction requirements of section 148(a) and the rebate requirements of section 148(f).
- b. *Yield Restriction Requirements*** – The yield restriction requirements provide, in general terms, that gross proceeds of a bond issue may not be invested in investments earning a yield higher than the yield of the bond issue, except for investments (i) during one of the temporary periods permitted under the regulations (including the initial three year temporary period described above), (ii) in a reasonably required reserve or replacement fund or (iii) in an amount not in excess of the lesser of 5% of the sale proceeds of the issue or \$100,000 (the “minor portion”). Under limited circumstances, the yield on investments subject to yield restriction can be reduced through payments to the IRS known as “yield reduction payments.” The Tax Certificate will identify those funds and accounts associated with a particular issue of bonds known, as of the date of issuance, to be subject to yield restriction.

#### **c. *Rebate Requirements***

- i.** If, consistent with the yield restriction requirements, amounts treated as bond proceeds are permitted to be invested at a yield in excess of the yield on the bonds (pursuant to one of the exceptions to yield restriction referred to above), rebate payments may be required to be made to the U. S. Treasury. Under the applicable regulations, the aggregate rebate amount is the excess of the future value of all the receipts from bond funded investments over the future value of all the payments to acquire such investments. The future value is computed as of the computation date using the bond yield as the interest factor. At least 90% of the rebate amount calculated for the first computation period must be paid no later than 60 days after the end of the first computation period. The amount of rebate payments required for subsequent computation periods (other than the final period) is that amount which, when added to the future value of prior rebate payments, equals at least 90% of the rebate amount. For the final computation period, 100% of the calculated amount must be paid. Rebate exceptions and expectations are documented for each bond issue in the tax certificate executed at the time of such bond issue.
- ii.** **While there are unspent proceeds of bonds, the Town will engage an experienced independent rebate analyst to annually calculate any rebate that may result for that year and annually provide a rebate report to the Treasurer. Bond counsel can assist with referrals to qualified rebate analysts.**

***d. Timing of Rebate Payments***

The Treasurer will work with the rebate analyst to ensure the proper calculation and payment of any rebate payment and/or yield-reduction payment at the required time:

- i. First installment due no later than 60 days after the end of the fifth anniversary of each bond issuance;
- ii. Succeeding installments at least every five years;
- iii. Final installment no later than 60 days after retirement of last bond in the issue.<sup>1</sup>

***4. Refunding Requirements***

**a. Refunded Projects** – The Treasurer will maintain records of all bond financed assets for each bond issue, including assets originally financed with a refunded bond issue.

**b. Yield Restriction** – The Treasurer will work with its financial advisor and bond counsel to maintain records of allocation of bond proceeds for current and advance refundings of prior bond issues to ensure that such bond proceeds are expended as set forth in the applicable tax certificate executed at the time the refunding bonds are issued. Any yield restricted escrows will be monitored for ongoing compliance.

**C. Record Retention**

**1.** Section 6001 of the Code provides the general rule for the proper retention of records for federal tax purposes. The IRS regularly advises taxpayers to maintain sufficient records to support their tax deductions, credits and exclusions. In the case of a tax-exempt bond transaction, the primary taxpayers are the bondholders. In the case of other tax benefited bonds, such as “build America bonds” or “recovery zone economic development bonds”, the Town will be treated as the taxpayer. In order to ensure the continued exclusion of interest to such bondholders, it is important that the Town retain sufficient records to support such exclusion.

**2. In General**

- a.** All records associated with any bond issue shall be stored electronically or in hard copy form at the Town’s offices or at another location conveniently accessible to the Town.
- b.** The Treasurer will ensure that the Town provides for appropriate storage of these records.
- c.** If storing documents electronically, the Town shall conform with Rev. Proc. 97-22, 1997-1 C.B. 652 (as the same may be amended, supplemented or superseded), which provides guidance on maintaining books and records by using an electronic storage system. Bond counsel can furnish a copy of this Revenue Procedure if needed.

**3. Bonds** – The Town shall maintain the bond record as defined in this section for the longer of the life of the bonds plus 6 years or the life of refunding bonds (or

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<sup>1</sup> Generally, rebate payments must be paid not later than 60 days after retirement of the last bond in the issue.



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series of refunding bonds) which refunded the bonds plus 6 years. The bond record shall include the following documents:

**a. Pre-Issuance Documents**

- i. **Guaranteed Investment Contracts (“GICs”) and Investments (other than Treasury’s State and Local Government Series Securities, “SLGs”)** – If applicable, the Treasurer shall retain all documentation regarding the procurement of each GIC or other investment acquired on or before the date of bond issuance, including as applicable the request for bids, bid sheets, documentation of procurement method (i.e., competitive vs. negotiated), etc. If investments other than SLGs are used for a defeasance escrow, the documentation should include an explanation of the reason for the purchase of open market securities and documentation establishing the fair value of the securities and compliance with safe harbor bidding rules. If SLGs are purchased, a copy of the final subscription shall be maintained.
- ii. **Project Draw Schedule** – The Treasurer shall retain all documentation and calculations relating to the draw schedule used to meet the “reasonable expectations” test and use of proceeds tests (including copies of contracts with general and sub-contractors or summaries thereof).
- iii. **Issue Sizing** – The Treasurer shall maintain a copy of all financial advisor’s or underwriter’s structuring information.
- iv. **Bond Insurance** – If procured by the Town, the Treasurer shall maintain a copy of insurance quotes and calculations supporting the cost benefit of bond insurance, if any.
- v. **Costs of Issuance Documentation** – The Treasurer shall retain all invoices, payments and certificates related to costs of issuance of the bonds.

**b. Issuance Documents**

- i. The Treasurer shall retain the bound bond transcript delivered from bond counsel.

**c. Post-Issuance Documents**

- i. **Post-Issuance Guaranteed Investment Contracts and Investments (Other than SLGs)** – The Treasurer shall retain all documentation regarding the procurement of any GIC or other investment acquired after bond issuance, including as applicable the request for bids, bid sheets, documentation of procurement method (i.e., competitive vs. negotiated), etc. If investments other than SLGs are used for a defeasance escrow, the documentation should include an explanation of the reason for the purchase of open market securities and documentation establishing the fair value of the securities and compliance with safe harbor bidding rules.
- ii. **Records of Investments** shall be retained by the Treasurer.
- iii. **Investment Activity Statements** shall be retained by the Treasurer.

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- iv. ***Records of Expenditures*** – The Treasurer shall maintain or shall cause to be maintained all invoices, etc. relating to equipment purchases and constructed or acquired projects, either electronically or in hard copy.

- v. ***Records of Compliance***

- ***Qualification for Initial Temporary Periods and Compliance with Restrictions Against Hedge Bond Documentation*** – The Treasurer shall prepare the annual analysis described in Section II(B)(2) above and maintain these records.
- ***Arbitrage Rebate Reports*** may be prepared by the Treasurer or a third party as described in section II (B)(3) of this document and retained by the Treasurer.
- ***Returns and Payment*** shall be prepared at the direction of the Treasurer and filed as described in Section II(B)(3) of this document.
- ***Contracts under which any bond proceeds are spent (consulting engineering, acquisition, construction, etc.)*** – The Treasurer shall obtain copies of these contracts and retain them for the bond record.

- d. ***General***

- i. ***Audited Financial Statements*** – The Treasurer will maintain copies of the Town's annual audited Financial Statements.
- ii. ***Reports of any prior IRS Examinations*** – The Treasurer will maintain copies of any written materials pertaining to any IRS examination of the Town's bonds.

### **III. Voluntarily Correcting Failures to Comply with Post-Issuance Compliance Activities**

If, in the effort to exercise due diligence in complying with applicable federal tax laws, a potential violation is discovered, the Town may address the violation through the applicable method listed below. The Town should work with its bond counsel to determine the appropriate way to proceed.

#### **A. Taking remedial actions as described in Section 141 of the Internal Revenue Code**

**B. Utilizing the Voluntary Closing Agreement Program (VCAP)** – Section 7.2.3 of the Internal Revenue Manual establishes the voluntary closing agreement program for tax-exempt bonds (TEB VCAP) whereby issuers of tax-exempt bonds can resolve violations of the Internal Revenue Code through closing agreements with the Internal Revenue Service.

### **IV. Post Issuance Tax Compliance Procedures Review**

The Treasurer shall review these procedures at least annually, and implement revisions or updates as deemed appropriate, in consultation with bond counsel.

#### **E. Enterprise Fund Policies**

1. The Town shall establish and maintain enterprise funds pursuant to Chapter 44 §53 to ensure annual operation and maintenance needs are met and services are financed in an equitable manner.

The Town currently administers the following enterprise funds: Ambulance.

2. The term of debt for enterprise funds shall not exceed the useful life of the asset and in no case shall the term exceed 30 years, or other such limits pursuant to Massachusetts General Laws.
3. Rates for enterprise funds shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt, and to ensure appropriate levels of working capital. Fees should be reviewed annually in relation to the cost of providing the service.

Note: Each enterprise fund should be reviewed annually to project revenues and expenditures for the next fiscal year, estimates of the current year, and projections for future years. Estimates of capital projects and debt service should be included in order to project the impact on rates and user fees. Any costs not supported by user revenues or betterments would place a requirement on the General Fund for financial support.

## **F. Community Preservation Act Policies**

1. The Community Preservation Act (CPA) was adopted by Hubbardston voters in Nov. 7, 2006, which established a local fund based on a 1 ½ % tax surcharge on property valuations above \$100,000 *"to establish a dedicated funding source to acquire, create, and preserve open space and land for recreational use; acquire, preserve, rehabilitate and restore historic resources; create, preserve, and support community housing; and to rehabilitate and restore open space, land for recreational use and community housing that is acquired or created in accordance with the Act."* The law also established a State Trust Fund, from which annual allocations are made to towns that have accepted the Act, partially or fully matching local appropriations.
2. The Community Preservation Committee (CPC) is charged with assessing the needs of the Town in those areas identified by the Act, and recommending relevant expenditures to Town Meeting. By state law, CPA funds are to be spent only on community housing, historic preservation, open space, and recreation. A minimum of 10% of the available funds (from the surcharge and the state match) must be set aside each year (although not necessarily spent) for each of three categories of community housing, historical preservation, and open space. Recreation is the fourth recipient, or beneficiary, but is not mandated to receive the minimum 10%.
3. A community preservation committee consisting of nine members was established, pursuant to and with the authority granted under Section 5, as now or hereafter amended, of Chapter 44B of the Massachusetts General Laws, and in accordance with Hubbardston

General Bylaws Chapter XII, Section 2.2, its membership shall include one member of the conservation commission as designated by the commission, one member of the historical commission as designated by the commission, one member of the planning board as designated by the board, and one member of the Hubbardston Housing Authority as designated by the authority, one member of the Board of Park Commissioners as designated by the commissioners, one member of the Open Space Committee as designated by the committee, and three at-large members as designated by the Board of Selectmen. The Board of Selectmen shall make all appointments to the committee.

## **G. Revolving Fund Policies**

1. Unless specified elsewhere in the state statutes, departmental revolving funds shall be authorized under Chapter 44 §53E½ of the Massachusetts General Laws. Each fund must be reauthorized each year at annual town meeting and a limit on the total amount that may be spent from each fund must be established at that time. The aggregate of all revolving funds may not exceed ten percent of the amount raised by taxation by the city or town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by a single fund.

## **H. Investment Policies**

- Investment of General Funds, Special Revenue Funds, and Enterprise Funds Policy

**Scope** - This section of the investment policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, and capital project funds. Section two will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. A separate Worcester County Retirement Board is responsible for the investment of the pension funds. Funds held for the Town's self-insuring health trust and worker's compensation insurance are also held separately and subject uniquely to Massachusetts General Law, Chapter 32B Section 3A and Chapter 40 Section 13A, respectively.

**Objectives** - Massachusetts General Laws, Chapter 44, section 55B requires the municipal treasurer to invest all public funds except those required to be kept liquid for purposes of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of safety, liquidity and yield. Therefore, these guidelines are intended to further these objectives.

***Safety of principal*** is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments and choice of depository. In addition, these risks are mitigated by depositing funds in financial institutions that are insured by federal and state insurance programs, by obtaining collateralization agreements for deposits, and by depositing funds only in

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institutions that receive strong scores from a bank safety rating service to which the Town subscribes. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates. Interest rate risk is limited by the provision of Massachusetts General Law restricting investment term to one year or less.

**Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings or loss of principal.

**Yield** is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

Where possible, and when in accordance with the Town's priorities of safety, liquidity and yield, funds may be invested for the betterment of the local economy or that of local entities within the State. Such local consideration may be based on the location of the institution or the institution's participation in community projects and programs.

**Investment Instruments** - The Treasurer may invest in the following instruments, as defined in MGL Chapter 44, section 55. Sequence in the list is according to risk level, with the state of Massachusetts pooled funds considered to have the least risk. A direct inverse relationship to yield is not implied intentionally and does not hold.

The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. Unlimited amounts. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the Certificates of Deposit (C.D.s) and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not a collateralized product.

U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one year maturity from date of purchase.)

U.S. Agency obligations that will be held to maturity. Unlimited amounts (Up to one year maturity from date of purchase.)

Bank accounts or Certificates of Deposit, which are fully collateralized through a third party agreement. : Unlimited amounts. (Up to one year) Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the entity of a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.

Bank accounts and CDs fully insured by F.D.I.C. up to \$250,000 and in some cases also

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Depository Insurance Fund of Massachusetts (D.I.F.M) up to \$5,000,000 in a single institution as all bank accounts and CDs in one institution are considered in the aggregate to receive F.D.I.C. and D.I.F.M. insurance coverage. These limits are defined by the insurance thresholds.

Unsecured bank deposits are any kind of deposits such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 2% of an institution's assets and no more than 10% of a municipality's cash on hand. Their credit worthiness will be tracked by Veribanc, Sheshunoff, or other bank credit worthiness reporting systems. They will be diversified by maturity, financial institution and type (typically CDs or interest bearing money market accounts). These accounts will be reviewed frequently.

**Diversification** - Diversification should be interpreted in three ways: maturity date diversity to minimize interest rate risk and to match planned liquidity, instrument type diversity for planned liquidity, and issuer diversity to minimize credit risk and custodial credit risk. With the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 25% of the Town's investments shall be invested in a single financial institution.

**Authorization** - The Treasurer has authority to invest municipal funds, subject to the statutes of the Commonwealth cited above.

**Ethics** - The Town Treasurer (and any Assistant Treasurers) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Finance Director any material financial interest in financial institutions that do business with the town. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the town's investments.

**Relationship with Financial Institutions** - Financial institutions should be selected first and foremost with regard to safety. Hubbardston will subscribe to and use one of the recognized bank rating services. The Treasurer shall adhere to best business practices in selecting banking and broker services for the Town, including seeking requests for proposals, invitations to bid, and multiple quotes as required by MGL Chapter 30B., The Treasurer shall pursue the Town's objective of minimizing costs while maximizing earnings, consistent with the considerations of safety, liquidity and yield. The Treasurer may use compensating balance agreements, as provided by MGL Chapter 44, Section 53F to procure banking services with reduced or no fees.

**Reporting Requirements** - The Treasurer shall meet all reporting requirements of the Massachusetts Department of Revenue, prudent reconciliations, internal controls, and external audit. This includes:

- A list of the individual accounts and individual securities held at the end of the reporting period.
- A list of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.

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- A summary of the income earned on a monthly basis and year to date basis.
- The lists should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.

### **Investment of Bond Proceeds, Trust Funds and Stabilization**

**Scope** - This section of the policy applies to funds that could be invested long term, i.e., trust funds and stabilization funds, and proceeds from bonds issued by the Town.

**Bond Proceeds** - Funds resulting from the sale of notes or bonds by the Town of Hubbardston reside within the care of the Treasurer until spent in accordance with the authorizing article. Examples of reasons for which the Town issues notes include revenue anticipation and bond anticipation. Bonds, longer in term than notes, are typically issued for capital projects such as construction, major repair to town property or land acquisition.

The Treasurer will generally co-mingle bond proceeds with other operating funds within bank accounts and investments, unless unique duration of a project or rate disadvantages are expected. These funds are subject to arbitrage regulation, due to the Town's tax exempt status, which creates requirements for reporting of spending, spending schedules, and interest earnings (Appendix 1).

Although the range of options for investment of bond proceeds is wider than the options for general funds, the Treasurer will invest and monitor bond proceeds with the same priorities for safety, liquidity, and yield as described in Section I, using the same types of investment devices and terms. This conservative approach allows for liquidity in the event of errors in projected spending schedule of the project.

**Trust Funds** - Long term investment of trust funds is defined in MGL Chapter 44, Section 54, which adds those investment devices on the Legal List to the devices available to Treasurers in Section I. State law also provides for the use of a combined investment fund as described in Chapter 29, section 38A. These funds may be invested through a broker or advisor, consistent with the overruling principles of safety, liquidity, and yield as described in Section I for short term operating funds. Each trust fund must be accounted for separately. The Legal List of Investments is available at the website: <http://www.mass.gov/ocabr/business/banking-services/banking-legal-resources/laws-and-regs/list-of-legal-investments.html>.

**Stabilization Funds** - The Stabilization Fund shall not exceed ten per cent of the equalized valuation of the Town, and any interest shall be added to and become a part of the fund, MGL Chapter 40, Section 5B. Like trust funds, the Treasurer may invest the Stabilization Fund in all devices described in section I, as well as those on the Legal List of Investments. Again, management through a broker or advisor is allowed when consistent with the overruling priorities of safety, liquidity, and yield.

**Broker Qualifications** - Brokers working on behalf of the Town should be recognized, reputable dealers. The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply the following information to the Treasurer (custodial credit risk):

- Audited financial statements.
- Proof of National Association of Security Dealers certification.
- A statement that the dealer has read the municipality's investment policy and will comply with it.
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars).
- Proof of adequate insurance coverage.

## **II. GENERAL PROCEDURES**

### **1. GENERAL RECEIPTS**

- **All** receipts must be deposited with the Town Treasurer. There are no exceptions to this rule. All receipts belong to the general fund of the Town unless there is a law that specifies otherwise. Please see Mass General Laws Chapter 44, Section 53 for further information.
- All checks should be made out to the “Town of Hubbardston”.
- Departments shall insure that the documentation from the receipt process allows for proper final accounting of the revenues, i.e., the amounts and accounts to be credited.
- Petty cash is for official business only, specifically, making change or for reimbursement of small amounts for items purchased by employees for the Town. Such reimbursement will be made only upon presentation of the appropriate paid original receipt and department head approval. Petty Cash shall be available for audit at any time by the Accounting Department or auditors. Petty Cash balances shall be restored to originally issued amounts and certified to the Treasurer on June 30<sup>th</sup> of each year. Departments shall keep Petty Cash secure from public access and non-authorized employees.
- No employee shall use Petty Cash or Cash on Hand (awaiting deposit to Treasurer) for any personal business, even if the intent is to reimburse. There shall be no cashing of personal, third party or payroll checks from petty cash or any cash on hand that is to be deposited with the Treasurer. Departmental receipts should be kept in a secure place such as a safe or locked drawer.

### **2. RECORDING RECEIPTS (Checks or Cash)**

- A Detail of Receipts must be maintained by each department receiving payments. It can be in the form of a computer printout, ledger book, computer spreadsheet or the “Schedule of Departmental Payments to the Treasurer” form (example attached).



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- The Detail of Receipts includes the date of the receipts, the name of each person for whom payment is made, the check number, the license/permit number, the amount and a description of what is being paid.
- Certain miscellaneous receipts such as school lunch fees, photocopy fees and trash sticker fees do not have to be broken down by individual.
- When department receipts total \$300 or more in the form of cash and/or coin, all monies must be turned over to the Treasurer by the next business day. Regardless of the amount, all monies must be turned over at **least once a month**, but it is recommended to do this every two weeks. During peak activity periods for certain fee collections (i.e. dog licenses, school fees, dump permits), **weekly** turnovers are recommended.
- Original deposit tickets are to be given to the Treasurer along with a “Schedule of Departmental Payments to Treasurer” form. A copy of the “Schedule of Departmental Payments to Treasurer” form must be given to the Town Accountant, as well. After verification, a copy will be signed by the Treasurer and returned to you as your receipt to be kept on file in your department. It is proof that the funds were received and credited to the proper revenue account.
- The Town Accountant will provide a revenue report on a quarterly basis. You should check the report to make sure that monies have been credited into the proper revenue account for your department.

### **3. ACCOUNTS PAYABLE**

- The Accounting Department processes vendor warrants on a bi-weekly basis, based on a schedule distributed at the beginning of the fiscal year. All departmental bills should be listed on a Bill Schedule form (see attached) and submitted to the Accounting department by the date and time listed on the schedule.
- New vendors are required to furnish a federal identification or social security number. No payments can be made without this information. Accounting will send the vendor an I-9 form as required by the IRS.
- The Town Administrator must sign the warrant before checks can be released.
- If it is determined that an adjustment must be made to a submitted bill schedule, (e.g. line item over budget, bills previously paid, sales tax, etc.) the Accounting department will make a copy of the corrected bill schedule, with explanation of change, and leave it in the appropriate department mailbox.
- Only ORIGINAL invoices should be submitted for payment to avoid double payments. The Accounting Department will not pay from a statement unless it has the ORIGINAL invoices attached.

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- Make sure that the correct account number, including sub-accounts, is listed on the bill schedule.
- Deduct sales tax. Accounting will submit our tax exempt form with payment. We will not reimburse sales tax on personal reimbursement. Take the proper tax exempt forms with you if you are making purchases for reimbursement.
- Do not pay previous balances. Previous balances are not considered an original invoice and cannot be paid. Accounting investigates all previous balances before processing and will notify the department if it is still outstanding.
- All bill schedules must be signed by either the Department Head or board majority.
- All procurement must be in conformance with state laws. Attach approved procurement forms and contracts as required by state laws; including purchase contracts for any purchase over \$5,000.00.
- If you want a copy of the invoice to be mailed with the check, please make a copy and submit with the bill schedule.
- Prior to creation of the warrant, the Town Accountant will review all invoices for payment for the following:
  - The charge is allowable and reasonable.
  - The account being charged is appropriate
  - Proper procurement procedures were followed.
  - Payment is being charged to the proper fiscal year.
  - All required signatures are present.
  - Available appropriation.

#### **4. PAYROLL**

- Payroll must be approved and signed by the Department Head or the person responsible for the appointment, promotion or transfer of the employees named on the time sheet. Signature stamps cannot be used.
- Payroll periods run from Thursday to Wednesday. Timesheets for the pay period ending Wednesday must be completed and delivered to the Town Accountant by 5pm Thursday. Wednesday. Payroll is performed on a bi-weekly basis. Checks are available for distribution to all departments on the following Thursday.
- Changes to the set-up of the current week's payroll must be submitted to the Accountant by 10AM Tuesday of the current pay week. These changes include adding an employee to a department, adding or adjusting pay rates and deductions, changing personnel date, etc. Any changes not received in payroll by the deadline will be processed in the following payroll.

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- No changes can be made to an employee's payroll without proper authorization and notification to the Accountant. Withholding changes require employee authorization. For other payroll changes, see the Treasurer.

The procedure for completing payroll time sheets is as follows:

- Complete time sheets. Include the number of hours worked each day, as well as the type of hours worked each day, e.g. holiday, sick, vacation, overtime, etc. A general time sheet is available from the Town Treasurer.
- Rates of pay (if applicable) and the total dollar amount or bi-weekly salary for each individual.
- Include the total amount to each appropriation account on the time sheet.
- The Department Head must sign each Payroll Sheet. Signature stamps cannot be used. Employees must sign the time sheet or payroll sheet.
- Submit the original payroll sheet to the Town Treasurer according to the schedule outline in General Payroll Process. The original, signed time sheet must be maintained by the Town Treasurer. Signature stamps cannot be used.

## **5. REIMBURSEMENTS**

### **Employee Purchases:**

- When an employee purchases a product needed by the town and it is impractical to have the vendor, or if the vendor refuses to, invoice the town, the employee may submit the original receipt for reimbursement. Such purchases must have prior approval of the Department Head. Sales tax will only be reimbursed at the Accountant's discretion. Please make every attempt to take the required tax exempt certificates with you to avoid payment of the sales tax.

### **Mileage and Travel:**

- The town will reimburse employees for miles that they travel in their personal vehicles while performing town business. The Board of Selectmen has determined that the reimbursement rate will correspond with the Internal Revenue Service mileage rate. The Town Secretary notifies the Department Heads whenever the IRS mileage reimbursement rate changes.
- To receive reimbursement for mileage, employees must submit a bill schedule signed by the department head and the approved mileage report.
- The town will reimburse employees for meals that occur while traveling on town business. Reimbursement will be made for town employee food only and will not

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include reimbursement for any alcohol products. Original receipts are required for reimbursement.

- In the event that a spouse or significant other accompanies the employee, their expenses will be paid for by the employee with no town reimbursement.

#### **Use of Town Owned Vehicles:**

- Town owned vehicles are not to be used for personal use. Vehicles used for public safety purposes may be driven home, if so authorized by the Town Administrator, to be available for use if called for emergency, however, they may not be used for errands and other personal reasons.

## **6. ACCOUNTING RECORDS**

The Town shall maintain a general ledger consisting of various funds and account groups in accordance with the Commonwealth of Massachusetts Revised Uniform Municipal Accounting Systems (UMAS).

Each fund shall consist of a balance sheet with a Due To/From Account, Fund Balance Account, a revenue account and an expenditure account.

A chart of accounts shall be maintained by the Accounting office for all balance sheet, revenue and expenditure accounts. Such chart of accounts shall be in accordance with the UMAS structure and such budgetary needs as determined by the various boards and department of the Town.

Journal entries shall be posted into the general ledger by the Accounting department for the following types of transactions:

- Commitments for various receivable accounts.
- Abatements to various receivable accounts.
- Receipts to various revenue accounts.
- Transfers to tax lien and tax title accounts.
- Transfers and transactions between funds.
- Re-allocations of expenditures between accounts.
- Entry of annual budget, budget transfers, supplemental appropriations.
- Transfer from deferred revenue and revenue accounts.
- To establish fund balance reserves, encumbrances and other designation.
- Error corrections subsequent to posting.
- Year-end closing and audit entries.

Each journal entry shall be numbered, dated and contain a narrative description of the purpose of the entry. The supporting documentation shall contain reference to the journal entry. All journal entries will be posted by the town accountant. Copies of such entries shall be maintained in a journal for future reference.

General ledger accounts will be reconciled as follows:

- All cash account will be reconciled on a monthly basis by the 25<sup>th</sup> of the following month.
- All receivable accounts will be reconciled to the Collector's office on a monthly basis, with detailed reports from the Collectors software attached.
- Deferred revenue accounts for all funds shall be reconciled to the receivable accounts on a monthly basis.
- Payable and payroll withholding accounts will be checked periodically, not less than semi-annually to determine that the balances are clearing properly.
- Budget accounts for revenue and expenditures will be reviewed monthly to identify any unusual activity or predict potential budget shortages. Any such potential shortages will be reported to the Selectboard through the Town Administrator.
- Balances in special revenue accounts will be reconciled to data maintained in other departments, where applicable, not less than quarterly.
- Appropriation balances will be reconciled to the tax recap and Town Meeting minutes.
- All accounts shall be reviewed analytically from time to time for reasonableness and to identify unusual activity.
- The Accounting staff shall have sole access to the general ledger.
- The Accounting office will distribute expenditure reports to the various departments and boards on a monthly basis. In addition, reports will be distributed to the Selectmen through the Town Administrator on a monthly basis.
- The monthly reports will be on a line item basis with detail provided upon request. In case of error, a request shall be submitted to the Accounting office for correction. The Town Accountant will make changes only through journal entry listing the reference and reason for making the entry.
- No changes to a payment will be made after the warrant is printed except by an approved journal entry. The Town Accountant will approve all journal entries.

## **7. BILLINGS**

The town generates bills for various revenue sources. The bills are posted to and maintained on receivable systems as part of the Town's computer system. The types of bills maintained on the computer system include:

- Personal Property
- Real Estate

There are other services that may be billed manually but are not maintained on the Town's receivable system. These include various departmental receivables.

The Town Accountant and the Assessors must complete monthly overlay balance reconciliations.

## 8. REAL ESTATE AND PERSONAL PROPERTY TAXES

Real and personal property tax bills are based on valuation data created in the Assessor's office. The ownership and valuation data is transferred to the Collector's receivables system twice annually; prior to preliminary and actual tax billing. The receivables system generates the tax bills. A commitment is prepared based on the tax bills printed by data processing. Preliminary bills will generally reflect a 2 ½ % increase over the prior fiscal years net tax amount.

The Tax Collector's office should prove the total of the bills to the commitment prior to mailing. This can be accomplished by comparing the total amounts from the billing summary to the commitment report.

The following quarterly dates shall be recommended for the generation and mailing of real estate and personal property tax bills:

- 1<sup>st</sup> and 2<sup>nd</sup> quarterly bills shall be mailed by June 30<sup>th</sup>.
- 3<sup>rd</sup> quarterly bills shall be mailed by December 31<sup>st</sup>.
- 4<sup>th</sup> quarterly bills shall be mailed by April 1<sup>st</sup>.

Quarterly tax bills shall normally be due and considered delinquent after the following dates:

- 1<sup>st</sup> Quarter on August 1.
- 2<sup>nd</sup> Quarter on November 1.
- 3<sup>rd</sup> Quarter on February 1.
- 4<sup>th</sup> Quarter on May 1

Whenever the normal due date falls on a Saturday or Sunday, the due date shall fall on the following Monday.

Interest at the rate of 14% will be charged on all real estate and personal property bills paid after the delinquency date. Demand notices shall be mailed on any unpaid bills after June 1<sup>st</sup> and shall be mailed by June 15<sup>th</sup>. The demand notice shall include accumulated interest, a \$30 demand fee and such other costs and fees as allowable under statutes.

Every effort will be made to collect unpaid demand bills and the Collector's Office shall:

- Transfer subsequent tax title balances to the Town Treasurer by June 30<sup>th</sup> of each fiscal year.
- Mail the Notice of Advertising letters and publish the unpaid parcel list (with final payment deadline) so tax title accounts may be transferred to the Town Treasurer by January 1<sup>st</sup>. Tax title liens shall consist of the original tax, demand fees, accumulated interest and other costs allowable by statute.

The Treasurer's office shall maintain a receivables listing of tax titles by year of taking and shall maintain control accounts summarizing monthly transactions to the tax title accounts. The detailed balances of the listing shall be compared to the control accounts at least quarterly one of which is

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at the close of the fiscal year.

## **9. MOTOR VEHICLE EXCISE**

Motor Vehicle Excise bills are created from magnetic tapes provided by the Commonwealth of Massachusetts. The 1<sup>st</sup> billing of the fiscal year shall be mailed no later than April 15<sup>th</sup>. Subsequent billings are made throughout the year based on data provided by the Commonwealth. Bills shall be mailed within 45 days of receipt of the data from Commonwealth.

Demand notices will be mailed within 7 days after the due date of the excise bill and shall include a \$30 demand fee. Interest accrues at the rate of 12% after the due date.

During the next 90 day period, the Town shall make every effort to collect past due accounts including issuing warrant notices and service warrants, and marking remaining unpaid accounts at the Registry of Motor Vehicles. The Town may engage an outside Deputy Collector for this process where beneficial.

## **10. RECEIPTS AND COLLECTIONS**

Receipts are brought into the Treasurer and Collector's office through various means.

- Through the mail
- Over the counter
- Departmental turnovers
- Electronic transfers directly to bank accounts

Receipts that are subject to interest, demand and other costs shall be applied based on the following priority basis:

1. Interest, costs and demand fees.
2. Utility liens and tax titles.
3. Real estate or personal property tax balance.

Mail Receipts - The clerk opening the mail shall first compare the amount transmitted to the accompanying documentation to verify if the amounts agree. Any differences should be noted at that time. Receipts are entered in to the system manually. Checks and cash are run on tape to total. Total on tape is compared to batch total on computer before closing packet for turnover and making deposit at bank.

A list of credit balances shall be printed monthly, by levy year for all receivable accounts for property and excise taxes which are not maintained by levy year. All such credit balances shall be resolved by adjustment, correction or refund each month, or identified as prepaid amounts for the current year.

The Collector's office shall compare the detailed list to the control account balances. The summary report activity shall be compared to the control account activity and differences noted.

Once the differences are identified, a detail of transactions for that period will be printed from the same receivables data base. The detail from the receivable data base will be compared to the detail of

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the control account activity for the same periods and specific transactions will be identified and resolved.

The Treasurer and Collector's offices shall be secure to public access at all times. The door entering into the office shall be locked with entry permitted to authorized staff.

Confidential records, as well as overnight money storage, shall be maintained in a locked vault storage area.

## **11. BANK ACCOUNTS**

All Town money will be deposited and maintained by accounts in the custody of the Treasurer. The bank accounts will be established in banks that meet the highest standards.

Town money may be invested to provide the maximum investment rate using the guidelines and criteria established by state statute.

Certain cash balances are required to retain their own interest in accordance with state statutes or grant agreements. This is a requirement even if the funds are pooled with other money to maximize investment earnings. The Treasurer's office will keep track of such earnings and credit the proper accounts as necessary. In the absence of specific requirements, all investment earnings are credited to the town.

## **12. WARRANT PROCESSING**

Warrants are submitted by the Accounting department to the Treasurer's office.

The system produces a check register for each warrant. The register shall be compared to the warrant to determine that all payments have been accurately processed.

The signature plate shall be retained in a locked and secure location. Access to the signature place shall be given only to authorized individuals in the Treasurer's office.

One copy of the check register will be retained in a file for future reference. One copy will be retained in the Accounting office.

## **13. PAYROLL PROCESSING**

Payroll is maintained by the Treasurer's office. The system maintains a data base of employee information used to create the payroll. The data base consists of such items as pay rates, marital and deduction status, eligible employment benefit deductions and sick and vacation time eligibility. Entries into the data base shall be made by Treasurer office personnel only, based on written information.

Payroll information is submitted by each department bi-weekly. Payroll forms submitted should include the hours worked, vacation, sick or other benefit time, and be signed by the employee and the Department Head.



## **14. VOIDED & MANUAL CHECKS/CHECKS RETURNED FOR INSUFFICIENT FUNDS**

Checks may be voided from time to time due to various reasons. Checks may be replaced for voided checks that have already gone through the warrant process without further approvals.

Checks that are voided and not replaced shall be added back to the cash book as if they were receipts from outside sources. The account charged for the original check shall be credited for the amount of the voided check. If a check is voided related to a prior year, the amount will be taken in as miscellaneous receipt.

A log will be kept of voided checks listing the date and check number. The voided checks will be retained where possible.

Manual checks will be written from time to time where loading and running computer checks is not practical. Manual checks will be subject to the same approval process as are computer generated checks.

When checks are returned for insufficient funds, the Treasurer will re-deposit the checks to see if they will clear. If they do clear, the payer will be contacted to reimburse any returned check charges incurred by the town. In the event the check is returned a second time, the Treasurer will notify the depositing department that the check has been returned and shall notify the Town Accountant, and the check will be treated as a negative receipt on the Treasurer's books.

## **15. CASH RECONCILIATIONS**

The Treasurer will maintain a cash book which lists the activity for each bank account. Activity includes receipts, warrants and transfers between accounts.

The receipts will be entered from the log which ties out to the transaction edits discussed earlier. Warrants shall be entered from the warrant signature sheets. Transfers between accounts must always be in balance and reflect both the accounts transferred to and from.

Each account will be individually reconciled to the bank balance on a monthly basis. Such reconciliation will be completed by the 30<sup>th</sup> of each month.

The Treasurer will also reconcile cash with the Accountant's office. A schedule will be prepared which lists the balance at the beginning of the month in total, the receipts, the warrants and the balance at the end of the month, in total. The reconciliation will be complete by the 20<sup>th</sup> of the following month.

## **16. RECEIVABLE RECONCILIATIONS**

The collector's office will maintain control accounts by levy year for all receivable accounts maintained on the Town's computer system. The control accounts will consist of the following items:

- Balance at the beginning of the month

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- Commitments
- Receipts
- Abatements
- Refunds
- Adjustments
- Balance at the end of the month

The control account activity for all receivable accounts will be submitted to the Accounting office on a monthly basis.

Any differences in the receivable balances will be investigated and a copy of the receivable reconciliations will be provided to the Board of Selectmen through the Town Administrator.

## **17. YEAR END ENCUMBRANCES**

At the end of the fiscal year, there may be funds in certain accounts that are committed to a specific purchase, either by agreement or contract. Under these circumstances, the funds may be encumbered. In order to encumber funds, encumbrance forms must be submitted to the accounting department by July 15.

Funds may also be encumbered if they are the result of a Town Meeting warrant article for a specific purpose, usually a capital purchase or project.

## **18. TAX TITLE**

Upon completion of a taking process, the Tax Collector must transmit to the Treasurer a list of recorded takings. The Treasurer must set up a separate tax title account for each parcel, and promptly notify the delinquent taxpayer or subsequent new owner. The Treasurer's tax title duties also include taking custody of all tax deeds and instruments of taking, and maintaining records on all properties in tax title.

By June of each year, the Treasurer will send collection letters to all owners of tax title property. By October of each year, the Town's tax title attorney will send collection letters to the owners of up to ten parcels having the highest tax title delinquency. If they do not make arrangements to pay taxes owed, the Treasurer will file for foreclosure in the land Court, using the services of a law firm experienced in tax title foreclosure.

Annually, the Treasurer will foreclose on parcels that fall into the "land of low value" category.

The Board of Selectmen may appoint a custodian to manage property acquired through foreclosure of tax title.

The Treasurer will follow M.G.L. C 60 for "Collection of Local Taxes".

**Appendix 1: Town Charter – Article 5: Budget Development****ARTICLE 5 – FINANCIAL PROVISIONS AND PROCEDURES****Section 1. Annual Budget**

5-1-1 The fiscal year of the town shall begin on July 1 and end on the last day of June, unless another period is required by the General Laws.

5-1-2 Annually, prior to October 1, the town administrator shall establish and issue a budget schedule setting forth the calendar dates relating to the development of the annual operating budget for the ensuing fiscal year. Any deviation from the budget schedule shall require approval of the board of selectmen and the finance committee.

5-1-3 Annually, prior to November 1, the town administrator shall estimate revenue for the ensuing fiscal year.

5-1-4 Annually, prior to December 1, the board of selectmen, after consultation with the town administrator, shall issue a policy statement that shall establish the general guidelines for the next town budget.

5-1-5 All department heads and all multiple-member bodies shall submit detailed budget requests to the town administrator at least 150 days before the date of the annual town meeting.

5-1-6 At least 90 days prior to the scheduled date of the annual town meeting, the town administrator shall submit to the board of selectmen a comprehensive proposed budget for all town functions for the ensuing fiscal year and an accompanying budget message.

5-1-7 The proposed budget message shall explain the proposed budget in fiscal terms and in terms of what specific projects are contemplated in the year ahead. The proposed budget shall provide a complete financial plan for all town funds and activities, including school budgets, and shall be in the form as the town administrator, in consultation with the finance committee, may establish. The draft budget shall indicate proposed expenditures for current operations and for capital projects during the ensuing year, detailed by each town agency and by specific purposes and projects.

5-1-8 The board of selectmen shall, within 30 days following the submission of the proposed budget prepared by the town administrator, approve the proposed budget, with or without amendments, and submit it to the finance committee. The board of selectmen shall also transmit the budget request of the school committee, with its recommendations on same, to the finance committee.

5-1-9 At least 30 days prior to the scheduled date of town meeting, the board of selectmen shall hold 1 or more public hearings on the proposed budget.

5-1-10 The finance committee shall review the proposed budget and, prior to the mailing of the warrant, issue a report with its recommendations and detailed explanations regarding the budget and any other budget-related articles.

5-1-11 The warrant for the annual town meeting shall be mailed and posted as required by the town bylaws; provided that, the mailing include the proposed budget and the finance committee report detailed in section 5-1-10.

5-1-12 The board of selectmen shall present the proposed budget to the town meeting.

## Appendix 2: Glossary

### Accrued Interest:

The accumulated interest due on a bond as of the last interest payment made by the issuer.

### Agency:

A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee.

### Arbitrage:

As applied to municipal debt, the investment of tax-exempt bonds or note proceeds in higher yielding, taxable securities. Section 103 of the Internal Revenue Service (IRS)

Code restricts this practice and requires (beyond certain limits) that earnings be rebated (paid) to the IRS.

### Certificate of Deposit (CD):

A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable as to maturity and yield.

### Collateralization:

Value of securities pledged to a specific amount or investment as supplemental security to the credit of the issuer or the broker. Collateral can be of a specific nature and priced at par or market value.

### Compensating balances:

A bank provides particular services in return for the municipality's maintaining a specified, minimum balance in a noninterest bearing account.

### Consolidate:

A process by which cash, or any other item, is combined while maintaining the identity of each item. Consolidating several bank accounts into one account is always accomplished by a continuation of separate book balances for each fund on the government unit's ledger.

Consolidation is a legal and efficient way to gain economies of scale in cash management. Also referred to as "pooling of funds".

### Credit Risk:

The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

### Custodial Credit Risk:

The risk that the Town's deposits may not be returned to it in full value in the event of bank failure. In the case of investments, it is the risk that the counterparty (e.g. broker- dealer) to a transaction may not be able to recover full value of the investment in the event of failure of another party.

Interest Rate Risk:

The risk that the market value of securities in the portfolio will fall due to changes in general interest rates.

Investment Pools:

In most states there are provisions for the creation and operation of a government investment pool. The purpose of the Pool is to allow political subdivisions to pool investable funds in order to achieve a potentially higher yield.

Liquidity:

Ease with which a financial instrument can be converted to cash quickly with minimal loss of principal.

Prudent Person Investment Rule:

This is a general principle of investing and managing described in detail in MGL Chapter 203C, sections 1-3, allowing the custodian or trustee to use “reasonable care, skill and caution” when considering terms of investments, diversification to form an investment strategy appropriate to the Trust. The custodian is charged to consider general economic and situational factors in combination with the safety, liquidity and yield needs of the fund. The custodian is charged to manage the fund “solely in the interests of the beneficiaries”. The rule gives explicit consideration to evaluation of the custodian’s decisions in the context of information available at the time the decision was made.

Repurchase Agreement:

A repurchase agreement (repos) is the sale by a bank or dealer of a government security with the simultaneous agreement to repurchase the security on a later date. Repos are commonly used by public entities to secure money market rates of interest.

Special Revenue Funds:

All segregated fund balances required to be in interest bearing accounts.

Stabilization Fund:

MGL, C. 40, sec. 5B. Cities, Towns and districts may appropriate in any year an amount not exceeding ten (10) percent of the amount raised in the preceding fiscal year by taxation. The aggregate amount in the fund at any time shall not exceed ten (10) percent of the equalized valuation of the city or town. Any interest shall be added to and become part of the fund; The Treasurer shall be the custodian of the fund. The stabilization fund may be appropriated in a town, at annual town meeting by a two-thirds vote or at a special town meeting by a two-thirds vote. Said fund may be appropriated for any lawful purpose.

Town Trust Funds:

Gifts and donations accepted by the Select Board of Hubbardston given to the Town through trust or in perpetuity agreements.

U.S. Government Agency Securities:

A variety of securities issued by several U.S. agencies. Some are issued on a discount basis and

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some are issued with coupons. Several have the full faith and credit guarantee of the U.S. government, although others do not.

U.S. Government Treasury Securities:

A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Bills are issued in three-month, six-month, and one-year maturities. Notes are issued in 2, 3, 5, 10 or 30 year maturities.

Yield:

The rate of annual income returned on an investment, expressed as a percentage.