

February 2, 2009

Revised November 28th, 2023



Financial Advisory Committee (FAC) and Financial Policies

There shall be an advisory committee consisting of the town treasurer, town accountant, Finance Committee Chairman, Board of Assessors Chairman, Board of Selectmen Chairman, Town Administrator and an optional citizen advisor appointed by the Board of Selectman. The Finance Advisory Committee shall:

- Review the financial policy for the Town of Berkley.
- Forecast revenues and monitor financial reports.
- Review flexible financing options and contingency accounts.
- Review any and all department obligations that include a multi-year financial impact.
- In accordance with the recommendations of the Department of Revenue, the FAC shall review, implement, and update Town Policies on Free Cash, Stabilization, Reserve, Debt, OPEB and Capital Expenditures on a yearly basis.
- Provide financial direction to the Board of Selectmen and Finance Committee.

The following financial principles set forth the broad framework for overall fiscal planning and management of the Town of Berkley's resources. These principles address both current activities and long-term planning. The principles are intended to be advisory in nature and serve as a starting point of reference for all policy makers, administrators and advisors. It is fully understood that the Town of Berkley Town Meeting retains full right to appropriate funds and incur debt at level it deems appropriate subject to statutory limits. The principles outlined in this policy are designed to ensure the town's sound financial condition.

Terms

- Shall. Dictates or mandates a requirement. Intended to express a provision that is binding.
- Must or must not. Weak form of a mandatory provision.
- Will. A declaration of purpose; non-mandatory.
- Should or May. Expresses non-mandatory (optional) provisions; guidelines or recommendations.

A. Finance Policies

A.1 Free Cash Policy

The accumulation and use of Free Cash is an important component of the town's overall financial management policies. The available amount is calculated and certified each year by the Massachusetts Department of Revenue using data submitted by the town accountant. Free cash is made up of

revenues in excess of projections and expenditures less than appropriations at fiscal year-end. Free cash is also reduced in order to cover deficits (all funds at year-end).

- A minimum of 10% of the yearly total available Free Cash may be held as general stabilization.
- Any non-recurring revenues, as defined by the Department of Revenue re-cap sheet, shall become Free Cash.
- A minimum balance of \$50,000 should be held in an account for unfunded liabilities defined by GASB regulations. This account shall be maintained at the minimum level through a yearly appropriation from Free Cash.
- Free Cash may be used for any legal purpose
 1. Free Cash can be used for a Capital Expense emergency. Emergency shall be deemed as defined in Massachusetts General Laws Chapter 56.
 2. Free Cash can be used for infrastructure upgrades. The FAC shall review and approve such requests.
 3. Free Cash can be used for unexpected mandated expenses.
 4. Free Cash can be used to fund any outstanding departmental deficits at fiscal yearend, provided the FAC has prior knowledge and has reviewed and approved such funding by majority vote.
 5. Free Cash should not be used for normal existing personnel services or operating expenses.
- Requests shall be submitted to the FAC before a town meeting.

A.2 Reserve Fund Policy

A reserve fund of not greater than 0.25% of the operating budget should be budgeted annually to provide for extraordinary or unforeseen expenditures that could not have been anticipated before town meeting, and/or to allow immediate expenditures of funds in the event of an emergency. The amount set aside annually within the budget cannot exceed five percent of the tax levy for the preceding year. Only the Finance Committee can approve transfers from the fund. A Reserve Fund Transfer Request shall not be used to reverse a Town Meeting vote or as means of increasing the budget.

In accordance MGL Ch40 §6 no direct drafts against this fund shall be made, but transfers from the fund may from time to time be voted by the Finance Committee in response to a Fund Transfer Request. Transfer Requests shall be reviewed and voted by the Finance Committee and if approved forwarded to the Board of Selectmen for review and ratification by majority vote. Upon approval by both the Finance Committee and the Board of Selectmen the approved Reserve Fund Transfer Request is forwarded to the Town Accountant to be recorded.

The Finance Committee will only consider requests for transfers from the Reserve Fund in response to extraordinary and unforeseen financial obligations that must be responded to immediately, and that cannot be deferred until the next scheduled Town Meeting.

Unexpended Reserve Funds shall be closed at the end of each fiscal year.

A.3 Stabilization Policy

The stabilization fund is a special reserve account allowed by Massachusetts General Laws to allow savings to be set aside in order to be available for emergency expenditures. Bond rating agencies rate municipalities more highly if they maintain a healthy reserve balance in this and other reserve accounts. The funds appropriated to a Stabilization account may be used for specific capital needs. The Stabilization Fund shall not be used for normal existing recurring personnel services or operating expenses.

- The target level for General Stabilization shall be set by the FAC. The target level shall be 5% of the total annual operating budget.
- Sources of General Stabilization will typically be free cash. However, if excess revenues exist they may be contributed to General Stabilization. It is anticipated that 3-5 years are required to achieve the desired General Stabilization target level.
- It shall be considered a violation of town policy for any department or employee to solicit transfers from Stabilization for a warrant article that did not come before the FAC to receive approval. In any event, no more than \$5,000 shall be removed from Stabilization for non-recurring expenses or recurring expenses without the prior approval of the FAC.

A.4 Capital Planning Policy

There shall be a fund established for Capital Planning. To this end Free Cash shall be used as the source of funding. The FAC shall determine funding on a yearly basis. All expenditures from this account shall be reviewed by the FAC. The Capital Improvement Planning Committee shall submit their recommendations to the FAC for review by February 1st of each year.

10% shall be the target rate of certified free cash for placement into a Capital Reserve Fund for future capital expenditures. The CIPC should review yearly capital expenditures and project future capital costs for the purpose of setting a *target level*. Capital expenditures to be drawn from this fund include, but are not limited to: vehicle and equipment purchases, infrastructure projects or improvements, and building renovation or repair in excess of \$10,000 with estimated useful life of 5 years or more.

A.5 Debt Management Policy

Debt Management is essential to the overall financial wellbeing of the town. Borrowing funds and repaying over a number of years allows the town to finance projects that cannot be funded from the operating budget. The objective of debt management is to borrow at the least cost over the repayment term.

The town's bond rating is a statement of the town's overall financial health. An excellent bond rating is desirable because it determines the cost of borrowing, the level of investor interest in the town's bonds, and in certain conditions the ability to borrow at any cost. The town must strive to maintain the highest possible bond rating consistent with its ability to deliver government services expected by the citizens.

- Except in extraordinary cases debt or borrowing shall not be used to fund the Town of Berkley operating budget.
- The use of debt may be considered for large capital projects.

It is the duty of the Treasurer to review, at the request of the FAC, all sources of funding available for all long and short term debt borrowing obligations of the Town. The treasurer shall negotiate borrowings and shall prepare the necessary documents and notes.

It is the duty of the Treasurer to review, at the request of the FAC, all sources of funding available for all departmental leases. The treasurer shall negotiate and prepare documentation on any leases for the FAC.

- Sound financial practices shall be utilized to determine the ultimate funding source and term of funding.
- The Treasurer shall utilize the availability of a Financial Advisor to project, track, and determine the overall debt.
- The Treasurer shall keep the FAC updated on the factors under the town control in maintaining and upgrading the Town's credit rating.
- Additional debt shall be considered when the majority of the FAC, Finance Committee, and CPIC determine there is a significant need of the town.
- Debt shall be incurred within the overall financial plan of the Town. Accountability and impact on all property owners shall be of utmost concern.

A.6 Other Post-Employment Benefits Policy

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends. The most common type of these post-employment benefits is a pension. Post-employment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as Other Post-employment Benefits, or OPEB.

The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of the OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods. The Town of Berkley has historically used the “Pay-as-You-Go” approach but effective in fiscal year 2016 shall move toward prefunding the liability through the adoption of GASB 43 and 45.

Massachusetts General Law Chapter 32B, section 20 allows a city, town, district, county or municipal lighting plant to set up a special trust fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund. It is the policy of The Town of Berkley to establish and maintain an OPEB Trust Fund. The funds shall be managed in accordance with the “prudent investor rule” set forth in Massachusetts General Law Chapter 203C, Section 3. Interest earned on the investment of fund monies belongs to the fund. The Town Treasurer shall be the custodian of the fund and report to The Finance Advisory Committee who shall be the OPEB Advisory Board.

Initial funding of the OPEB trust shall be from the transfer of all funds contained in the “FB - Pension Liability” fund. Funding may be in the form taxation, free cash or any other legal form. Annually, unexpended funds from insurance lines shall be transferred to the OPEB trust. Funds to be placed in the OPEB trust shall be identified in the annual town budget on its own line item (Account 919, OTHER POST EMPLOYMENT BENEFITS (OPEB)). The Town of Berkley shall continue to follow its plan to move toward fully-funding the Annual Required Contribution (ARC), ultimately developing a funding schedule that fully-funds OPEB’s according to a schedule similar to the pension funding schedule. This plan should continue to include annual increases in the portion of the appropriation supported by General Fund revenues. It should also include using the “run-off” from the pension system once that system is fully- funded. In order to determine the funding schedule, the Town shall continue its current practice of having an independent actuary prepare annual valuations, which is in compliance with GASB’s requirement.

A.7 Cash Handling and Turnover Policy

A. PURPOSE:

The purpose of this policy is to establish sound cash handling and Turnover Sheet controls and practices to ensure all cash receipts are deposited and recorded in a timely manner, to safeguard employees from inappropriate charges of mishandling town funds, and to clearly define employee responsibilities in the cash handling process.

To manage and safeguard town finances to ensure consistency among all departments.

B. SCOPE:

"Cash" shall include currency, checks, money orders, negotiable instruments, credit/debit card transactions, deposits and web payments. All town employees, including general government and school employees, who are entrusted with the receipt, deposit and/or handling of cash are expected to follow these policies and procedures. Historical practices shall not constitute justification for deviation.

C. AUTHORITY:

M.G.L. c. 41 § 35: The treasurer shall receive and take charge of all monies belonging to the town and pay all bills. The treasurer reserves the right to make changes, interpretations and exceptions to the policies and procedures.

D. POLICY:

All employees are responsible for understanding and following these policies and procedures.

It is the responsibility of the receiving department to create a Turnover Sheet (Exhibit A) and deliver the completed Turnover Sheet to the treasurer/collector's office along with all forms of cash on a minimum weekly basis. A Turnover Sheet is also requested immediately upon the collection by any Department in which either \$250.00 in currency and/or \$1,000.00 in total cash is received.

An original signed Turnover Sheet must be provided to the Collector, as well as three (3) additional copies to (i) the Accountant; (ii) the Treasurer; and (iii) the submitting Department.

Expenses cannot be paid from cash receipts by any department. All proceeds are deposited and all

expenses appropriated and processed through the warrants. Therefore, use of funds and cash receipts for miscellaneous petty cash purchases, loans, advances, or check cashing for any individual is strictly prohibited.

No bank account can be used for town funds unless it has been set up by the treasurer/collector's office. The town's tax ID cannot be used for any funds other than that of the town's.

E. PROCEDURES:

1. Reasonable care should be taken to ensure the currency is genuine.
2. Payment by check must adhere to the following guidelines:
 - a. Payable to 'Town of Berkley'. No third-party checks are to be accepted.
 - b. Make sure legal line is the same as the numerical amount. No postdated or stale dated checks are to be accepted. Verify the check is signed and look for messages (i.e. not valid over \$100.00, not valid after 90 days, etc.)
 - c. Starter/blank checks are to be accompanied by copy of a valid ID.
 - d. No cash can be returned to the taxpayer in the event a check exceeds the amount due to the Town, a request must be brought to the Accountant and a refund check will issue.
3. Cash payments must adhere to the following guidelines:
 - a. Cash must be held in a secure place until it is turned over to the treasurer/collector's office for deposit.
4. At the time of the payment, transactions should have a corresponding numbered receipt, permit, license, certificate, etc. issued to the customer and be appropriately logged by the department.

Receipts

- All receipts should be stamped, dated, and initialed by the individual receiving the payment.
- Departmental receipts should never be commingled with any departmental employee's own money. Employees are not permitted to make change for customers with their own money.
- Departmental receipts must never be used to cash checks for town employees or the public.
- Disbursements from any departmental receipts are strictly prohibited. All receipts must be remitted to the treasurer's department intact. All disbursements must be paid through the town warrant.
- Each department is responsible for maintaining their own records for transactions within their respective department. This information should be easily traceable and available for inspection for internal audit by the town accountant.

Turnover Sheets to the Treasurer

- Cash and checks on hand should be counted and verified.
- Turnover Sheets to the treasurer's office are required weekly. More frequent Turnover Sheets must be done if there is \$250 or more in cash in the office.
- All monies received must be submitted by week end.
- It is imperative that employees turn over cash/check receipts in-person.
- Turnover Sheets to the treasurer should be summarized on departmental receipt Turnover Sheets. Each department's form should include:
 - o Department name
 - o Department Specific Turnover Sheet number
 - o Date of Turnover Sheet
 - o General ledger account numbers and names of revenue/receipt accounts to be posted
 - o Total of Turnover Sheet, including a breakdown of cash and checks
 - o Signature of responsible department personnel
- The Turnover Sheet form must be made in triplicate copy in addition to the original.
 - o The accountant's and treasurer's copies must include a copy of the corresponding cash receipt log
 - o The treasurer must sign the department's copy as receipt, documenting that the amount of money in cash/checks turned over agrees with the Turnover Sheet form total.

Preparing Deposits

- Deposits need to be completely timely (at least once a week or more frequently, as needed).
- Count and record all currency for the deposit.
- Endorse all checks for the deposit.
- Verify all deposit slips are complete with batch number, total currency, total checks, date, and grand total of deposit.

Miscellaneous

- All employees must take precautions to protect the town's money. An office should never be left unattended with cash or checks left in the public view or with public access. Any items with a person's personal information (i.e. check) is considered at risk for identity theft and fraud.
- In the event that a check is returned (non-sufficient funds, account closed, payer's signature missing, etc.), the department that originally submitted the Turnover Sheet is responsible for submitting a reversal of the Turnover Sheet (negative receipt) and to seek replacement funds plus the returned item fee, as determine by the collector.
- Theft or disappearance of cash should be immediately reported to the treasurer/collector's office.
- If any department cannot meet these policies and expectations, please contact the treasurer's office to make special arrangements.

F. ENFORCEMENT

Violation of this policy may result in disciplinary action, up to and including termination of employment and/or legal action.

A.8 Review

This financial policy is intended to be used, and therefore, it must be flexible enough to accommodate changing social and economic conditions. It is appropriate for the Financial Advisory Committee to review said policy in its entirety at least every three (3) years, and make adjustments as required.