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Commissioner of Revenue

Sean R. Cronin  
Senior Deputy Commissioner

# FINANCIAL POLICY MANUAL | TOWN OF STERLING

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## A COMMUNITY COMPACT CABINET INITIATIVE

### PREPARED BY:

#### **DLS | Technical Assistance Bureau**

100 Cambridge Street, Boston, MA 02114

[www.mass.gov/dls](http://www.mass.gov/dls)

Approved by Finance Committee October 22, 2018

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December 28, 2017

Board of Selectmen

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Christopher C. Harding  
Commissioner of Revenue

Sean R. Cronin  
Senior Deputy Commissioner

Town of Sterling  
One Park Street  
Sterling MA 01564

Dear Board Members,

I am pleased to present the enclosed set of financial policies for the Town of Sterling as part of the Baker-Polito Administration's Community Compact Cabinet initiative. This collaborative program strives to create clear mutual standards, expectations, and accountability for both the state and municipalities. It is my hope that our guidance provides direction and serves as a resource for local officials as we build better government for our citizens.

If you have any questions regarding the report, please contact Zack Blake, Technical Assistance Bureau Chief, at (617) 626-2358 or [blakez@dor.state.ma.us](mailto:blakez@dor.state.ma.us).

Sincerely,

A handwritten signature in black ink, appearing to read "Sean R. Cronin".

Sean R. Cronin  
Senior Deputy Commissioner

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## Introduction

At the board of selectmen's request, the Division of Local Services Technical Assistance Bureau (TAB) created a financial Policy manual for the Town of Sterling. This project was a result of the Community Compact Cabinet initiative ([www.mass.gov/ccs](http://www.mass.gov/ccs)), whose goal is to encourage the implementation of municipal best practices that promote good governance by fostering efficiency, accountability, and transparency in local government.

All the provided policies should be considered living documents to be periodically reassessed and modified as conditions change. Among them are some that incorporate specific provisions for local leaders to decide upon. An example taken from the capital planning Policy is: "A capital improvement is a tangible asset or project estimated to cost over [\$25,000] and to have or extend [five] or more years of useful life." In each case, the draft Policy has brackets around the decision point with the word(s) in the brackets representing TAB's suggestion based on researched best practices. In these cases, local officials should finalize the decisions and remove the brackets prior to adopting the policies.

Additionally, please note that the tax enforcement Policy requires specific action by town meeting to be adopted as presented here since it refers to tax title payment agreements, which require a bylaw for implementation per [M.G.L. c. 60, § 62A](#). The following text may serve as a template:  
{Required text included to May 2018 ATM Article 22 Tax Title payment Agreements...}

### Chapter X: Payment Agreements for Properties in Tax Title

- X.1.1 Pursuant to the provisions of M.G.L. c. 60, sec. 62A, the Treasurer/Collector will pursue and establish a written payment agreement with any person(s) entitled to redeem ownership of parcels taken by the Town for nonpayment of real estate taxes ("redeemer").
- X.1.2 Tax title categories eligible for payment agreements include [*specify criteria here, based on amount owed, assessed property value, length of delinquency, and/or any other criteria*].
- X.1.3 At the start of the agreement, the redeemer shall pay 25 percent of the total amount due.
- X.1.4 The agreement's maximum term shall be five years.
- X.1.5 Full compliance with agreement terms will result in a waiver of [*local decision: choose a percent up to 50 percent*] of the tax title account's accrued interest.

# STERLING MASSACHUSETTS

## FINANCIAL POLICIES MANUAL



## Preface

The Town of Sterling is committed to safeguarding public funds, protecting local assets, and complying with financial standards and regulations. To that end, this manual of financial policies provides guidance for local planning and decision making. The policies as a whole are intended to outline objectives, provide direction, and define authority to help ensure sound fiscal stewardship and management practices. Each should be periodically reviewed and updated as necessary.

With these policies, the Town of Sterling, through its Board of Selectmen, Town Administrator, Finance Committee, and employees, commits to the following objectives:

- Sustaining a consistent level of service and value for residents and businesses
- Safeguarding financial integrity and minimizing risk through a system of internal controls
- Ensuring the quality and maintenance of capital assets
- Conforming to general law, uniform professional standards, and municipal best practices
- Protecting and enhancing the town's credit rating
- Promoting transparency and public disclosure
- Assuring accurate and timely reporting

The following representatives from the Town, worked over several months from December 2017 through October of 2018 to review and edit every chapter and section to ensure its applicability to Sterling's long time conservative financial management philosophies of 'pay as you go' while addressing key issues and saving for the future.

Don Murray	Assessor
John Kilcoyne	Selectman
Joe Sova	Fin Com Chair
Gerry Kokernak	Capital Planning and Fin Com
Victoria Smith	Treasurer Collector
Fred Aponte	Town Accountant
Ross Perry	Town Administrator

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## **Ambulance Receivables**

### **Purpose**

To mitigate potential liabilities from uncollected accounts associated with Town provided ambulance-related emergency medical services (EMS), this Policy establishes guidelines for managing ambulance receivables.

### **Applicability**

This Policy applies to the Fire Chief in managing the Town's ambulance billing contract. It also applies to the Town Administrator's and Treasurer/Collector's job duties related to ambulance accounts receivable. Furthermore, all persons transported by the Town's ambulances ("patients") and any associated third-party providers are subject to the provisions of this Policy.

### **Policy**

Through a service contract with Coastal Medical Billing, Inc. (Sterling's current ambulance billing provider), the Town will uniformly assess EMS charges to all patients who have been provided ambulance transportation, regardless of whether they have third-party health coverage. The Town will pursue all reasonable measures to collect these charges except when financial hardship waivers are warranted.

#### **A. Charges and Billing**

Fire department staff will transmit each ambulance transport's service details and patient identification information to Coastal within 24 hours of the transport. Using rates published by the Centers for Medicare and Medicaid Services (CMS) and to help Sterling Fire Dept to remain consistent with the industry, Coastal will notify the Fire Chief of any CMS rate changes and recommend corresponding changes to rates under the Town's contract. The Fire Chief will discuss proposed rate changes with the Town Administrator and Finance Committee as part of the annual budget process.

When third-party health care information is available, Coastal will transmit electronic bills to the identified providers. Coastal will mail bills directly to patients whenever third-party information is unavailable or a balance remains after providers have paid their portions of the bills.

#### **B. Collection and Enforcement**

Coastal will deposit all payments received into a bank account opened for that purpose and controlled by the Treasurer/Collector. Any Town employee who receives an ambulance payment will turn it over to the Treasurer/Collector for forwarding to Coastal.

If the full payment for any account is not received after the initial bill, Coastal will issue follow-up bills at 30-day intervals but will send no more than three patient bills for any single ambulance run.

Upon receipt of specific, written authorizations from the Town Administrator, Coastal will refer delinquent accounts to credit bureaus and collection agencies (as detailed in Section D below).

On a monthly basis, Coastal will provide the Fire Chief with a full accounting of activities, including the following reports, at minimum: transaction detail and summary, deposits summary, aging details,

account write-offs, credit adjustments, and requests for disposition. Upon receipt of these reports, the Fire Chief will immediately forward copies to the Treasurer/Collector and Town Accountant. In accordance with the Town's Reconciliation Policy, the Treasurer/Collector will review the report as part of the monthly cash reconciliation, and the Town Accountant will complete a monthly reconciliation of ambulance receivables with the general ledger.

### **C. Review of Receivables**

The Treasurer/Collector and Fire Chief (or his designee) will meet quarterly to confirm all transports have been billed and are included in the receivables, reconcile deposits and outstanding balances, and review Coastal's request for disposition report. They will subsequently make recommendations to the Town Administrator regarding all potential uncollectible write-offs.

### **D. Uncollectible Accounts**

The Town Administrator will review the Fire Chief and Treasurer/Collector's recommendations, and will determine and declare the accounts that are uncollectible, and authorize Coastal to write these off its books. All accounts with balances under \$50 will be written off. The Town Administrator will also specify to Coastal the uncollectible write-offs with balances over \$200 appropriate for collection agency action and credit clouding. None of these write-off determinations constitute debt forgiveness; Coastal will accept and deposit in the ambulance bank account any payments that may be subsequently received for them.

### **E. Financial Hardship Requests**

All written and verbal communications with patients, whether by Coastal employees or Town officials, will include notice that amounts owed may be waived upon demonstration of financial hardship. A patient seeking a hardship waiver must request it in writing to Sterling Fire Dept and submit relevant supporting documents.

As the standard for evaluating the hardship request, the Sterling Fire Dept will use the Hill-Burton guideline or other guideline as appropriate, which is set at two times the federal poverty level as defined annually by the U.S. Department of Health and Human Services. If the Sterling Fire Dept determines the patient's income is below the Hill-Burton level, they will send an abatement approval letter to Coastal (or the then current ambulance billing provider) who will write the account off its books and forward notice of the determination and copies of the patient's documents to the Fire Chief.

Coastal will forward to the Fire Chief any hardship requests that cannot be approved under the Hill-Burton standard for further evaluation by a committee comprised of the Fire Chief, Town Administrator, and Treasurer/Collector. The Fire Chief will notify Coastal of the committee's decision within five days so that Coastal can update its accounts receivable control.

## **F. Privacy Protection**

All information received as a result of this Policy, including patients' names, addresses, medical histories, and financial information, is protected and exempt from public record classification. Access to and retention of patient information are subject to compliance with federal and state regulations related to medical, personal, and financial information.

## **G. Reporting and Audit**

The Treasurer/Collector will provide the Town Administrator with a quarterly ambulance activity report, including data on collections, aged receivables, and write-offs. The Town Accountant will ensure that an annual, reconciled ambulance receivable balance is including in the Town's year-end financial reports. All ambulance receivable activities are subject to audit by Sterling's independent auditor.

## **REFERENCES**

[M.G.L. c. 4 § 7, clause twenty-sixth](#)

[M.G.L. c. 40 § 4A](#)

[M.G.L. c. 40 § 5F](#)

[M.G.L. 93H](#)

[940 CMR 27.00](#)

[950 CMR 32.00](#)

[Health Insurance Portability and Accountability Act of 1996](#)

[CMS Ambulance Fee Schedule](#)

US Department Health and Human Services: [Annual Update of the HHS Poverty Guidelines](#)

Town of Sterling's contract with Coastal Medical Billing, Inc.

Sterling Reconciliation Policy

## **EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## Antifraud

### Purpose

To protect the Town's assets and reputation from misappropriation and abuse, this Policy provides guidelines to safeguard against fraudulent activities and any appearance thereof. Policy objectives include:

- To create an environment in which employees and citizens can report any suspicion of fraud
- To communicate the Town's intent to prevent, report, investigate, and disclose to proper authorities suspected fraud, abuse, and similar irregularities
- To provide management with guidelines and responsibilities regarding appropriate actions in conducting investigations of alleged fraud and similar improprieties

### Applicability

This Policy pertains to any suspected fraud, abuse, or similar irregularity against the Town. It applies to all elected and appointed Town officials and employees and to any other persons acting on behalf of the Town, such as vendors, contractors, volunteers, casual employees, and grant sub recipients.

### Policy

The Town is committed to protecting its revenue, property, information, and other assets from any attempt, either by members of the public, contractors, consultants, vendors, agents, or its own employees, to gain by deceit, financial or other benefits at the expense of taxpayers. Town officials, employees and other persons acting on behalf of the Town must, at all times, comply with all applicable policies, laws, and regulations. The Town will not condone any violation of law or ethical business practices and will not permit any activity that fails to withstand the closest possible public scrutiny. The Town intends to fully, objectively, and impartially investigate and prosecute as appropriate any suspected acts of fraud or other similar irregularities regardless of the position, title, length of service, or relationship with the government of any party who may be the subject of such investigation.

### A. Definitions

**Any person acting on behalf of the Town** will mean any person responsible for or to Sterling's government placed in that position by some official relationship with the Town.

**Abuse** can occur in financial or nonfinancial settings and refers to, but is not limited to:

- Improper use or misuse of authority
- Improper use or misuse of Town property, equipment, materials, records, or other resources
- Waste of public funds

**Fraud or other irregularity** refers but is not limited to:

- Any dishonest or fraudulent act
- Forgery or alteration of any document or account
- Forgery or alteration of a check, bank draft, or any other financial document
- Misappropriation of funds, securities, supplies, or other assets

- Impropriety in the handling or reporting of money or financial transactions
- Profiteering as a result of insider knowledge of Town activities
- Disclosing confidential or proprietary information to outside parties
- Accepting or seeking anything of material value from consultants, contractors, vendors, or persons providing services or materials to the Town
- Destruction, removal or inappropriate use of records, furniture, fixtures, and equipment
- Any claim for reimbursement of expenses not made for the exclusive benefit of the Town
- Any computer-related activity involving the alteration, destruction, forgery, or manipulation of data for fraudulent purposes
- Any omissions and misrepresentations made in bond offering documents, presentations to rating agencies, and annual financial reports

## **B. Antifraud Responsibilities**

Every employee has the responsibility to assist the Town in complying with policies and laws and in reporting violations. The Town encourages the support and cooperation of all employees in meeting the Town's commitment and responsibility to such compliance.

Town officials and department heads are responsible for instituting and maintaining a system of internal controls to reasonably ensure the prevention and detection of fraud, misappropriations, and similar irregularities. Management should be familiar with the types of improprieties that could occur within their areas of responsibility and be alert for any indications of such conduct.

The Town Administrator has primary responsibility for investigating all activity defined in this Policy and will, to the extent practical, notify the Board of Selectmen of reported allegations of fraudulent or irregular conduct upon commencing the investigation. In all circumstances where there are reasonable grounds to indicate fraud may have occurred, the Town Administrator, subject to the advice of Town Counsel, will contact the Sterling Police Department and/or the District Attorney's office. Upon concluding the investigation, the Town Administrator will report results to the Selectmen and others as determined necessary. For an investigation involving the Town Administrator, the Board of Selectmen will handle the process as stated above.

## **C. Disclosure**

If the Town's investigation concludes that there was a violation of any federal criminal law involving fraud, bribery or gratuity potentially affecting a federal award, the Town Administrator will disclose such in writing to the federal awarding agency in compliance with the Office of Management and Budget's Omni Circular. Similarly, if there are findings of bond offering information falsification, the Town Administrator will disclose this in writing to the bondholders.

### **Procedures**

The Town Administrator will create a set of procedures to be appended to this Policy or incorporated by reference. The procedures should cover all of the following at minimum:

1. Procedure and methods for reporting suspicions of fraud, abuse and other irregularities
2. Assignment of responsibilities in response to reported suspicions
3. Employee protections from retaliation

4. Security of investigation documents
5. Treatment of anonymous allegations and false allegations (intentional and unintentional)
6. Personnel disciplinary actions
7. Responsibilities around media contact
8. Training, education and awareness
9. Disclosure requirements and protocols

**REFERENCES**

[M.G.L. c. 149 § 185](#)

U.S. Office of Management and Budget, December 2013: [Omni Circular](#)

**EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## Capital Planning

### Purpose

To effectively maintain the Town's infrastructure and protect the value of its capital assets, this Policy outlines guidance for planning, reviewing, and coordinating capital improvements. Adherence to this Policy will help the Town meet its capital needs despite limited resources.

### Applicability

This Policy establishes a framework for the charge of the Capital Budget Committee (CBC) sets guidelines and expectations for all Town departments in planning for and requesting capital projects, and outlines consensus budgetary goals for the Board of Selectmen, Town Administrator, and Finance Committee.

### Policy

The Town will maintain its physical assets by providing funding in the operating budget to protect its capital investments and minimize future maintenance and replacement costs. To provide and preserve the infrastructure needed for achieving the highest levels of public services and quality of life possible within available financial resources, the Town will maintain an annually updated, five-year plan for capital improvements. The Town will emphasize preventive maintenance as a cost-effective approach to capital reinvestment and replace exhausted goods as necessary.

The Capital Budget Committee (CBC) is charged to oversee Sterling's capital improvement program (CIP). The CBC's membership will be comprised of four members of the Finance Committee and three other residents. Appointment to the CBC shall be by a single vote each of the Moderator, Board of Selectmen, and Finance Committee. The CBC's objectives are to assess and prioritize projects, analyze funding, and create a long-term financial plan achievable within the Town's budget limitations.

#### A. Definition of a Capital Project

A capital item is a tangible asset or project estimated to cost over \$25,000 and estimated to have or to extend, five or more years of useful life. These include:

- Real property acquisitions, construction, and long-life capital equipment
- Major improvements to physical infrastructure, including streets, sidewalks, storm water drains, and water distribution systems
- Major renovations of existing capital items that extend their useful lifespans, as distinguished from normal operating expenditures
- Planning, feasibility studies, and designs for potential capital projects
- Items obtained under long-term leases
- Bulk purchases of similar items, like software or furniture, with expected useful lifespans of five or more years that, when aggregated, have total costs exceeding the capital threshold

#### B. Inventory

To support a systematic acquisition and replacement schedule, Department Heads will work with the Town Administrator and the Town Accountant to annually update and maintain a detailed inventory of all capital assets, which shall include dates built, acquired or last improved, original cost, current



condition, expected and remaining useful lifespans, including redeployment, depreciated value, extent of use, and any scheduled replacement or expansion dates. The Department Heads will provide the CBC with a copy of the inventory annually.

### **Evaluation of Capital Projects**

Only projects that have gone through the CBC's review process shall be included in the CIP unless required by an emergency, in which case, a written report explaining the emergency must be provided to the Board of Selectmen and Town Administrator. The CBC will evaluate and prioritize capital projects received from departments using the criteria below:

1. Eliminates a hazard to public health and safety
2. Required by state or federal laws or regulations
3. Uses outside financing sources, such as grants
4. Supports adopted plans, goals, objectives, and policies
5. Stabilizes or reduces operating costs
6. Makes better use of a facility or replaces a clearly obsolete one
7. Maintains or improves productivity or existing standards of service
8. Directly benefits the Town's economic base by increasing property values
9. Provides new programs having social, cultural, historic, economic, or aesthetic value

### **C. Multiyear Capital Plan**

The CBC will annually update and propose to the Finance Committee and Board of Selectmen a five-year capital improvement plan, including the upcoming fiscal year's capital improvement budget and a four-year projection of capital needs and expenditures that details their estimated costs, descriptions, and anticipated funding sources. The CBC will make recommendations on requested capital items at Town Meeting.

Throughout the year, the Town Accountant will monitor active capital projects to ensure they remain properly funded and will report any capital plan amendments to the Town Administrator and Board of Selectmen.

### **D. Capital Financing**

Long-term debt is an appropriate funding source for certain types of projects, while short-term debt and current revenues should be used for assets with short useful lifespans. The Town will strive to maintain five percent of the general fund operating budget (including schools), net of debt, on capital investment allocations. Funding will be derived from a combination of property taxes, Free Cash, and the general and capital investment stabilization funds.

The CIP shall be prepared and financed in accordance with the following policies:

- "Pay-as-you-go" should be considered as long as it doesn't impact operational budgets.
- Special revenue sources (e.g., grants, revolving funds) shall be evaluated as funding options whenever practical.
- The annual operating costs of each proposed capital project, as well its debt service costs, will be identified before any long-term, bonded capital project is recommended.

- The Capital Investment Fund may be used to avoid new taxes or borrowing.
- Short-term debt may be used to fully finance purchases with useful lifespans of less than 10 years.
- Major capital projects, such as new construction or major renovations to existing facilities, may be accomplished through capital or debt exclusions.
- Infrastructure or facility maintenance budgets built into the general operating budget will not be reduced to fund other departmental budgets.
- To the fullest extent feasible, all capital projects associated with the Town's Light Department and Water Enterprise Fund shall be financed from user fees.

#### **E. Capital Project Closeouts**

The Town will endeavor to close out all capital projects within six months of completion or discontinuation. As these projects are closed out, the Town Accountant will do the following:

- For bonded projects with residual balances less than \$50,000, the Town Accountant and Treasurer/Collector will propose the Board of Selectmen approve applying the balances to debt service.
- For bonded projects with residual balances in excess of \$50,000, the Town Accountant and Treasurer/Collector will propose appropriating the balances for other capital projects for which the Town may borrow for an equal or greater term as the original loan was issued.
- For projects funded with available revenue (tax levy or reserves) having residual balances, the Town Accountant and Town Administrator will propose reallocating the balances for other capital projects or close the balances to the appropriate fund surplus.

#### **REFERENCES**

[M.G.L. c. 44, §20](#)

[M.G.L. c. 44, §33B](#)

Sterling Capital Budget Committee Special Acts in [1998](#) and [2013](#)

Division of Local Services (DLS) Best Practice: [Presenting and Funding Major Capital Projects](#)

DLS Financial Management Guidance: [Capital Improvement Planning Manual](#) and [Capital Improvement Planning Guide – Developing a Comprehensive Community Program](#)

#### **EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## **Debt Management**

### **Purpose**

To provide for the appropriate issuance and responsible use of debt, this Policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, sustain capital investment capacity, and maintain or enhance the Town's bond rating so as to achieve long-term interest savings.

### **Applicability**

This Policy applies to the Board of Selectmen, Town Administrator, Finance Committee, and Capital Budget Committee in their budget decision-making duties, the Treasurer/Collector's debt management responsibilities, and the Town Accountant's budget analysis and reporting duties.

### **Policy**

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt. The Town will issue and manage debt obligations in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, will only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

### **A. Debt Financing**

In financing with debt, the Town will:

1. Issue long-term debt only for purposes that are authorized by state law and qualify for tax-exempt bonds and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least 10 years or whose lifespans will be prolonged by at least 10 years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.
5. Consider using revenue bonds, special assessment bonds, or other types of self-supporting bonds instead of general obligation bonds whenever possible.
6. Set user fees to cover capital costs for the water enterprise operation to the extent practicable.

**B. Debt Limits**

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues (1), with a target balance of seven percent.
2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation. (1) general fund revenues include all revenues as reported on Schedule A as "Total Funds Revenue."

**C. Structure and Term of Debt**

The following shall be the Town's guidelines on debt terms and structure:

1. The Town will attempt to maintain a long-term debt schedule such that at least 50 percent of outstanding principal will be paid within 10 years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than 10 years, except for major buildings, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
5. The Town will work closely with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.

**D. Bond Refunding**

To achieve potential debt service savings on long-term, tax-exempt debt through bond refunding the Town will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

**E. Protection of Bond Rating**

To obtain and maintain a favorable bond rating, the Town will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a Policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.

## F. Reporting

1. The Treasurer/Collector will report to the Board of Selectmen, Finance Committee, Town Administrator, and Town Accountant on the Town's debt status at least annually.
2. The Town Accountant will include an indebtedness summary as part of a report on receipts and expenditures in Sterling's Annual Town Report.
3. Town Accountant, with the Town's financial advisor, will file the annual audit and official disclosure statement within 270 days of the end of the fiscal year.

## REFERENCES

[M.G.L. c. 41, § 59](#)

[M.G.L. c. 41, § 61](#)

[M.G.L. c. 44, § 4](#)

[M.G.L. c. 44, § 6](#)

[M.G.L. c. 44, § 6A](#)

[M.G.L. c. 44, § 7](#)

[M.G.L. c. 44, § 8](#)

[M.G.L. c. 44, § 17](#)

[M.G.L. c. 44, § 19](#)

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 21A](#)

[26 USC § 148](#)

Sterling Capital Planning Policy

DLS Best Practice: [Understanding Municipal Debt](#)

DLS Borrowing Guidelines: [Asset Useful Life - Borrowing Limits](#)

DLS Informational Guideline Releases 17-21: [Borrowing](#) and 17-22: [Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt](#)

Government Finance Officers Association Best Practice: [Refunding Municipal Bonds](#)

Internal Revenue Service Guidance: [Arbitrage Guidance for Tax-Exempt Bonds](#)

## EFFECTIVE DATE

This Policy was adopted on November 14, 2018.

## **Financial Reserves**

### **Purpose**

To help the Town stabilize finances and maintain operations during difficult economic periods, this Policy establishes prudent practices for appropriating to and expending reserve funds. With well-planned sustainability, Sterling can use its reserves to finance emergencies and other unforeseen needs, to hold money for specific future purposes, or in limited instances, to serve as revenue sources for the annual budget. Reserve balances and policies can also positively impact the Town's credit rating and consequently its long-term cost to fund major projects.

### **Applicability**

This Policy pertains to short-range and long-range budget decision making and applies to the Board of Selectmen, Town Administrator, Finance Committee, and Capital Budget Committee in those duties. It also applies to the related job duties of the Town Accountant and Board of Assessors.

### **Policy**

The Town of Sterling commits to building and maintaining its reserves so as to have budgetary flexibility for unexpected events and significant disruptions in revenue-expenditure patterns and to provide a source of available funds for future capital expenditures. The Town will strive to maintain overall general fund reserves in the level of 15 percent of the annual operating budget. Adherence to this Policy will help the Town withstand periods of decreased revenues and control spending during periods of increased revenues. There are multiple types of reserves, including free cash, stabilization funds, retained earnings, and overlay surplus.

#### **A. Free Cash**

The Division of Local Services (DLS) defines free cash as "the remaining, unrestricted funds from operations of the previous fiscal year, including unexpended free cash from the previous year." DLS must certify free cash before the Town can appropriate it.

The Town shall set a year-to-year goal of maintaining its free cash in the range of three to five percent of the annual budget. To achieve this, the Town Administrator will propose budgets with conservative revenue projections, and department heads will carefully manage their appropriations to produce excess income and budget turn backs. Further, budget decision makers should avoid fully depleting the Town's free cash in any year, so that the succeeding year's calculation can begin with a positive balance. Moreover, as much as practicable, the Town will limit its use of free cash to funding one-time expenditures (like capital projects, snow and ice deficits, or emergencies) and will appropriate any excess above five percent of the annual budget to build reserves or offset unfunded liabilities.

#### **B. Stabilization Funds**

A stabilization fund is a reserve account allowed by state law to set aside monies to be available for future spending purposes, including emergencies or capital expenditures, although it may be appropriated for any lawful purpose. Prior to the adoption of this Policy, the Town established and appropriated to two stabilization funds as detailed below.

**General Stabilization:** The Town will endeavor to maintain a minimum balance of five percent of the current operating budget in its general stabilization fund. Withdrawals from general stabilization resulting in a balance below five percent should only be used to mitigate emergencies or other unanticipated events that cannot be supported by current general fund appropriations. When possible, withdrawals of funds should be limited to the amount available above the five percent minimum reserve target level. If any necessary withdrawal drives the balance below the minimum level, the withdrawal should be limited to one-third of the general stabilization fund balance. Further, the Town Administrator will develop a detailed plan to replenish the fund to the minimum level within the next two fiscal years.

**Capital Investment Stabilization:** The Town will appropriate annually to this fund so that over time it achieves a target balance sufficient to cover the Town's cash outlay for capital. This target should minimally equate to the total annual asset depreciation the Town Accountant calculates under the requirements of the Government Accounting Standards Board's Statement 34. Sustaining funding in this reserve enables the Town to pay outright for moderate-range capital expenditures and thereby preserve debt capacity for major, higher-dollar purchases or projects. This approach balances debt with pay-as-you-go practices and protects against unforeseen costs. The Capital Budget Committee shall review and vote their recommendations for all expenditures from this fund.

### C. Retained Earnings

The Water Department's finances are managed under an enterprise fund. By accounting for its revenues and expenditures in a fund separate from the general fund, the Town can effectively identify the utility's true delivery costs—direct, indirect, and capital—and set user fees at a level sufficient to recover them. Under this accounting, the Town may reserve the water operation's generated surplus (referred to as retained earnings) rather than closing the amount out to the general fund at year-end.

For the water enterprise fund, the Town will maintain a minimum reserve amount of 20 percent of the operation's total budget, but the reserve target may be significantly higher if major infrastructure improvements are necessary. The reserve will be used to provide rate stabilization and to fund major capital projects. To maintain the target reserve level for the enterprise fund requires the Board of Public Works to periodically review, and when necessary, adjust user rates.

### D. Overlay Surplus

The overlay is a reserve the Town uses to offset unrealized revenue resulting from uncollected property taxes, abatements, and exemptions.

At the conclusion of each fiscal year, the Board of Assessors will submit to the Town Administrator, Finance Committee, and the Town Accountant an update of the overlay reserve with data that includes, but is not limited to, the gross balance, potential abatement liabilities, and any transfers to surplus. If the balance exceeds the amount of potential liabilities, the Board of Selectmen may request that the Board of Assessors vote to declare those balances surplus and available for use in the Town's capital improvement plan or any other one-time expense.

**REFERENCES**[M.G.L. c. 40 §5B](#)[M.G.L. c. 59 §25](#)[M.G.L. c. 44 §53F½](#)

DLS Best Practices: [Free Cash](#) and [Special Purpose Stabilization Funds](#)

DLS Informational Guideline Releases 08-101: [Enterprise Funds](#), 17-20: [Stabilization Funds](#) and 17-23: [Overlay and Overlay Surplus](#)

Government Finance Officers Association Best Practices: [Fund Balance Guidelines for the General Fund](#) and [Working Capital Targets for Enterprise Funds](#)

**EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.



## Forecasting

### Purpose

To assess the range of choices available to budget decision makers when determining how to allocate resources, this Policy establishes guidelines for evaluating revenue sources and the requirement to determine an expenditure strategy as part of the annual budget process and longer range fiscal planning. Forecasting helps local officials understand the long-range implications of pending near-term decisions.

### Applicability

This Policy applies to the Board of Selectmen, Town Administrator, and Finance Committee in their budget analysis and decision-making responsibilities. It also applies to the job duties of the Town Accountant and to the managers of all revenue-generating departments, including the Water Department.

### Policy

#### A. Revenue Guidelines

The Town will continuously seek to diversify its revenue to improve the equity and stability of sources. Each year and whenever appropriate, the Town will reexamine existing revenues and explore potential new sources. A balance will be sought between elastic and inelastic revenues to minimize any adverse effects caused by inflation or other economic changes. Additionally, intergovernmental revenues (e.g., local aid, grants) will be reviewed annually to determine their short- and long-term stability in order to minimize detrimental impacts.

The Town will avoid using one-time revenues to fund ongoing or recurring operating expenditures. These one-time revenue sources can include, but are not limited to, free cash, overlay surplus, sale of municipal assets, legal settlements, insurance proceeds, and gifts. Additionally, the Town hereby establishes the following priority order when appropriating one-time revenues:

- Snow and ice deficit
- General stabilization fund
- OPEB trust fund
- Capital investment stabilization fund
- Cash capital budget

Economic downturns or unanticipated fiscal stresses may compel reasonable exceptions to the use of one-time revenue. In such cases, the Town Administrator, in consultation with the Town Accountant, and the Finance Committee, can recommend to the Board of Selectmen its use for operational appropriations. Such use will trigger the Town Administrator to develop an action plan with the Town Accountant to avoid continued reliance on one-time revenues.

State laws impose further restrictions on how certain types of one-time revenues may be used. The Town will consult the following General Laws when the revenue source is:

- Sale of real estate: [M.G.L. c. 44, § 63](#) and [M.G.L. c. 44, § 63A](#)

- Gifts and grants: [M.G.L. c. 44, § 53A](#) and [M.G.L. c. 44, § 53A½](#)

This Policy further entails the following expectations regarding revenues:

- The Assessors Department will maintain property assessments for the purpose of taxation at full and fair cash value as prescribed by state law.
- Town departments that charge fees, will review their fee schedules every three years and propose adjustments when needed to ensure coverage of service costs.
- Fees should be set at the medium of surrounding towns.
- The Building Department will notify the Town Administrator of any moderate-to-large developments that could impact building permit volume.
- Department heads will strive to seek out all available grants and other aid and will carefully consider any related restrictive covenants or matching requirements (both dollar and level-of-effort) to determine the cost-benefit of pursuing them.
- Revenue estimates will be adjusted throughout the budget cycle as more information becomes available.
- To the extent feasible, the Water Department will set rates sufficient to cover all fiscal year operating, including indirect costs and capital improvement costs and thereby minimize any general fund subsidies.

## **B. Expenditure Guidelines**

Annually, the Town Administrator, in consultation with the Finance Committee and Board of Selectmen will determine and notify the department heads of a particular budget approach for forecasting expenditures, either maintenance (level service), level funded, or one that adjusts expenditures by specified increase or decrease percentages (either across the board or by department). A maintenance budget projects the costs needed to maintain the current staffing level and mix of services into the future. A level-funded budget appropriates the same amount of money to each municipal department as in the prior year and is tantamount to a budget cut because inflation in mandated costs and other fixed expenses still must be covered.

Under any chosen approach, expenditure projections will include potential cost-of-living adjustments to account for the impact of future contract settlements and compensation plan increases.

## **C. Financial Forecast Guidelines**

To determine the Town's operating capacity for each forthcoming fiscal year, the Town Administrator, with the Town Accountant's assistance, will annually create a detailed budget forecast, including a five-year projection of revenues and expenditures for all operating funds. These forecasts will be used as planning tools in developing the following year's operating budget as well as the five-year capital improvement plan. The Town Administrator will provide the forecasts to the Finance Committee, Capital Budget Committee, and Board of Selectmen for use in their budget decision making.

To ensure the Town's revenues are balanced and capable of supporting desired levels of services, forecasts for property taxes, local receipts, and state aid will be conservatively based on historical trend analyses and will use generally accepted forecasting techniques and appropriate data. To avoid potential revenue deficits, estimates for local receipts (e.g., inspection fees, investment income, license fees) should generally not exceed 90 percent of the prior year's actual collections without firm

evidence that higher revenues are achievable. (The 90% conservative estimate tends to create a surplus that can go in to stabilization accounts the next year.)

Additionally, the Town's forecast model should assume that:

- The Town's current level of services will provide the baseline for projections.
- Property taxes (absent overrides) will grow at the limits of Proposition 2½.
- New growth will be projected conservatively, taking into account the Town's three- to five-year average by property class.
- Local receipts and state aid will reflect economic cycles.
- Historical trends in the growth of specific operating expenses and employee benefits will prevail.
- Debt service on existing debt will be paid, and the Town's Capital Planning and Debt Management policies will be followed.
- Annual pension contributions and appropriations to amortize other postemployment benefit (OPEB) liabilities will continue.
- Reserves will be built and maintained in compliance with the Town's Financial Reserves Policy.
- The water enterprise fund and the Light Department will reimburse the general fund for indirect costs.

#### REFERENCES

[M.G.L. c. 44, § 20](#)

[M.G.L. c. 44, § 53A](#)

[M.G.L. c. 44, § 53A½](#)

[M.G.L. c. 44, § 63](#)

[M.G.L. c. 44, § 63A](#)

Sterling policies on Capital Planning, Debt Management, Financial Reserves, and Indirect Cost Allocation

DLS Best Practice: [Revenue and Expenditure Forecasting](#)

DLS Informational Guideline Release 17-21: [Borrowing](#)

Government Finance Officers Association article: [Structuring the Revenue Forecasting Process](#)

#### EFFECTIVE DATE

This Policy was adopted on November 14, 2018.

## Indirect Cost Allocation

### Purpose

To apportion all the appropriate indirect costs associated with the Town's two business-type operations, the Water and Light Departments, in an equitable manner that reflects their true shared costs, this Policy provides guidelines for calculating, allocating, and reviewing those costs.

Under authority established in [M.G.L. c. 44 §53F½](#) (for water) and [M.G.L. c. 164](#) (for light), these utilities are managed and accounted for separately from the general fund, and each has its own financial statements. Consolidating these programs' direct and indirect costs, debt service, and capital expenditures into segregated funds, allows the Town to demonstrate to the public the true, total cost of providing these utilities.

### Applicability

This Policy applies to the Town Administrator, Town Accountant, Water Department Superintendent, and Light Department General Manager.

### Policy

As part of the annual budget process, the Town Administrator and Town Accountant will calculate the indirect costs to the general fund of the two utility operations and will review the figures with the Water Department Superintendent and Light Department (SMLD) General Manager. Each of the calculations will take into account the given utility's personnel expenses budgeted in the general fund, as well as the utility-related expenses of the Town departments that provide administrative services to that operation, which include the Town Administrator, Town Accountant, and Treasurer/Collector departments.

The Town Accountant will calculate indirect costs using the most recent fiscal year's appropriations and based on one or more of the following methodologies: actual, transactional, estimated support, and proportional (as outlined on the next page). The following expenses may be included in the calculations:

- Benefits for active and retired employees, including insurances, Medicare tax, Unemployment, and Workers' Compensation <sup>1, 2</sup>
- Pension costs <sup>1, 2</sup>
- Vehicle insurance <sup>1</sup>
- Property insurance <sup>1</sup>
- Administrative costs including payroll, billing, and collections (Not charged to either dept.)
- Audit services
- Actuarial services
- Legal services <sup>1</sup>
- Information technology expenses<sup>1</sup>
- Other costs that may be considered and agreed to, such as: printing, postage, materials, supplies, software, infrastructure, and fuel

<sup>1</sup>The above costs that are direct costs are charged to the SMLD.

<sup>2</sup>The above costs that are direct costs are charged to the Water Dept.

The Town Accountant will maintain a written procedure detailing the calculation methodology and will track and record operating transfers between the relevant funds.

1. In the case of the SMLD, they annually provide services to the municipal buildings in excess of an amount formerly collected as PILOT (Payment in Lieu of Taxes) and in excess of reasonable indirect costs. Accordingly, indirect costs are not charged to the SMLD.
2. Since the Water Dept and Highway Dept are run by some of the same personnel and operate from the same building, the process to determine indirect costs associated with only the Water Dept would be difficult. In the case of the Water Dept. the amount of indirect costs attributable to the Water Dept are minor and thus not worth the accounting effort to track and charge the Water Dept.
3. Any indirect costs determined to be appropriate to charge to the Water Dept will use the **Proportional** method as a percentage of the gross general fund (net of debt) and the department's budget (net of debt).

#### REFERENCES

Government Finance Officers Association Best Practices: [Indirect Cost Allocation](#) and [Full Cost Accounting for Government Services](#)

#### EFFECTIVE DATE

This Policy was adopted on November 14, 2018.

## Investments

### Purpose

To ensure the Town's public funds achieve the highest possible, reasonable rates of return available while following prudent standards associated with safety, liquidity, and yield, this Policy establishes investment guidelines and responsibilities. It is further designed to comply with the Governmental Accounting Standards Board's recommendations that every community disclose its key policies affecting cash deposits and other long-term investments to ensure they are managed prudently and not subject to extraordinary risk.

### Applicability

This Policy applies to the Treasurer/Collector's duties to invest and manage Town funds. It pertains to short-term operating funds, including general funds, special revenue funds, bond proceeds, and capital project funds, to all accounts designated as long-term (e.g., trusts, stabilization funds, other postemployment benefits trust fund), and to others the Town may set aside for long-term use, including scholarship and perpetual care funds. It does not pertain to the Town's retirement fund, which is invested and managed by the Worcester Regional Retirement System.

### Policy

The Treasurer/Collector will invest funds in a manner that meets the Town's daily operating cash flow requirements and conforms to state statutes governing public funds while also adhering to generally accepted diversification, collateralization, and prudent investment principles regarding safety, liquidity, and yield. The Treasurer/Collector will separately maintain all long-term accounts in order to proportion interest and any realized and unrealized gains or losses. All trust funds are under the Treasurer/Collector's control unless otherwise directed by the donor.

The Treasurer/Collector will ensure all investment activity complies with state statutes governing allowable investment instruments, diversification principles, and investment restrictions for all short- and long-term funds. The Treasurer/Collector will also comply with the principles outlined in the Investment Policy Statement published by the Massachusetts Collectors & Treasurers Association, which is included in this manual's appendix.

### A. Investment Objectives

To secure the highest return consistent with safety of principal while meeting the Town's daily cash needs, the Treasurer/Collector will adhere to the following guidelines on safety, liquidity and yield:

- To preserve capital, the Treasurer/Collector will mitigate credit and interest rate risks by prudently selecting and diversifying investment instruments and depository choices.
- The Treasurer/Collector will ensure the overall investment portfolio remains sufficiently liquid to meet all reasonably anticipated operating requirements. Since all possible cash demands cannot be anticipated, the Treasurer/Collector will carry out investment activities in a manner that provides for meeting unusual cash demands without liquidating investments and thereby potentially forfeiting accrued interest earnings and losing principal.

- The Treasurer/Collector will manage all investments so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

## B. Risk Tolerance

The Treasurer/Collector will employ the following strategies to mitigate the range of investment risks:

- The Treasurer/Collector will manage **credit risk** by following the guidelines on investment instruments published by the MCTA and incorporated here by reference. This mitigates the risk that an insurer or other counterparty to an investment will not fulfill its obligations.
- To mitigate **custodial risks** when investing with any financial institution, the Treasurer/Collector will review its financial statements and advisor's background to limit the Town's exposure only to institutions with proven financial strength, capital adequacy, and overall affirmative reputations in the municipal investment industry. The Treasurer/Collector will further ensure that all securities not held directly by the Town will be held in the Town's name and tax identification number by third-party custodians approved by the Treasurer/Collector and evidenced by safekeeping receipts showing individual CUSIP (Committee on Uniform Security Identification Procedures) numbers for each.

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Town would not be able to recover deposits or to recover collateral securities in the possession of an outside party. The custodial risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the Town would not be able to recover the value of an investment or to recover collateral securities in the possession of an outside party.

- The Treasurer/Collector will minimize **concentration of credit risk** by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This mitigates the risk associated with the magnitude of the Town's investment in a single issuer.
- The Treasurer/Collector will carefully manage the duration of each investment account to mitigate **interest rate risk**, which is the risk that changes in interest rates will adversely affect an investment's fair market value.
- The Treasurer/Collector will mitigate **foreign currency risk** by limiting investments in any instruments with foreign currency exposures. This minimizes risk that changes in foreign exchange rates will adversely affect an investment deposit or its fair market value.

## C. Ethics

The Treasurer/Collector will refrain from any personal activity that may conflict with the proper execution of the investment program or that could impair or appear to impair the ability to make impartial investment decisions. The Treasurer/Collector will disclose to the Board of Selectmen and Town Administrator any personal, material financial interest in financial institutions that do business

with the Town. The Treasurer/Collector will also disclose any large personal financial investment positions or loans that could be related to the performance of the Town's investments.

#### **D. Relationship with Financial Institutions**

The Treasurer/Collector will consider soundness and stability when selecting financial institutions. To do so, the Treasurer/Collector will subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff, and will work with only recognized, reputable brokers/dealers.

When using the Veribanc rating service, the Treasurer/Collector may invest in banks that show green ratings and will subsequently monitor the ratings quarterly. If a banking institution's rating turns yellow, the Treasurer/Collector will request the institution provide a written explanation for the rating change and expected timetable for changing back to green. If the rating is still yellow for a second quarter, the Treasurer/Collector will consider liquidating all funds that are not collateralized or do not carry some form of depositor's insurance. If any rating becomes red, the Treasurer/Collector will ensure that all money is immediately collateralized, covered by some form of depositors insurance, or removed from the banking institution.

The Treasurer/Collector will require any brokerage houses and brokers/dealers wishing to do business with the Town to supply the following information:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- Statement that the broker/dealer has read and will comply with this Policy
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of \$10 million)

#### **E. Reporting Requirements**

The Treasurer/Collector will assess investment activity and keep the Town Administrator and Town Accountant apprised of any major changes by providing a report of investment activity annually or more often as needed. The investment activity report shall incorporate all of the Town's investment funds and include the following information at minimum:

- List of all the individual accounts and securities held at the end of the period
- List of short-term investment portfolios by security type and maturity to ensure compliance with the diversification and maturity guidelines
- Summary of income earned on monthly and year-to-date bases
- Disclosure of the fees associated with managing each fund
- Brief statement of general market and economic conditions and other factors that may affect the Town's cash position
- Statement on the degree of compliance with the tenets set forth in this Policy
- Disclosure of all fees associated with investment fund management



**REFERENCES**

[M.G.L. c. 29, § 38A](#)

[M.G.L. c. 44, § 54](#)

[M.G.L. c. 44, § 55](#)

[M.G.L. c. 44, § 55A](#)

[M.G.L. c. 44, § 55B](#)

[M.G.L. c. 167, § 15A](#)

[M.G.L. c. 203C](#)

Office of the Commissioner of Banks: [List of Legal Investments](#)

Governmental Accounting Standards Board Statement 40: [Deposit and Investment Risk Disclosures](#)

MCTA Investment Policy Statements (included in the Appendix)

**EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## INVESTMENT POLICY STATEMENT

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding between the Town of Sterling and currently Bartholomew & Company regarding the objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds. The secondary purpose is to describe for the Office of the Treasurer/Collector, the public, and staff the underlying logic and philosophy supporting this Statement.

### I. Investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds

#### A. Scope

This section applies only to short-term operating funds, such as general funds, special revenue funds, enterprise funds, bond proceeds, and capital project funds. Section II deals with trust funds and any other funds with special circumstances, such as stabilization funds. The Worcester Regional Retirement System is responsible for the investment of the Town's pension funds.

#### B. Investment Instruments

Note: 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, resulting in a lower interest rate. The Treasurer/Collector negotiates for the highest rates possible, consistent with safety principles.

The Treasurer/Collector may invest in the following instruments:

- Massachusetts State pooled fund: Unlimited amounts (Pool is liquid). 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/Collector. 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 CDs up to the standard limits and takes delivery on the repos and US Treasuries. Under Government Accounting Standards Board regulations (GASB), it is not considered an uncollateralized 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 (CDs) (Up to three years), which are fully collateralized through a third-party agreement: Unlimited Amounts.
- Bank accounts and CDs (Up to three years) insured by F.D.I.C. up to the coverage limit. All bank accounts and CDs in one institution are considered in the aggregate for the insurance coverage limit. In some cases, banking institutions carry additional insurance. Depository Insurance Fund (D.I.F.): Contact banking representative for amounts of coverage.
- Unsecured bank deposits of any kind, such as other checking, savings, money market, or CD accounts at banks that do not fit the above categories. These investments are subject to the following limitations: No more than 5% of an institution's assets and no more than 25% of a municipality's cash may be comprised of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large

payments that will be made by the Town in the near future. These payments may be for such items as debt service payments or regional school assessments. Their creditworthiness will be tracked by Veribanc or other bank creditworthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.

- Money market mutual funds registered with the Securities and Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as otherwise referenced in the Massachusetts General Law Chapter 44 Section 55.

### **C. Diversification**

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against overconcentration of maturities, as well as concentration in a specific institution. 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 10% of the Town's investments shall be invested in a single financial institution.

### **D. Authorization**

The Treasurer/Collector has authority to invest entity funds, subject to the statutes of Massachusetts General Law Chapter 44 Section 55, 55A, & 55B.

### **E. Restrictions**

Chapter 44, Section 55 sets forth several restrictions the Treasurer/Collector must be aware of when making investment selections.

- The Treasurer/Collector shall not at any one time have on deposit in a bank or trust company an amount exceeding 60% of the capital and surplus of such bank or trust company, or banking company, unless satisfactory security is given to it by such bank or trust company, or banking company for such excess.
- The Treasurer/Collector shall not make a deposit in any bank, trust company or banking company with which he or she is, or for any time during the three years immediately preceding the date of any such deposit was, associated as an officer or employee.
- All securities shall have a maturity from date of purchase of one year or less.
- Purchases under an agreement with a trust company, national bank or banking company to repurchase at not less than original purchase price of said securities on a fixed date shall not exceed 90 days.

### **F. Legal References**

Massachusetts General Law Chapter 44, Section 55  
Massachusetts General Law Chapter 44, Section 55A  
Massachusetts General Law Chapter 44; Section 55B

## II. The Investment of Long-term Funds

### A. Scope

This section of the IPS applies only to funds that are designated as long-term, i.e., trust funds, stabilization funds, cemetery perpetual care, and other funds the Town may have set aside for long-term use.

All accounts will be maintained separately, thereby receiving their proportionate interest and any realized and unrealized gains or losses. The account will be established as a pooled investment portfolio unless otherwise stated. Any additional accounts will be maintained in this same manner.

### B. Authority

Massachusetts General Law Chapter 44, section 54 pertains to the investment of Trust Funds. All trust funds shall fall under the control of the entity's Treasurer/Collector unless otherwise provided or directed by the donor.

### C. Investment Instruments

M.G.L. Chapter 44 section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the Commonwealth, banking companies incorporated under the laws of the Commonwealth that are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section 38A of chapter 29, or in a paid-up shares and accounts of and in cooperative banks, or in shares of savings and loan associations or in share or savings deposits of federal savings and loan associations doing business in the Commonwealth.

Additionally, the Town may invest such funds in securities, other than mortgages or collateral loans, that are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided, that not more than fifteen percent (15%) of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than one and one-half percent (1 ½%) of such funds be invested in the stock of any one bank or insurance company.

The Treasurer/Collector may invest in the following instruments:

- U. S. Treasuries that maybe sold prior to maturity: Unlimited amounts (With no limit to the length of maturity from date of purchase)
- U.S. Agency obligations that maybe sold prior to maturity. Unlimited amounts (With no limit to the length of maturity from date of purchase)
- Bank accounts or CDs: Unlimited amounts (With no limit to the length of maturity from date of purchase), which is fully collateralized through a third-party agreement:
- Bank accounts and CDs (With no limit to the length of maturity from date of purchase) fully insured by the F.D.I.C. and in some cases also by the Depository Insurance Fund of Massachusetts (D.I.F.). All bank accounts and CDs in one institution are considered in the aggregate to receive the insurance coverage limit.
- Unsecured bank deposits of any kind, such as other checking, savings, money market, or CD 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 5% of an institution's assets and no more than 25% of the Town's cash. This percentage maybe increase for not more

than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. These payments maybe for such items as debt service payments or regional school assessments. Their creditworthiness will be tracked by Veribanc or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased with no limit to the length of maturity from the date of purchase and will be reviewed frequently.

- Common and preferred stock that are listed in the List of Legal Investments.
- Investment funds that are listed in the List of Legal Investments.
- All other items not separately identified here that are listed in the List of Legal Investments.

#### **D. Standards of Care**

The standard of prudence to be used by the Treasurer/Collector shall be the "Prudent Person" standard and shall be applied in the context of managing an overall portfolio. The Treasurer/Collector acting in accordance with written procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for any individual security's credit risk or market price changes, provided the purchase and sale of the security are carried out in accordance with the terms of this IPS.

Investments shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

In addition, this section applies to M.G.L. Chapter 44 Section 55A, which refers to the liability of the Treasurer/Collector for losses due to bankruptcy.

#### **E. Diversification**

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against overconcentration of maturities, as well as concentration in a specific institution, with the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

#### **F. Legal References**

Massachusetts General Law Chapter 44, Section 54  
Massachusetts General Law Chapter 44, Section 55A  
Massachusetts General Law Chapter 44, Section 55B

Trust funds may be comingled and invested in any instruments allowed by the Massachusetts List of Legal Investments issued by the Banking Commissioner each July. Each trust fund must be accounted for separately. Chapter 44 Section 54 sets forth that Treasurer/Collectors may invest in instruments that are legal for savings banks. This list of investments is included in the List of Legal Investments, Chapter 167 Section 15A.

### III. General Provisions

#### A. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the Treasurer/Collector to invest all public funds except those required to be kept uninvested for purposes of immediate distribution.

This section also requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking into account the acceptable levels of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest reasonable return available that is consistent with safety of principal while meeting the daily cash requirements for the operation of the entity's business.

- Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to preserve 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 the choice of depository. 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.
- 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/Collector shall attempt to carry out investment activities in a manner that provides for meeting unusual or unexpected cash demands without requiring the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- 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.

#### B. Risk Tolerance

##### ➤ Credit Risk

"Credit risk" is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Town will manage credit risk several ways. There will be no limit to the amount of U.S. Treasury and U.S. Government Agency obligations. In regards to other investments, the Town will only purchase investment grade securities with a high concentration in securities rated A or better. The Town may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund. The Town may place funds in banking institutions as stated in Section C of this IPS.

##### ➤ Custodial Risk

The "custodial credit risk" for deposits is the risk that, in the event of the failure of a depository financial institution, a municipality will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Town will review the financial institution's financial statements and the background of the Advisor. The intent of this qualification is to limit the Town's exposure to only those institutions with proven financial strength, capital adequacy, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the Town will be held in the Town's name and tax identification number by a third-party custodian approved by the Treasurer/Collector and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

➤ **Concentration of Credit Risk**

"Concentration of credit risk" is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Town will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

➤ **Interest Rate Risk**

"Interest rate risk" is the risk that changes in interest rates will adversely affect the fair value of an investment.

The Town will manage interest rate risk by managing duration in the account.

➤ **Foreign Currency Risk**

"Foreign currency risk" is the risk that changes in foreign monetary exchange rates will adversely affect the fair value of an investment or a deposit.

The Town will limit investment in any instrument exposed to foreign currency risk.

## **C. Ethics**

The Treasurer/Collector (and Assistant Treasurer/Collector) shall refrain from any personal activity that may conflict with the proper execution of the investment program or that could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Board of Selectmen 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.

## **D. Relationship with Financial Institutions**

Financial institutions should be selected first and foremost with regard to their financial soundness and stability. The Town subscribes to the Veribanc Rating Service to evaluate the banking institutions with which it chooses to establish relationships. Brokers should be recognized, reputable dealers and members of the Financial Industry Regulatory Authority.

In instances where the Town does not purchase the Veribanc Rating Service, the Treasurer/Collector should request the banking institution's Veribanc rating from all of the banking institutions that are working with the Town on a quarterly basis.

When using the Veribanc Rating Service, the Treasurer/Collector may invest in banks that show a green rating in a particular quarter. If a rating is yellow, the Treasurer/Collector should contact the banking institution and request in writing an explanation of the change in rating and the expected timetable for it to be changed to green. If for a second quarter such rating is not green, the Treasurer/Collector should consider removing all funds that are not collateralized or carrying some form of depositors insurance. If a rating moves to red, all money should be immediately collateralized or covered by some form of depositors insurance or removed from the banking institution.

The Treasurer/Collector shall require any brokerage houses and broker/dealers wishing to do business with the Town to supply the following information to the Treasurer/Collector on an annual basis:

- Financial statements
- If acting as a Registered Investment Advisor, a copy of their most recent Form ADV
- Statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis

### **E. Reporting Requirements**

On a quarterly basis, a report will be prepared by the Treasurer/Collector and distributed to the Board of Selectmen, Town Administrator, and Finance Committee. This report will include the following information at minimum:

- Listing of the individual accounts and individual securities held at the end of the reporting period.
- Listing 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 IPS.
- Summaries of the income earned on a monthly basis and year-to-date basis.
- The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

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The Massachusetts Collectors & Treasurers Association's  
Annual School Handouts, Course 202  
(Modified for Sterling)

**Please note:** Since the Policy statement below was distributed at the MCTA's 46th Annual School on August 16, 2016, the Municipal Modernization Act ([Chapter 218 of the Acts of 2016](#)) modified statutes to allow investment in certificates of deposit for up to three years. This version of the statement has been updated accordingly.

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## **Other Postemployment Benefits Liability**

### **Purpose**

To ensure fiscal sustainability, this Policy sets guidelines for a responsible plan to meet the Town's obligation to provide other postemployment benefits for eligible current and future retirees. It is designed to achieve generational equity among those called upon to fund this liability and thereby avoid transferring costs into the future.

### **Applicability**

This Policy encompasses OPEB-related budget decisions, accounting, financial reporting, and investment. It applies to the Board of Selectmen and Finance Committee in their budget decision-making duties, and it also applies to the OPEB-related job duties of the Treasurer/Collector and Town Accountant.

### **Background**

In addition to salaries, the Town of Sterling compensates employees in a variety of other forms. Many earn benefits over their years of service that they will not receive until after retirement. A pension is one such earned benefit. Another is a set of retirement insurance plans for health, dental, and life. These are collectively referred to as other postemployment benefits, or OPEBs. OPEBs represent a significant liability for the Town that must be properly measured, reported, and planned for financially.

### **Policy**

The Town of Sterling is committed to funding the long-term cost of the benefits promised its employees. To do so, the Town will accumulate resources for future benefit payments in a disciplined, methodical manner during the active service life of employees. The Town will also periodically assess strategies to mitigate its OPEB liability. This involves evaluating the structure of offered benefits and their cost drivers while at the same time avoiding benefit reductions that would place undue burdens on employees or risk making the Town an uncompetitive employer.

#### **A. Accounting for and Reporting the OPEB Liability**

The Town Accountant will obtain actuarial analyses of the Town's OPEB liability every two years and will annually report the Town's OPEB obligations in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board. The Town Administrator will ensure that the Town's independent audit firm reviews compliance with the accounting and reporting provisions of this Policy as part of its annual audits and will report on these to the Board of Selectmen.

#### **B. Trust Management and Investment**

The Town has established an OPEB Trust Fund, whose Trustees delegate to the Treasurer/Collector the responsibility for investing the fund's assets and managing its associated bank account and any subaccounts. The Treasurer/Collector will manage the OPEB Trust Fund in conformance with the Town's investment Policy and the state's prudent investor laws. The Trustees will maintain oversight of the fund by reviewing and advising on the banking and investment activity.

The Treasurer/Collector will invest the fund's assets for the primary purpose of enhancing the value of the fund while minimizing the risk of large losses. On an annual basis, the Town will analyze its option to invest the OPEB trust with the State Retiree Benefits Trust Fund.

### **C. Mitigation**

On an ongoing basis, the Town will assess healthcare cost containment measures and evaluate strategies to mitigate its OPEB liability. The Town Accountant will monitor proposed laws affecting OPEBs and Medicare and analyze their impacts. The Treasurer/Collector will regularly audit the group insurance and retiree rolls and terminate any participants found to be ineligible based on work hours, active Medicare status, or other factors.

### **D. OPEB Projected Liabilities and Funding Strategies**

The Sterling Selectmen recognize the critical nature of the OPEB liability as it related to the long-term fiscal stability of Sterling. In order to reasonably and responsibly address this issue, the Selectmen, in conjunction with the Finance Committee, have established a goal to fully fund the OPEB liability over a 30-year period. The Town will derive funding for the OPEB trust fund from taxation, free cash and any other legal forums. A major source of additional funding will be the savings derived from eliminating the pension liability projected to occur in 2035. In FY19 Sterling will contribute \$733,175 (9.62% increase) to the pension liability. This amount will substantially increase until 2035.

Working with the Actuaries who complete the biannual valuations, the actuarially determined contribution (ADC) will be determined spread over a 30-year period and will factor in the projected pension savings.

An OPEB line item, as with pensions, will be established with the ADC serving as the target amount. It is recognized that achieving this amount will be very difficult and require many years. This difficulty will pale in comparison to the wall of debt future taxpayers face if strategic action is not taken.

### **E. Additional Actions**

- Implement a pre-funding plan for new positions where expenses are accounted for as they are earned.
- Require Sterling Water and Light Departments to present a plan to fully fund their OPEB liability from their respective Enterprise accounts.
- Request the Superintendent of the Wachusett Regional School District to include OPEB as part of their annual budget presentation. Their OPEB liabilities will ultimately fall on the five district towns.

- The Town Administrator will identify a "go to" resource for OPEB. This supports the notion that OPEB is a complex issue requiring a special skill set. The resource will advise the Town of details of the Actuary Study and what steps the town should consider to address the Town's OPEB liability.
- The Finance Committee will include OPEB as part of its annual fiscal overview at the annual Town Meeting. Status report will chart our progress toward fully funding OPEB.
- The Massachusetts Legislature significantly restricts the abilities of cities and towns to manage their increasing OPEB liabilities. Selectmen/Fincom will meet with local legislators to discuss and advocate for legislative relief (House Bill 59)

**REFERENCES**

[M.G.L. c. 32B, § 20](#) and [20A](#)

[M.G.L. c. 44, § 54](#) and [55](#)

[M.G.L. c. 203C](#)

Sterling Investments Policy

GASB Statements 75: [\*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions\*](#) and 74: [\*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans\*](#)

Government Finance Officers Association Best Practices: [\*Ensuring Other Postemployment Benefits \(OPEB\) Sustainability\*](#) and [\*Sustainable Funding Practices for Defined Benefit Pensions and Other Postemployment Benefits \(OPEB\)\*](#)

**EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## Procurement Conflict of Interest

### Purpose

To ensure integrity in the procurement and contract processes, to educate Town employees, consultants, uncompensated outside parties, and any other person involved in decisions to award contracts about potential conflicts of interests, and to establish a process for the screening of conflicts of interest.

### Applicability

The Policy pertains to all the Town's procurement and contract processes governed under the provisions of the state's Uniform Procurement Act associated with, but not limited to: specification development, preparation and issuance of solicitations, evaluation of solicitations and submissions, and other evaluations that lead to Town contract awards. The Policy applies to the job responsibilities of the Town Administrator (as Sterling's chief procurement officer) and to the related duties of the Town Accountant. It further applies to all Town employees, officials, and others working on the Town's behalf who are involved with any procurement and contract process and to the prospective contractors.

### Policy

The Town is committed to ethical business practices, professional integrity, and compliance with all procurement laws and regulations. Sterling will provide fair opportunities to participants in competitive processes for the award of Town contracts. Process integrity will be reinforced by the practices outlined here to ensure confidentiality during the bid evaluation process and to assess and address conflicts of interest in all competitive solicitations. The Town will investigate all allegations of conflict of interest or misconduct brought to the attention of Town staff.

To comply with the state's [Uniform Procurement Act](#), any purchase for supplies or services ([with certain exceptions](#)) costing more than \$10,000 requires solicitation of three written quotes for contracts and those over \$50,000 require competitive sealed bids or proposals for contracts. No quote or bid process is required when procuring supplies or services from vendors that are under state contracts or involved in regional cooperative purchasing agreements.

#### **A. Confidentiality during the Bid Evaluation Process**

Town staff, consultants, and outside evaluators who are participants in a bid evaluation process are required to sign confidentiality agreements, which bind them not to share any information about responses received and the evaluation process until the Town issues a Notice of Intended Award.

The departmental purchasing employee must:

1. Identify all participants of an evaluation process who receive proposals or other documents used in the evaluation process, including any non-evaluating observers.
2. Ensure that these participants sign confidentiality agreements.
3. Submit the confidentiality agreements to the Town Administrator.

The Town Administrator must:

1. Verify that signed confidentiality agreements for all participants in the evaluation process, including non-evaluating observers, are submitted.
2. Maintain signed confidentiality agreements on file.

#### **B. Conflict of Interest in Procurement**

To ensure decisions are made independently and impartially, Town employees and officials are expected to avoid any conflicts of interest and also avoid the appearance of conflicts of interest. A conflict of interest, or the appearance of one, must be disclosed whenever a vendor, employee, or officer has, or can reasonably anticipate having, an ownership interest, a significant executive position, or other remunerative relationship with a prospective supplier of goods or services to the Town or knows that a family member or other person with whom they have a personal or financial relationship has such an interest.

According to the federal Office of Management and Budget's Omni Circular, a conflict of interest arises when: *"the employee, officer, or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in or a tangible personal benefit from a firm considered for a contract."*

And it states that: *"The officers, employees, and agents of the non-federal entity must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts."*

The Omni Circular further requires that for any federal grant involving a parent, affiliate, or subsidiary organization that is not a state or local government, the Town must also maintain written standards of conduct covering organizational conflicts of interest. An organizational conflict of interest means that due to a relationship with a parent company, affiliate, or subsidiary organization, the Town is unable or appears to be unable to be impartial in conducting a procurement action involving the related organization.

Any persons with conflicts as described above shall not participate in the preparing of specifications, qualifying vendors, selecting successful bidders on products or services in which they have an interest, or approving payment to those interests. The only exception to this arises if the person makes full disclosure of a potential conflict and receives an advance, written determination from the State Ethics Commission that the interest is not so substantial as to be deemed likely to affect the integrity of the services the Town may expect from that individual.

Department heads and other officials are required to ascertain and disclose to the Town Administrator any potential conflict of interest affecting procurement transactions before a contract is signed, a commitment made, or an order placed. The Town Administrator will then notify the Town Accountant, who will verify the availability of funds before any order is placed with a vendor.

The following measures will be taken to ensure the Town avoids any conflicts of interest in procuring Town contracts:

1. Employees, officials, and others who regularly participate in contract activities on behalf of the Town must disclose relevant financial interests as required by state and federal laws and to annually review those statements in conjunction with this Policy and other ethical standards.
2. Other persons involved in procurements must review this Policy and other ethical standards and provide information in order to determine if there is a conflict of interest. Such persons shall include, but are not limited to, authors of specifications; paid and unpaid evaluators; and paid and unpaid consultants who assist in the procurement process.
3. If a possible conflict of interest is identified, it must be documented and reviewed with Town Counsel.

The departmental purchasing employee must:

1. Identify employees, consultants, outside uncompensated parties, and any other persons who will be involved in a procurement or contract activity, such as specification development, preparation and issuance of solicitations, evaluation of solicitations or submissions, or other evaluations, that will lead to an award of contract.
2. Provide conflict of interest forms to the identified participants.
3. Submit the completed forms to the Town Administrator prior to commencing any procurement or contract activity.

The Town Administrator must:

1. Review the submitted forms for potential conflicts of interest.
2. Discuss any potential conflicts of interest with the Town Counsel and document the resulting determinations.
3. Provide the Board of Selectmen with the documented result.
4. If a conflict or the appearance of one exists, take appropriate actions, including but not limited to, removal of the employee, consultant, or outside uncompensated party from the procurement activity or cancelation of the solicitation.

### **C. Compliance Reviews**

The Town Accountant will conduct random reviews of compliance with this Policy. All procurement activities are also subject to audit by the Town's independent Auditor.

### **REFERENCES**

[M.G.L. c. 30B](#)

[M.G.L. c. 41, § 57](#)

[M.G.L. c. 268A](#)

State Ethics Commission's webpage [Disclosure Forms for Municipal Employees](#)

Inspector General's webpage [Procurement Assistance](#)

U.S. Office of Management and Budget, December 2013 [Omni Circular](#)

### **EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## **Reconciliations**

### **Purpose**

To ensure transactions are in balance, to mitigate fraud, and to safeguard general ledger accuracy, financial officers must conduct regular reconciliations of their accounting records, and these must be reconciled to the general ledger. Although each financial officer is responsible for maintaining independent records of his or her office's transactions, they are also collectively accountable for the overall accuracy of Sterling's financial records. Failure to reconcile cash, receivables, and withholdings hampers the Town's ability to produce reliable reports, close its books, make timely submissions to the Division of Local Services (DLS), and complete audits. In addition, unresolved variances reduce the amount of certified free cash and may result in significant deficiency findings by the independent auditor.

### **Applicability**

This Policy applies to the Town Accountant, Treasurer/Collector, their designees (if any), and all departments that use special revenue funds or have accounts receivable responsibilities (e.g., Water, Police, Fire, etc.).

### **Policy**

The Treasurer/Collector and all department heads with accounts receivable duties will internally reconcile their respective accounting records and subsequently reconcile them with the Town Accountant according to the guidelines and periodic time frames outlined in this Policy.

#### **A. Cashbook Reconciliation**

To ensure an accurate accounting of all revenue activity, the Treasurer/Collector will maintain a cashbook that reflects up-to-date and accurate information for all cash and assets. To do so, the Treasurer/Collector will make certain that all cash receipts, disbursements, transfers, and interest are recorded in the cashbook within three business days of each transaction and will reconcile cashbook accounts to their corresponding bank accounts within ten days of receiving bank statements. These will include zero-balance vendor and payroll bank accounts, whose balances must equal the outstanding checks at the end of any month.

The Treasurer/Collector will identify all reconciling items, including deposits in transit, bounced and voided checks, and discrepancies between the cashbook and financial institutions, and will correct them when appropriate. The Treasurer/Collector will then forward to the Town Accountant a summary of the reconciled cashbook balances (i.e., Schedule of Treasurer/Collector's Cash) and, when needed, a Schedule of Receipts for any adjustments made.

#### **B. Payroll Withholdings Reconciliation**

Payroll withholdings include federal and state taxes, child support and other wage assignments for legal obligations, deferred compensation, optional insurances, association dues, and other employer-sponsored options, which are all itemized in separate general ledger accounts. At the conclusion of each pay cycle, the Treasurer/Collector forwards a summary report and electronic file of employee and employer withholdings to the Town Accountant to be recorded in the general ledger.

To reduce the risk to the Town for liabilities in excess of withholdings, the Treasurer/Collector will conduct a monthly reconciliation of the payroll withholdings to their corresponding accounts payable and identify any discrepancies. The Treasurer/Collector will provide the results of these activities to the Town Accountant to make any necessary changes or adjustments.

### **C. Accounts Receivable Reconciliation**

Accounts receivable are outstanding monies owed to the Town, whether from committed bills (i.e., taxes, excises, water charges) or from uncommitted department invoices (e.g., police details). To ensure these assets are accounted for and balanced, the Treasurer/Collector, the deputy Treasurer/Collector, and any department head with accounts receivable duties (each referred to here as “record-keeper”) will make certain that all cash receipts are recorded timely, maintain a control record for each receivable type and levy year, and verify the detail balance agrees with the receivable control.

The receivable control is a record of original entry in which the record-keeper reduces a commitment according to collections, abatements, and exemptions and increases it by refunds issued. To maintain accuracy, the record-keeper must review the detailed list of receivables, identify credit balances as prepaid amounts or investigate them for possible correction, and reconcile the control balance to the detail.

Whenever these records do not agree, the record-keeper must determine the discrepancy by:

- Verifying the various transactions (commitments, abatements, refunds, chargebacks) against their supporting documents
- Comparing the total amount of posted payments to the turnovers accepted by the Treasurer/Collector
- Determining whether any revenues were incorrectly recorded as payments to the commitment, such as interest and fees

The record-keeper will forward a copy of the internally reconciled accounts receivable balances to the Town Accountant. For the Treasurer/Collector, this is the Schedule of Outstanding Receivables.

### **D. Special Revenue Reconciliation**

Governed by various state statutes, special revenue funds are specific revenues segregated from the general fund and earmarked for specific purposes. They include gifts and grants from governmental entities, individuals, and organizations; revolving funds; and receipts reserved for appropriation. To ensure these funds are balanced, department heads with responsibility for special revenue funds will verify that all revenues turned over to the Treasurer/Collector, expenditures authorized for payment by the Town Accountant, and properly authorized transfers are recorded for the period. These department heads will subsequently provide the Town Accountant with reconciliation reports on the funds.

### **E. General Ledger Reconciliation**

To achieve the core objective of maintaining the general ledger’s integrity, the Town Accountant must regularly reconcile it with the separately maintained accounting records outlined in Sections A – D



above. In addition, it is the Town Accountant's responsibility to review all accounts analytically from time to time for reasonableness and to identify unusual activity.

The general ledger's cash accounts should reflect only those transactions reported to the Town Accountant by the Treasurer/Collector, so that in theory, the general ledger should be in balance with the cashbook. However, errors may occur due to omitting transfers or transactions or applying them in the wrong amounts or to the wrong accounts. Whenever the Town Accountant identifies a discrepancy between the general ledger and the cashbook, the following steps must be taken in conjunction with the Treasurer/Collector to determine the cause:

- If the total amount of revenue reported in the cashbook does not agree with the amount recorded in the ledger for that month, the Treasurer/Collector must verify that the monthly Treasurer/Collector's Schedule of Receipts agrees by detailed amount and classification with the cashbook and correct any errors.
- Compare the total amount of warrants paid during the month as recorded in the cashbook with the total recorded in the ledger for the same period. The last warrant paid must be the last one recorded; otherwise, a timing problem will create a discrepancy.
- If the records still do not agree, the Treasurer/Collector and Town Accountant must trace each entry to the ledger until the variance is determined.

The Town Accountant will review the payroll withholdings reconciliation report provided by the Treasurer/Collector against the general ledger and make corrections to the ledger as needed.

All receivable records must also be reconciled to the Town Accountant's general ledger. If a given receivable control has been internally reconciled, any discrepancy must be in the general ledger, so the Town Accountant must:

- Review the commitments, charges, payments, abatements, refunds, reclassifications, and adjustments in the general ledger, as appropriate for the particular control.
- Verify whether receipts are recorded to the correct type and levy year.
- Verify the dates that activities were recorded.

The Town Accountant's receivable accounts in the general ledger should reflect the transactions provided by each particular record-keeper. Therefore, the above steps must resolve any discrepancies between the receivable control and the ledger. If they do not, the record-keeper and Town Accountant must trace each ledger entry until they determine the reason for variance.

The Town Accountant will verify that all special revenue fund reconciliations match the general ledger. The responsible department head and Town Accountant must research any discrepancy, and correct the record(s) as appropriate.

## **F. Time Frames and Documentation**

Employees subject to this Policy will complete reconciliations of their internal accounting records early each month so that subsequent reconciliations to the general ledger take place no later than the 15<sup>th</sup> of the month following the one being reconciled. At each quarter-ending month, the Town Accountant will extend the cash reconciliation process to individually reconcile every general ledger

account that directly corresponds to a specific bank account (e.g., stabilization funds, trust funds, guarantee bond deposits).

Each general ledger reconciliation will be documented by a worksheet cosigned by the two parties. If, at that time, any variance has not yet been fully resolved, this must be noted, along with a work plan and timetable for resolution. The Town Accountant will collectively submit the reconciliation worksheets to the Town Administrator at each month's end.

#### **G. Audit**

All reconciliation activities are subject to audit by Sterling's independent auditor.

#### **REFERENCES**

DLS Best Practice: [\*Reconciling Cash and Receivables\*](#)

Massachusetts Collectors & Treasurers Association: [\*Treasurer's Manual\*](#) and [\*Collector's Manual\*](#)

Sterling Revenue Turnover Policy

#### **EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## **Revenue Turnover**

### **Purpose**

To safeguard Town assets and maximize cash flow, this Policy provides guidelines for departments to turn over receipts to the Treasurer/Collector. Included are details of internal controls designed to provide reasonable assurance that the Town's revenues are properly and timely secured, recorded, and deposited in Town bank accounts.

### **Applicability**

This Policy pertains to all cash, check, credit card, and other forms of payment received by all Town departments for taxes, excise, fees, charges, and intergovernmental receipts. It applies to the individuals within each department assigned responsibility for handling payments. It further applies to the Town Accountant's duty to keep the general ledger up to date.

### **Policy**

The head of each department that receives payments is responsible for instituting and employing internal controls designed to ensure that all receipts are recorded accurately, kept secure from loss or theft, and turned over timely to the Treasurer/Collector. The Town Administrator will ensure surety bonds are maintained for all individuals responsible for handling payments to indemnify the Town from potential lost revenue. Each department will turn over at least weekly and sooner than that when receipts total \$1,000 or more. At month-end, departmental staff will turn over all revenues no later than 11:00 am on the last business day of the month. All cash management activity is subject to review by the Town Accountant and independent auditor.

#### **A. Receiving Payments**

Using pre-numbered receipt books, assigned departmental staff must issue a receipt for every payment received, even when the payer attempts to refuse it. All departments must identify the forms of payment (check, cash or credit card) in their receipt books. Every staff person who receives any check will immediately endorse it "For Deposit Only" using a stamp or by handwriting. Every department receiving payments shall secure them in a locked cashbox or safe until completing a turnover to the Treasurer/Collector.

#### **Senior Center Cash Payments**

Many of the senior center's daily activities and programs charge a minimal fee, which is generally paid in cash at the time of the event. All cash funds are to be collected using envelopes marked for the specific program, amount of funds counted and number of attendees noted on the envelope with the initials of the counter. The envelope is turned over to the Director who will also count and verify the amount of funds.

Each department head is responsible for overseeing the processing, recording, record retention, and turning over of receipts to the Treasurer/Collector. To the extent practicable, separate individuals should be tasked with: 1) receiving and endorsing payments, 2) recording payments in the departmental log, and 3) turning receipts over to the Treasurer/Collector.

## **B. Turning Over Revenues**

Departmental staff will fill out a standard Schedule of Departmental Payments (i.e., the turnover form), obtain the department head's signature on the form, and make two copies of it. All receipts should tie back to the numbered receipt book, the turnover form, and the receipts summary reports maintained by the department head. Departmental staff will deliver the turnover in person. At no time will an employee leave a turnover in the Treasurer/Collector's office unattended.

Every day, the Treasurer/Collector will complete an internal turnover of all collections processed during that period for taxes and other committed receivables. This will consist of a SoftRight report showing all the collections summarized by receipt type, which must reconcile to the bank deposits for the same period.

When the Treasurer/Collector's office has accepted the turnover, the department employee will receive back two copies of the turnover form signed by a Treasurer/Collector staff member. The department employee will retain one turnover copy on file and is responsible for delivering the other to the Town Accountant. The Town Accountant will refuse to accept any turnover that does not have a Treasurer/Collector staff member's signature.

The head of every department that receives payments will review the Town Accountant's monthly revenue reports to verify all turned over receipts have been accurately recorded in the appropriate general ledger accounts and report any discrepancies to the Town Accountant.

## **C. Receiving Turnovers**

When presented with the turnover, Treasurer/Collector staff will count the receipts in the presence of the authorized department employee. Any inaccuracies on the turnover form will be corrected then and initialed by both parties. The Treasurer/Collector staff member will then sign two turnover copies and give them to the departmental employee.

Within 24 hours of receiving the turnover, Treasurer/Collector staff will post the receipt data in the SoftRight Treasury Receipts module. At the close of business each day, the Treasurer/Collector will review the SoftRight postings, turnover documents, and receipts, accept the receipts into the SoftRight Cashbook, create a deposit package, and deposit the revenues at the bank. Until the deposit is completed, Treasurer/Collector staff will ensure that all receipts are secured at all times, either in a cash drawer, or if being held overnight, in a safe.

The Town Accountant will compare the turnover documents received from departments with the postings in SoftRight's Treasury Receipts module and contact the Treasurer/Collector about any documentary discrepancies. The Town Accountant will then accept the verified SoftRight receipt batches, which posts them to the general ledger.

## **D. Insufficient Funds**

Upon notification from the bank of an insufficient check or an invalid or otherwise unpaid electronic funds transfer (EFT), the Treasurer/Collector will enter a negative deposit to the original revenue account in SoftRight's Treasury Receipts module and notify the department that made the turnover.

The Treasurer/Collector will also make a reversal entry in the SoftRight Cashbook, assigning it to the appropriate bank account.

The Treasurer/Collector will notify the issuer in writing of the bounced check or rejected EFT. Payment of the original amount plus a \$25.00 penalty is due in 10 days and must be in the form of cash, money order, or certified check.

It is the department head's (or designee's) responsibility to follow up on collecting the amounts owed. If the payment was for a license or permit, the department will suspend the license or permit until the original amount and penalty have been paid. If it was for a committed receipt (e.g., tax bill), the commitment will be reinstated by the appropriate official and the usual collection procedures followed.

#### **E. Reconciliation**

In accordance with the Town's Reconciliations Policy, the Treasurer/Collector will reconcile the SoftRight Cashbook with bank statements and provide a summary of cashbook balances to the Town Accountant monthly.

#### **F. Audit**

All cash management activity is subject to review by the Town Accountant and Sterling's independent auditor.

#### **REFERENCES**

[M.G.L. c. 41, § 35](#)

[M.G.L. c. 41, § 57](#)

[M.G.L. c. 44, § 69](#)

[M.G.L. c. 60, § 57A](#)

Sterling Reconciliations Policy

Massachusetts Collectors & Treasurers Association's [Treasurer's Manual](#) and [Collector's Manual](#)

#### **EFFECTIVE DATE**

This Policy was adopted on November 14, 2018.

## **Tax Enforcement**

### **Purpose**

To provide guidance for equitably enforcing tax obligations and set expectations for both the Town and taxpayers, this Policy clearly defines when and how the Town will transition unpaid property taxes from tax title through to foreclosure. It is in the best interest of the Town of Sterling and its residents that property taxes be paid when due. The Town budget is set in anticipation of the collection of taxes, and taxes not paid by some property owners shift the cost burden onto others. The Town recognizes that individuals may go through periods of financial difficulty, but any taxpayer who becomes delinquent will be encouraged to find alternative resources to pay in full as soon as possible.

### **Applicability**

This Policy applies to the job duties of the Treasurer/Collector, including the responsibility for managing services contracted through the Town's tax title attorney, Coppola & Coppola. Tax enforcement applies to all Sterling real estate property owners whose taxes or water charges are not exempt.

### **Policy**

The Town intends to timely pursue all legal methods to collect taxes from delinquent property owners with the aim of achieving a target 98 percent property tax collection rate by fiscal year-end. A tax delinquency is defined as a bill outstanding at least one year and one day after its final due date, and it represents a lien on property that remains in effect until all taxes, interest, and fees have been paid in full. The costs of all collection methods are added to the real estate tax bill and property lien.

#### **A. Demands**

Final taxes are due to be paid as of May 1 each year (the due date for the fourth quarter tax bill). No later than June 15th, the Treasurer/Collector will issue demand notices to all assessed property owners who have failed to pay in full, have not been granted full exemptions, and do not have automatic stays on record due to bankruptcy filings.

#### **B. Tax Taking**

The Treasurer/Collector will begin the tax taking process within 60 days of the demand notice. State law allows the process to begin as soon as 15 days after the demand, but, in every case, the Treasurer/Collector must complete the takings within 3½ years from the end of the fiscal year for which the taxes were assessed to secure, or perfect, the tax liens. The Treasurer/Collector shall carefully document the taking process to preserve the Town's rights for future actions.

The Treasurer/Collector will send at least one enforcement letter to delinquent property owners as a courtesy to potentially avoid a tax taking advertisement. If this does not result in full payment by September 1 the Treasurer/Collector will publish a Notice of Tax Taking in one local newspaper and post the notice in two or more convenient, public places. The Town customarily publishes in The Landmark or its future replacement. In addition, the Treasurer/Collector posts notices on bulletin boards at Sterling Town Hall – Municipal Building, the library, and the Town web page. From this point forward only cash, certified check, or cashier's check are acceptable forms of payment.

Within 60 days of the tax taking announcements, the Treasurer/Collector will prepare an Instrument of Taking form for each delinquent property and record it at the Registry of Deeds, the recording of which perfects the tax lien. After receiving the recorded Instruments back from the Registry, the Treasurer/Collector will notify the affected property owners of the liens by sending each of them a letter and a photocopy of the Instrument. The Treasurer/Collector will provide copies of the List of Recorded Takings to the Town Accountant and Town Administrator.

### **C. Subsequent Taxes**

After the demand bill and before June 15 each year, the Treasurer/Collector will certify all unpaid taxes for parcels of real estate taken into tax title for nonpayment of taxes in prior years and not yet redeemed and put them in a Subsequent Tax Takings Form. The Treasurer/Collector will provide copies of the form to the Town Accountant and Town Administrator and retain one on file.

### **D. Interest, Fees, and License Revocation**

All delinquent taxpayers are subject to charges, which the Treasurer/Collector will add to their accounts and tax bills. These include interest accrued to the date of tax taking, advertising fees, certified mailing costs, legal fees, and all recording fees.

The Treasurer/Collector will provide a listing of all individuals who are delinquent in paying taxes or other charges to the Town departments, boards, and committees that issue licenses and permits in accordance with the Town bylaw. These authorities will review the list to deny, suspend, or revoke delinquent taxpayers' licenses and permits.

### **E. Tax Title Payment Agreements**

**This section is subject to the adoption of a tax title payment agreement bylaw, [M.G.L. c. 60, § 62A](#).**  
{Required text approved at May 2018 ATM Article 22 Tax Title payment Agreements...}

The Treasurer/Collector will pursue and establish payment agreements for parcels in tax title to allow delinquent taxpayers to pay off their tax liens over time. The Treasurer/Collector will actively monitor compliance with all agreements, which will have the following features in common:

- Signed agreement between the Treasurer/Collector and taxpayer
- Upfront payment of at least 25 percent of full balance owed
- Specific amount to be paid each month
- Incorporation of payments for the current tax bill
- Agreement term not exceeding five years
- Statement that defaulting on the agreement will immediately trigger foreclosure action by the Town

For taxpayers who fully comply with their payment agreements, the Treasurer/Collector may waive 50 percent of the interest accrued on their tax title accounts.

## F. Redemption or Foreclosure

The primary Policy goal of the foreclosure process is to receive the outstanding amounts owed. At least once every year, the Treasurer/Collector will review all tax title properties that are older than 180 days and do not have payment agreements or bankruptcy recordings. From these, the Treasurer/Collector will identify all properties of significant value to process for potential foreclosure in Land Court. To do this, the Treasurer/Collector will thoroughly verify the properties' enforcement histories before referring them to the tax title attorney, beginning with those having the largest dollar value of taxes owed.

As manager of the service contract, the Treasurer/Collector will ensure the tax title attorney complies with the objectives laid out in this Policy section. The Treasurer/Collector will work with the tax title attorney to prepare parcels in tax title status for foreclosure, beginning by providing each Instrument of Taking. The tax title attorney will research the tax title properties and also mail new collection enforcement letters to the taxpayers telling them of the importance of redeeming the property and warning of potential foreclosure action.

If a taxpayer or other party pays the outstanding amount on a tax title property, the Treasurer/Collector will prepare an Instrument of Redemption and file it at the Registry of Deeds, which removes the lien. Redemption can only be done prior to the property being foreclosed. If the obligation remains unpaid, the tax title attorney will proceed with foreclosure action in Land Court, possibly resulting in auctioning of the property.

In addition to Land Court foreclosure referrals, the Treasurer/Collector is responsible for completing foreclosures on any properties below the "Land of Low Value" threshold, which is annually updated each spring by the Division of Local Services (DLS).

## REFERENCES

<a href="#">M.G.L. c. 60, § 6</a>	<a href="#">M.G.L. c. 60, § 16</a>	<a href="#">M.G.L. c. 60, § 50</a>	<a href="#">M.G.L. c. 60, § 53</a>
<a href="#">M.G.L. c. 60, § 54</a>	<a href="#">M.G.L. c. 40, § 57</a>	<a href="#">M.G.L. c. 60, § 61</a>	<a href="#">M.G.L. c. 60, § 62</a>
<a href="#">M.G.L. c. 60, § 62A</a>	<a href="#">M.G.L. c. 60, § 63</a>	<a href="#">M.G.L. c. 60, § 76</a>	<a href="#">M.G.L. c. 60, § 77</a>
<a href="#">M.G.L. c. 60, § 79</a>	<a href="#">M.G.L. c. 60, § 80</a>		

DLS Best Practice: [Enforcing Collections](#)

DLS Informational Guideline Releases 05-208: [Payment Agreements and Tax Receivable Assignments](#) and [Land of Low Value Foreclosure Valuation Limit](#) updated annually

Massachusetts Collectors & Treasurers Association: [Treasurer's Manual](#) and [Collector's Manual](#)

## EFFECTIVE DATE

This Policy was adopted on November 14, 2018.



## **Tax Recapitulation**

### **Purpose**

To ensure the Town timely and appropriately charges taxes to property owners in support of the annual budget, this Policy sets forth the roles, responsibilities, and deadlines associated with the tax recapitulation (i.e., “tax recap”) process. A timely and accurate annual tax recap helps ensure the Town complies with state statutes, prevents workflow disruptions in its financial offices, and avoids any temporary borrowing costs associated with cash shortfalls.

### **Applicability**

This Policy applies to the Board of Selectmen and Town Administrator in their Policymaking and management responsibilities and to the Board of Assessors in its role as principal overseer of the tax recap process. It also applies to the related job duties of the Town Accountant, Regional Assessor, Treasurer/Collector, and Town Clerk.

### **Background**

The property tax levy is Sterling’s largest source of revenue, which therefore makes the tax recap a vital component of the Town’s fiscal operations. The Assessing Department oversees two core phases: property valuation and tax rate setting. However, the full process begins with town meeting, involves many other local officials, and requires careful management, teamwork, and cooperation.

The tax recap forms and schedules present the Town’s annual budget plan for the fiscal year. They summarize all appropriations made by town meeting since the previous year’s tax rate was set and identify all non-property-tax revenue sources, such as state aid, local receipts, and reserves. The difference between these sources and the total budgeted appropriations must be raised through the property tax levy. By completing the tax recap and submitting it to the Division of Local Services (DLS) for approval, the Town establishes its property tax levy and sets the tax rate for the year. The Town may issue actual tax bills only after DLS reviews the recap and approves the tax rate.

### **Policy**

At the Town Administrator’s direction, Sterling’s financial team will annually complete the tax recap process no later than November 30. The Treasurer/Collector will print and mail the actual tax bills no later than December 31. The Town Administrator will develop a realistic plan and timetable to meet these deadlines and keep the Board of Selectmen apprised of progress.

#### **A. Preparation and Town Meeting**

A successful tax recap process starts with a balanced annual budget, valid funding sources, and proper town meeting actions, which will be accomplished as follows:

- The Board of Selectmen, through the Town Administrator and Town Counsel, will assure the production of a properly written town meeting warrant, such that town meeting voters, under the Town Moderator’s oversight, can properly authorize annual budget appropriations that are funded by specific revenue sources (e.g., raise and appropriate, free cash, stabilization).
- The Board of Selectmen will ensure that any annual increase in the tax levy does not exceed the maximum amount allowed under Proposition 2½.

- The Town Accountant, Town Administrator, and Board of Selectmen will verify that the proposed budget is balanced.
- The Town Accountant will prepare a schedule of funds available for appropriation by town meeting.
- The Treasurer/Collector and Town Counsel will ensure any debt issuance authorizations are proper.
- The Board of Selectmen will ensure that any proposal for a general override, debt exclusion, or capital exclusion is properly presented in the town meeting warrant and, if passed, put to a town-wide referendum.

Whereas the budget is typically adopted at the spring town meeting, all appropriations and borrowings approved at this or other town meetings not recorded in the previous tax rate must be included in the current tax recap process.

### **B. Recording Legislative Actions**

To allow time for any required corrective measures, the following tasks will be completed within two weeks after town meeting:

- The Town Clerk will certify all appropriations approved since the last tax rate was set.
- The Town Accountant will reconcile all votes and authorized amounts.
- The Town Clerk, with the Town Accountant's assistance, will enter all town meeting appropriation votes by article into the DLS Gateway system (page 4 of the tax recap).
- From the certified town meeting authorizations, the Town Accountant will complete the following Gateway forms:
  - enterprise receipts and appropriations (Schedule A-2)
  - revolving funds (Form A-3)
  - free cash used (Form B-1)
  - available funds used (Form B-2)
- If applicable, the Treasurer/Collector will prepare the debt exclusion report, including any use of reserved bond premiums (Form DE-1), and report any reserved bond premium amounts used as funding sources (Form B-2).
- In accordance with Sterling's Indirect Cost Allocation Policy, the Town Accountant will include all of the Water and Light Departments' indirect costs appropriated in the general fund in part 2. b. of Schedule A-2.

### **C. Tax Recap Entries done after the Fiscal Year-end Closing**

Within two weeks of closing the books for the fiscal year, the Town Accountant will continue completing the tax recap by:

- Reporting and documenting all deficits or other expenditures that must be funded, including debt and snow and ice (page 2 of the tax recap)
- Recording the actual amounts received for each type of local receipt (page 3, column (a) of the tax recap and column (a) section 1 on Schedule A-2)
- Entering estimated local receipts using the revenue projections from the final budget approved at town meeting (page 3, column (b) of the tax recap and column (b) section 1 on Schedule A-2 )

**D. Property Value Certification**

Assessors must value all taxable real and personal property and must classify each property into one of four classes (residential, open space, commercial/industrial, or personal) based on use as of January 1. To do this, the Assessor, currently RRG will:

- Complete the property sales report (Form LA-3) for all sales over \$1,000 and submit it to DLS for approval.
- Analyze market conditions and set final property values in compliance with DLS certification standards.
- Report the total assessed valuation for real and personal property by class (Form LA-4, which is transferred to page 1 of the tax recap).
- Report fiscal year tax base growth used to determine the levy limit under Proposition 2½ (Form LA-13, which is transferred to the Levy Limit Worksheet).
- Update any prior-year omitted and revised assessments that included growth (Form LA-13A, which is transferred to the Levy Limit Worksheet).

The Assessor will submit the above forms to DLS for review and certification.

**E. Tax Rate Setting**

After DLS has certified property values, the Board of Selectmen will hold a public hearing to decide tax Policy. At this classification hearing, the Board of Selectmen may vote for a single tax rate, which thereby allocates the tax levy proportionately across all property classes, or for a shift of the tax burden between the four classes. Leading to this hearing, the following must be completed:

- The Assessor and Town Accountant prepare an overlay analysis (Form OL-1).
- The Board of Assessors estimates and votes the amount of overlay to raise.
- The Board of Assessors prepares a financial analysis of the various tax alternatives.
- The Board of Selectmen votes on residential, small commercial, and open space exemptions.
- The Board of Selectmen acknowledges excess levy capacity (Form LA-5).
- The Town Clerk attests to notice having been given to taxpayers regarding the public hearing (Form LA-5).

**F. Review and Submittal to DLS**

The Board of Assessors, working through the Regional Assessor, is responsible for submitting all forms and supporting documents to DLS for tax rate approval. To do this:

- The Assessor, currently RRG and Town Accountant will review all schedules, verify signatures, and verify that all proper documents are attached.
- The Town Accountant will ensure that all budget authorizations are represented and clearly reconcile to the amounts reported in the tax recap schedules.

**G. Tax Commitment Creation**

After DLS notifies the Town that the tax rate has been approved, the Assessor will create a tax commitment list and warrant duly signed by the Assessing Board members and refer it to the Treasurer/Collector to generate the actual tax bills.

**REFERENCES**

DLS Training Publications: [\*New Officials Financial Handbook\*](#) and [\*Assessors Course 101 Handbook Chapter 5: Setting the Tax Rate\*](#)

Sterling policies on Forecasting, Indirect Cost Allocation, and Year-end Closing

**EFFECTIVE DATE**

This Policy was adopted on November 14, 2018

## Year-End Closing

### Purpose

To ensure local officials have accurate financial data in adequate time to make necessary budgetary decisions, the Town must properly close its books promptly after the fiscal year ends. Failure to adhere to a timely schedule delays the completion of closing entries, trial balances, reconciliations, account analyses, and financial reporting. As an important reserve, the Town's annual free cash cannot be certified expeditiously and accurately unless applicable employees adhere to best practice year-end schedules and procedures. To meet these objectives, this Policy specifies the tasks that must be completed, their associated deadlines, and the parties responsible.

### Applicability

This town-wide Policy applies to the responsibilities of all department heads in managing and reporting on their budgets and assets. It further applies to the related year-end compilation, reconciliation, and/or oversight duties of the Town Administrator, Town Accountant, and Treasurer/Collector. Additionally, it pertains to the budget transfer authority of the Board of Selectmen and Finance Committee.

### Policy

The Town Administrator will hold every department head accountable for timely and accurately completing the year-end tasks applicable to each as outlined in this Policy.

Annually no later than May 15, the Town Accountant will email this Policy to all department heads as a reminder of year-end expectations. The Town Accountant will subsequently oversee the coordination of the various year-end task components under the time frames and procedures outlined below. All facets of the Town's year-end closing detailed here will be accomplished no later than October 31 each year.

#### **A. Review of Grant Balances, Other Special Appropriations, and Special Revenue Accounts**

By May 15, the Town Accountant will distribute management reports of all grant, special appropriation, and special revenue accounts to the responsible department heads to solicit status updates on them. Each department head will notify the Town Accountant in writing of any completed project or purpose with an unexpended balance so that he may close its account to fund balance (or to a special revenue source, if appropriate). Alternatively, if any completed project's account is in deficit, the department head will notify the Town Accountant in writing, provide funding source(s), and state when it will be resolved so that he can plan for closing the account.

The Town Accountant will carefully review any special appropriation account remaining open but inactive in the general ledger for more than two fiscal years to ensure it does not serve as an unauthorized special revenue funding source.

#### **B. Year-end Encumbrances**

By June 1, the Town Accountant will email all department heads advising them to submit all available invoices by June 30 and to provide notification of any pending obligations remaining from the fiscal year. With proper documentation, the Town Accountant will only encumber funds that have been

committed to specific purchases (by purchase orders), services (by service agreements), projects (by contracts), or to salary as of June 30.

### **C. Capital Project Reviews, Capital Asset Updates, and Borrowings**

As of March 1, the Town Accountant will review all capital project accounts to ensure that any internal borrowings done in anticipation of short- or long-term debt issuances have been covered. For any identified deficits:

- If debt had been authorized, the Town Accountant will notify the Treasurer/Collector to initiate a short-term borrowing in an amount sufficient to cover the deficit no later than June 30.
- If debt had not been authorized, the Town Accountant will refer the shortfall to the Town Administrator to either submit it for a debt authorization or appropriation from available funds by town meeting or for a line-item transfer by the Board of Selectmen and Finance Committee (see section D below).

By June 15, the Town Accountant will distribute via email a capital asset list to department heads along with next-step instructions. By no later than August 1, each department head with capital assets will respond by forwarding to the Town Accountant an asset update report with notes confirming the existing data, making additions, and/or noting appropriate deletions, along with narrative explanations. The Town Accountant will update the Town's capital asset inventory based on the returned information.

### **D. Year-end Transfers**

The Town Accountant will pay close attention to any appropriation deficits that may be rectified through line-item transfers and notify the Town Administrator. No earlier than May 1 and no later than July 15, the Town Administrator will put any necessary transfer request on the Finance Committee's meeting agenda, followed by the Board of Selectmen's meeting agenda, for their authorizations by majority votes.

### **E. Closing the Books**

No later than August 31, the Town Accountant will do the following to close the books:

- Conduct a reconciliation of each fund type in turn (including transfers between funds) and, when completed, close each fund in SoftRight.
- Zero out all open encumbrances from the prior fiscal year.
- Verify the new opening balances of all special revenue funds.
- Calculate the general fund's unreserved fund balance.

**F. Submissions to the Division of Local Services (DLS)**

Submissions to DLS will comply with the time frames listed below.

**Town Accountant:**

- |   |              |
|---|--------------|
| ▪ Snow and Ice Data Sheet                         | September 15 |
| ▪ Combined Balance Sheet and supporting documents | September 30 |
| ▪ Schedule A                                      | October 31   |

**Town Accountant and Treasurer/Collector:**

- |  |              |
|--|--------------|
| ▪ Statement of Indebtedness                  | August 31    |
| ▪ Schedule of Outstanding Receivables        | September 30 |
| ▪ Treasurer/Collector's Year-end Cash Report | September 30 |
| ▪ Cash Reconciliation                        | September 30 |

**REFERENCES**

[M.G.L. c. 44, § 33B](#)

[M.G.L. c. 64, § 64](#)

[M.G.L. c. 59, § 5](#)

Sterling policies on Tax Enforcement and Reconciliations

DLS Informational Guideline Release 17-13: [Appropriation Transfers](#)

Governmental Accounting Standards Board Statement 1: [Objectives of Financial Reporting](#)

Government Finance Officers Association Guidance: [Timely Financial Reporting](#)

**EFFECTIVE DATE**

The Policy was adopted on November 14, 2018.

## **Appendix**



Approval in total by the Sterling Finance Committee, October 22, 2018

Approved by the Sterling Selectmen, November 14, 2018.

### Policy Log

Policy	Adopted	Last Reviewed	Amended
Ambulance Receivables	November 14, 2018	November 26, 2019	
Antifraud	November 14, 2018	November 26, 2019	
Capital Planning	November 14, 2018	November 26, 2019	
Debt Management	November 14, 2018	November 26, 2019	
Financial Reserves	November 14, 2018	November 26, 2019	
Forecasting	November 14, 2018	November 26, 2019	
Indirect Cost Allocation	November 14, 2018	November 26, 2019	
Investments	November 14, 2018	November 26, 2019	
OPEB Liability	November 14, 2018	November 26, 2019	
Procurement Conflict of Interest	November 14, 2018	November 26, 2019	
Reconciliations	November 14, 2018	November 26, 2019	
Revenue Turnover	November 14, 2018	November 26, 2019	
Tax Enforcement	November 14, 2018	November 26, 2019	
Tax Recapitulation	November 14, 2018	November 26, 2019	
Year-end Closing	November 14, 2018	November 26, 2019	