

Town of Tisbury Financial Policies



**Town of Tisbury
Financial Policies**

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Overview

These financial policies are intended to support the financial strength and stability of the town of Tisbury, to direct resources to their highest priorities, and to promote clarity and transparency in the town's financial management.

Through these policies, the town intends to:

- Provide full value to the residents and business owners of Tisbury for each tax dollar by delivering quality services efficiently and on a cost-effective basis
- Preserve the town's quality of life by providing and maintaining adequate financial resources to sustain municipal services and provide financial capacity for present and future needs
- Respond to changes in the economy, priorities of governmental and non-governmental organizations, and other changes that may affect our financial well-being
- Maintain the town's strong credit rating to minimize the cost of borrowing for capital needs
- Ensure the proper and legal use of financial resources through an effective system of internal controls.
- Guide town decision-makers on management and policy decisions with fiscal significance
- Set forth operating principles that minimize the cost of government and financial risk
- Maintain public confidence in the town's financial management
- Promote sound financial management by providing accurate and timely information on the town's financial condition in accordance with generally accepted accounting principles

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Accounting and Auditing

- a) The town will use accounting practices that conform to generally accepted accounting principles as set forth by the Government Accounting Standards Board (GASB.) The town will comply with GASB Statement 34 and will track, report, and depreciate capital assets as required. The town will comply with GASB Statement 45 regarding accounting for Other Post-Employment Benefits (OPEB) (primarily health insurance for retired employees.)
- b) An audit will be performed annually by an independent public accounting firm, including an examination of the town's financial systems, procedures, and data by a certified public accountant (independent auditor) and a report on the fairness of financial statements and on local compliance with statutes and regulations. The audit serves as a management tool for evaluating the fiscal performance of the community. [This is a requirement of state law.]
- c) The town should enter into multi-year agreements when obtaining the services of independent auditors. Such multi-year agreements can take a variety of different forms, e.g. a series of single-year contracts, consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multi-year agreements can also help to reduce audit costs by allowing auditors to recover startup costs over several years.
- d) The town should undertake a full-scale competitive process for the selection of independent auditors, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such a case, the town should actively seek the participation of multiple qualified firms, including the current auditors (assuming that the current auditor's past performance has been satisfactory. Alternatively, the town should consider rotating the audit team leader at least once every five years if the same firm is engaged. [This policy is based on recommendations of the Government Finance Officers Association (GFOA.)]
- e) A management letter, part of the annual report, shall be provided by the independent public accounting firm.
- f) The treasurer will prepare a five-year financial projection each year, projecting revenues and expenditures for all operating funds. This projection shall be used as a planning tool in developing the following year's operating budget and capital improvement plan. Revenue forecasts for property tax, local receipts, and state aid shall be conservative, using generally accepted forecasting techniques. Revenue deficits should be avoided at all costs. To avoid potential revenue deficits, estimates for local receipts (e.g. inspection fees, investment income, departmental user fees, etc.) should generally not exceed 100% of the prior year's actual collections without firm evidence that increases are achievable.

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Financial - General

- a) All current operating expenditures should be paid for with current operating revenues. The town will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' expenses, such as delaying expenditures until the next fiscal year.
- b) Debt will not be used to fund current operating expenditures.
- c) Reserves, including free cash and stabilization funds, should be maintained at 5% - 15% of general fund operating revenues. The primary objective of the town's reserve policy is to provide the town the flexibility to sustain service levels despite the financial impacts of economic downturns and unforeseen and extraordinary expenses.
 - a) Free cash, also known as unreserved fund balance, is comprised of funds that have been appropriated but not spent and funds collected in excess of anticipated revenues. Free cash is certified each year by the Department of Revenue.
 - b) The town will endeavor to maintain a certified free cash balance equal to at least 5% of general fund operating revenues. Unappropriated free cash in excess of the 5% benchmark may be appropriated to the stabilization fund. This goal is a factor in the town's bond rating. A declining free cash balance means that the town is spending more on an annual basis than it is collecting in revenues. Free cash provides a financial cushion against events such as a sudden loss of a revenue source after the annual town meeting has approved the operating budget for the next fiscal year, an economic downturn, emergency or other unanticipated expenditures, non-recurring capital expenditures, and uneven cash flow.
 - c) The town will endeavor to maintain a stabilization fund large enough to buffer the general fund from the impact of two to three years of reduced state aid and/or declining local receipts. Appropriations from the stabilization fund may be for any lawful purpose (Chapter 40, §5) and may only be made by a two-thirds vote of town meeting. If and when the town draws funds from the stabilization fund, the town should also present a plan for replenishing the fund.
 - d) Free cash in excess of the goal reserve amount should be:
 - (i) appropriated for non-recurring emergency expenditures, or
 - (ii) appropriated to a stabilization fund for future capital projects, or
 - (iii) appropriated to reduce other post-employment benefits (OPEB), or
 - (iv) used to provide property tax relief.
- d) One-time revenues will be used for capital improvements, additions to reserves, or as legally restricted to a specific use.
- e) The year-to-year increase of actual revenue from the property tax levy shall generally not exceed 2.5% pursuant to the limitations of Proposition 2½, per state law.
 - a) Excluding the value gained through new construction (new growth.)
 - b) Excluding expenditure increases funded outside the tax limit cap.
 - c) The town's cost to deliver town services, including education, are likely to increase at an annual rate that exceeds core inflation rates. Each year, these escalating costs are likely to exceed the town's ability to raise tax revenue within the limits of Proposition 2½. The

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town also can expect to undertake major capital projects from time to time. As a result, the town will have to ask voters to approve Proposition 2½ overrides or debt exclusions.

- f) Property values shall be certified annually, per state law.
- g) The finance director will monitor receivables and will pursue collection of all accounts, with a target of 98% collection by fiscal year end for property taxes.
- h) The town will strive to be informed and aware of grants and other aid that may be available. All potential grants and other aid should be carefully examined for matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that our participation in such grants will be beneficial and cost-effective. When positions are funded with grants, a portion of the grant funding should be allocated to recover the cost of employee benefits if allowed by the granting agency.
- i) Fees and user charges should be reviewed periodically in relation to the cost of providing the service.
- j) Whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that the town is maximizing its revenue potential.
- k) All financial software shall be approved by the Finance Director.

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Capital Planning

- a) Each year, the town will develop or update a capital improvement plan which shall include the establishment of a capital budget and capital spending plan over the coming five years. The plan should detail each capital project, its estimated cost and funding sources, and the timing of expenditure for multi-year projects. The first year of the capital plan will provide the basis for town meeting appropriation requests.
 - a) A capital improvement is a tangible asset or project with an estimated useful life of five years or more and a cost of \$20,000 or more. These would include:
 - i) New buildings or additions to existing buildings, including land acquisition costs and furnishings and equipment for the new building or addition
 - ii) Major alterations, renovations, or improvements to existing buildings that extend the useful life of the existing buildings by at least ten years
 - iii) Land acquisition and/or improvement, unrelated to a public building but necessary for conservation or parks and recreation purposes
 - iv) Major equipment acquisition, replacement or refurbishment, including vehicles, furnishings, information technology hardware or software, or other items that combined in purpose make a capital project
 - v) New construction or major improvements to the town's infrastructure, including streets, sidewalks, storm drains and other infrastructure, that extend the useful life of the infrastructure by at least ten years
 - vi) Feasibility studies, engineering design services, or consultant services ancillary to a future capital improvement project.
 - b) Capital projects should be prioritized considering the following, not necessarily in priority order:
 - i) Imminent threat to health and safety of citizens, employees, or property
 - ii) Maintenance and improvement of capital assets or infrastructure
 - iii) Requirements of state or federal law
 - iv) Improvement or maintenance of productivity
 - v) Improvement of an overburdened situation, e.g. town hall
 - vi) Newly identified needs
 - vii) Priority as assigned by the requesting department
 - viii) Consistency with the town's long-term planning objectives
 - c) Funding sources for capital projects will depend on the project. Long-term debt is an appropriate source for some projects, while others may be funded through current revenues. The funding source may have some relation to the life of the asset. The funding sources for each project must be identified before the project is recommended.
 - d) The town should emphasize preventive maintenance as a cost-effective approach to prolonging the useful life of the town's infrastructure and buildings.

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Debt Management

Debt management is essential to the financial planning of any municipality. Debt is an effective way to finance capital improvements or to smooth out cash flows. Borrowing funds and repaying over a number of years allows the town to finance essential projects that the town could not afford to pay from current operating dollars. For capital projects with a long useful life, debt financing is an equitable tool to allow current and future beneficiaries of a capital investment to share in the cost of that improvement. Properly managed debt helps preserve the town's debt rating.

Policies and guidelines for the issuance, timing, and tax impact of current and future debt. For those projects supported by user fees (Water and Wastewater enterprise funds,) it is important to identify the impact on user rates resulting from debt service costs.

For the purpose of these policies and guidelines, the following definitions shall apply:

- **General Fund Debt Service** – All town debt service (non-exempt and Proposition 2½ exempt) excluding enterprise (Water and Wastewater) debt service.
- **General Fund Budget** – The total amount raised by the town as reported on the tax recapitulation form less the amount reported as enterprise (water) revenue.
- **General Fund Debt Service as a % of General Fund Budget** – The percentage of the town's general fund budget that is allocated to debt service for capital investment.
- **Water or Wastewater Fund Debt Service** – All town debt service for water or wastewater department capital projects.
- **Water or Wastewater Fund Budget** – The total amount of revenues reported on the tax recapitulation form for the water or wastewater enterprises – the amount required to provide for a self-supporting water or wastewater system.
- **Pay-As-You-Go Capital Projects** – Capital projects that are funded with current revenues (typically tax revenue, grants or user fees) and/or reserves (typically free cash or stabilization funds)

Policy Guidelines

Long term debt should only be issued for purposes authorized by state law. State law regulates both the purposes and the time periods for which these borrowings can occur (Chapter 44 §7 & §8.)

Chapter 44 §10 places a ceiling on the amount of debt a town may have authorized at any one time, with a limit of 5% of the equalized valuation (EQV) for the town. The law allows a town to extend that limit to 10% of EQV only with the approval of the Emergency Finance Board.

Tisbury's Capital Improvement Program ("CIP") shall be prepared annually by the Town Administrator in accordance with the following policy guidelines:

- **Outside Funding** – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- **Debt Exclusion** – Large projects, typically in excess of \$1 million, shall be recommended to the Board of Selectmen and Finance Committee for funding by a Proposition 2½ debt exclusion vote. A

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debt exclusion vote will allow the town to collect annual revenues sufficient to pay new debt costs, while not impacting funds necessary to maintain the annual town and school operating budgets.

- **General Fund Debt** – Smaller projects may be funded by non-exempt debt with a review of the timing and impact on the operating budget, while also taking into consideration the need to maintain the town’s investment in its capital infrastructure and equipment.
- **Water and Wastewater Fund Debt** – The Water and Wastewater departments operate as enterprises, and all costs (direct, indirect and debt service) should be covered by those departments’ revenues. Projects funded by debt shall have a careful review of the timing and impact on user rates. The Water and Wastewater Superintendents shall strive to coordinate debt planning activities and borrowing decisions with the Town Administrator and the Treasurer-Collector. Interdepartmental coordination will help to ensure the identification of financial impact(s) on the town’s borrowing capacity and overall financial condition.
- **General Fund Debt Service as % of General Fund Budget**– The annual debt service should be targeted be at a level is no greater than **10%** of the town’s general fund annual revenues (excluding enterprise funds).

Pay-As-You-Go Local Funding – The first source of capital investment shall be free cash. Even when a significant balance exists in this account, the town will be cautious about the amount of funds to be used. The town should strive to spend **1-1.5%** of the total town budget each year on pay-as-you-go capital. This target will allow capital spending to increase at the same rate as regular budget growth.

The town may use modest amounts from the capital stabilization or other reserves above target levels to fund pay-as-you-go capital needs in order to meet urgent needs above a recommended Net Capital Investment target. The town should strive to target 5% as a Net Capital Investment target. In the event that annual deposits into the capital stabilization fund change significantly, the town will revisit this capital funding policy.

Debt Financing Guidelines – The town’s debt financing guidelines aim to establish a list of best practices to be followed while the town’s capital improvement plan is being developed and utilized for annual and long-term fiscal planning. The guidelines below strive to establish regular guidance for professional staff and town officials charged with financial oversight and accountability for the town’s financial well-being. Occasionally, alternative action may be deemed necessary to address unforeseen fiscal circumstances or financial conditions that may require alternatives to the stated guidelines.

- The term of borrowing for a capital project shall not exceed its estimated useful life.
- The town will aim to maintain a long-term debt schedule such that at least fifty percent (50%) of its outstanding principal will be paid within ten (10) years to fifteen (15) years.
- For any capital item funded by debt, the cost of borrowing, including estimated principal and interest by fiscal year, shall be projected.
- The strategy of utilizing “level debt service” versus “equal principal and declining interest cost” shall be analyzed before borrowing is authorized.
 - When feasible, the town will aim to issue equal principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source.
 - The town is not prevented from utilizing level debt service when the repayment schedule serves to balance the town’s debt portfolio, help mitigate residential tax impact, or meet extraordinary capital infrastructure needs.

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- Refunding opportunities will be evaluated annually to consider the possibility of future interest cost savings. The town will consider a refunding of existing bonds should present value savings equal or exceed two to six percent (**2-6%**) of the amount of the bonds being refunded.

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Enterprise Funds

- a) The town will establish and maintain enterprise funds pursuant to Chapter 44 §53 to manage certain operations. As of FY2019, those operations include the Water Department and the Wastewater Department.
- b) Debt incurred for enterprise fund operations should not exceed the useful life of the asset financed, and in no case should the term exceed 30 years, or any other limit imposed by Massachusetts General Laws.
- c) Rates for enterprise funds should be designed to generate sufficient revenues to support the full direct and indirect costs of operations and debt and to ensure appropriate levels of working capital. Fees should be reviewed annually. Enterprise funds should not rely on the general fund for financial support.
- d) Depreciation is not funded in enterprise budgets, so a carefully-designed replacement plan is necessary to ensure that the rate structure can pay all costs, including proposed new long-term debt, ideally avoiding major increases in user fees.

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Revolving Funds

- a) The town may establish one or more revolving funds pursuant to state law, which allows the town to raise revenues from a specific service and use those revenues with appropriation by town meeting to support that service. Most municipal and school revolving funds do not require annual town meeting reauthorization.
- b) A revolving fund receives income from selling goods and services to users or participants in a program, and it expends monies to cover the costs of such goods or the expenses of providing the program or service. The intent is for such activities to break even financially. Revolving funds are commonly used for park and recreation programs, school athletic programs, community, adult education, and continuing education programs, and school lunch programs.
- c) Unless specified elsewhere in statute, all other departmental revolving funds shall be authorized under Chapter 44 §53E½. Each fund must be reauthorized each year at annual town meeting, and a limit on the total amount that may be spent from each fund must be established at that time. By state law, the aggregate of all revolving funds may not exceed ten per cent of the amount raised by taxation by the town in the most recent fiscal year, and no more than one percent of the amount raised by taxation may be administered by any one revolving fund.

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Community Preservation Act

- a) The Community Preservation Act (CPA) was adopted by Tisbury voters in April 2001, establishing a local fund based on a tax surcharge on property valuations above \$100,000 “that may be appropriated and spent for certain open space, historic resources and affordable housing purposes....” A minimum of 10% of the available funds (from the surcharge and the state match) must be set aside each year for each of the three categories of community housing, historical preservation, and open space. Recreation is a fourth category, but it is not mandated to receive 10%.
- b) The Community Preservation Committee (CPC) is charged with assessing applications for CPA funds each year and making recommendations for Town Meeting votes.

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Embarkation Fees

- a) Embarkation fees are revenues generated by a fee added to passenger ferry tickets for trips that originate or terminate in Vineyard Haven. By the enabling legislation (Chapter 55 of the Acts of 2003,) the funds must be “appropriated for the purpose of mitigating the impacts of ferry service on the city or town. Monies deposited may be appropriated for services including, but not limited to, providing harbor services, public safety protection, emergency services or infrastructure improvements within and around the harbor.”
- b) The Embarkation Committee is charged with assessing applications for Embarkation Fee funds each year and making recommendations for Town Meeting votes.

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Investments

An investment policy statement is intended to provide a clear understanding regarding the objectives, goals, risk tolerance and guidelines established by the town.

- a) Investment of General Funds
 - a) See attached Investment Policy Statement for General Funds and Long Term Funds
- b) Special Revenue Funds, and Enterprise Funds
 - a) These funds shall be managed in a manner comparable to general funds, with investments as permitted by Massachusetts law for these funds.

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Town of Tisbury Investment Policy Statement General Funds & Long-Term Funds

The primary purpose of this Investment Policy Statement (IPS) is to provide a clear understanding regarding the Town of Tisbury (the “Town”) Long Term Funds and, General Fund objectives, goals, risk tolerance, and investment guidelines established for the investment of town funds.

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

A. Scope

This section of the IPS applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds. The Dukes County Contributory Retirement Board is responsible for the investment of pension funds.

B. Investment Instruments

Note: Public investments in Massachusetts are not protected through provisions in State law.

The Treasurer 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. 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 CD's up to the standard limits and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), 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’ maturities from the date of purchase) which are fully collateralized through a third-party agreement: Unlimited Amounts

Bank accounts and CDs (Up to three years’ maturities from the date of purchase) 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 Certificates of Deposit 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. For example, these payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness 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 that are 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.

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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 over concentration of maturities, as well as concentration in a specific institution. Except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 25% of the town's investments shall be invested in a single financial institution.

D. Authorization

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

E. Restrictions

Chapter 44, Section 55 set forth several restrictions that the Treasurer must be aware of when making investment selections.

A Treasurer 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 shall not make a deposit in any bank, trust company or banking company with which he 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, with the exception of bank certificates of deposits that have a three-year limit from the date of purchase.

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 ninety 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, town preservation act and other funds the town may have set aside for long term use.

All accounts will be maintained separately receiving their proportionate interest and any realized and unrealized gains or losses. The account may 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, Chapter 40 Section 5B pertains to the investment of Stabilization Funds and, Chapter 44B section 7 pertains to the investments of town preservation funds. All trust funds shall fall under the control of the town's Treasurer unless otherwise provided or directed by the donor. If the trust fund results from a gift, grant or bequest from a private donor, and the private donor specifies how the trust shall be invested; the trust fund shall be invested in accordance with the terms of the gift, grant or bequest. If there is a conflict between such

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donor terms and this Section II, the donor terms shall govern, subject to the general principles of prudence set forth in the Policy.

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 which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under section thirty-eight A of chapter twenty-nine, or in a paid-up shares and accounts of and in co-operative 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, which 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 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 Certificates of Deposit (“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 F.D.I.C. and in some cases also 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 Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 5% of an institution's assets and no more than 25% of a municipality's cash. This percentage may be 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 payment or regional school assessments. Their credit worthiness 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 shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer acting in accordance with written

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procedures and this IPS, and exercising reasonable due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this IPS and the associated Massachusetts General Laws.

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 would also apply to M.G.L. Chapter 44 Section 55A which refers to the liability of the Treasurer 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 over concentration of maturities, as well as concentration in a specific institution, except for U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies.

F. Legal References

Massachusetts General Law Chapter 40, Section 5B

Massachusetts General Law Chapter 44, Section 54

Massachusetts General Law Chapter 44, Section 55A

Massachusetts General Law Chapter 44, Section 55B

Massachusetts General Law Chapter 44B, Section 7

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

III. General Provisions

A. Objective

Massachusetts General Laws, Chapter 44, section 55B requires the town's Treasurer 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, considering 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 town'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 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

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demands cannot be anticipated, the treasurer 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 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 United States Treasury and United States Government Agency obligations. In regard 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 a proven financial strength, Capital adequacy of the firm, 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 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 (and Assistant Treasurer) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Finance Director and to the Select Board and to other town officials as may be required by law any material financial interest in financial

Town of Tisbury Financial Policies

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. The treasurer and assistant treasurer shall also refrain or disclose as applicable 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 about their financial soundness and stability. The town may subscribe 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 (FINRA).

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

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

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

- Annual Financial statements
- If acting as a Registered Investment Advisor, copy of their most recent Form ADV Part II report
- Errors & Omissions insurance amounting to, at a minimum, the total fair market value of the Trust Fund Portfolio
- A statement that the Advisor has read the municipality's IPS and will comply with it on an annual basis
- Annual review all advisors through www.finra.org: Broker Check

E. Reporting Requirements

On a quarterly basis, a report containing the following information will be prepared by the Treasurer and distributed to the Select Board, as appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A 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.
- A summary of the income earned monthly and year-to-date basis shall be reported.
- The Treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the town's cash position.

The report should demonstrate the degree of compliance with the tenets set forth in the IPS.

Town of Tisbury Financial Policies

Anti-Fraud

The town of Tisbury is committed to protecting its revenue, property, information, and other assets from any attempt, whether 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 the taxpayers. town officials, employees, and all other persons acting on behalf of the town must comply at all times with all applicable policies, laws, and regulations.

The town intends to investigate fully, objectively, and impartially 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) Any person acting on behalf of the town, whether or not paid, and whether elected or appointed, is subject to this policy.
- b) **Fraud** includes, but it not limited to:
 - a) Any dishonest or fraudulent act
 - b) Forgery or alteration of any document or account, or any check or other financial document
 - c) Misappropriation of funds, securities, supplies, or other assets
 - d) Impropriety in the handling or reporting of money or financial transactions
 - e) Profiteering as the result of insider knowledge of town activities
 - f) Disclosing confidential information to outside parties
 - g) Accepting or seeking anything of material value from consultants, contractors, or vendors
 - h) Destruction, removal, or inappropriate use of records, furniture, equipment or fixtures
 - i) Any claim for reimbursement of expenses not made for the exclusive benefit of the town
 - j) Any computer-related activity involving alteration, destruction, forgery, or manipulation of data for fraudulent purposes
 - k) Any omissions or misrepresentations made in bond offering documents, presentations to rating agencies, and financial reports
- c) **Abuse** includes but it not limited to:
 - a) Improper use or misuse of authority
 - b) Improper use or misuse of town property, equipment, materials, records, or other resources
 - c) Waste of public funds or assets

Responsibilities

Every employee has the responsibility to assist the town in complying with policies and laws and in reporting suspected violations.

Town of Tisbury Financial Policies

Town officials and department heads are responsible for instituting and maintaining a system of internal controls to ensure, as far as reasonably possible, the prevention and detection of fraud and abuse.

The town administrator has primary responsibility for investigating all activities defined in this policy and will, to the extent practical, notify the board of selectmen of reported allegations of fraudulent or irregular conduct. Where there are reasonable grounds to indicate a fraud may have occurred, the town administrator will contact the Tisbury Police Department and/or the District Attorney's office. At the conclusion of the investigation, the town manager will report results to the selectmen and others as deemed necessary.

Adopted January 26, 2021

Town of Tisbury Financial Policies

Payroll

Payroll time sheets will be submitted by department heads with their signatures or those of their designees. Pay rate changes will be reviewed by the Personnel Director or his designee before being implemented.

Adopted January 26, 2021

Indirect Cost Allocation

This policy provides guidelines for calculating, allocating, and reviewing all the indirect costs associated with the town's enterprise funds – as of FY2019, the Water Department and the Waste Water Department.

The two enterprise fund departments are intended to operate independently from the general fund and to maintain their own financial statements. Consolidating each program's direct and indirect costs, debt service, and capital expenditures into a segregated fund allows the town to demonstrate to the public the true cost of providing those services.

As part of the annual budget process, the finance director will calculate the indirect costs to the general fund of each enterprise. These calculations will include:

- a) Personnel costs for active employees
- b) Benefits for active and retired employees, including insurances, Medicare tax, unemployment, and workers' compensation
- c) Pension costs
- d) Vehicle insurance
- e) Administrative costs
- f) Audit services
- g) Legal services
- h) Information technology services
- i) Other costs, such as printing, postage, materials, software, infrastructure, and fuel

Adopted January 26, 2021

Other Post-Employment Benefits

This policy sets guidelines for a plan to meet Tisbury's obligation to provide other post-employment benefits for eligible current and future retirees in order to achieve generational equity among those called on to fund this liability and avoid transferring costs into the future.

In addition to salaries, the town 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 and life insurances. These are collectively referred to as other post-employment benefits, or OPEB. OPEB represents a significant liability for the town that must be properly measured, reported, and planned for financially.

As a matter of policy, the town 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 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.

Achieving full funding of the liability requires the town to commit to funding its actuarially-determined contribution each year, in an amount sufficient to pay down the unfunded liability over a pre-determined time span, such as thirty years. To date, the town has funded only a modest fraction of the actuarially-determined contribution.

Responsibilities

The Finance Director will obtain actuarial analyses of the town's OPEB liability every two years and will annually report the town's OPEB obligation in financial statements that comply with the current guidelines of the Governmental Accounting Standards Board (GASB). The town administrator will ensure the town's independent auditor reviews compliance with this policy's accounting, reporting, and investment provisions as part of its annual audits and will report on these to the board of selectmen.

The Treasurer will recommend to the Select Board an annual contribution to the OPEB trust. The Town Administrator shall consult with the independent auditor on said recommendation and provide any recommended adjustments to the proposed contribution to the OPEB Trust. The Select Board will determine the contribution amount as part of the town's annual budget with the goal of reducing the town's future OPEB liability.

As the designated trustee of the OPEB trust, the finance director is charged with investing the fund's assets. The finance director will manage the fund in conformance with the town's investment policy and the state's prudent investor laws, with the primary purpose of growth while minimizing the risk of loss. The finance director may, with the approval of the Select Board, place the OPEB trust funds in the Dukes County Pooled OPEB Trust for investment management.

Adopted January 26, 2021

Town of Tisbury Financial Policies

Travel Reimbursement

The town will reimburse employees and officials (all referred to here as “employees”) for reasonable expenses incurred for travel on the town’s behalf as authorized by their department heads, the board of selectmen, or the town administrator. Travel shall be restricted to necessary activities that provide a public benefit, such as training, professional conferences, and other municipal-related activities.

All travel on town business shall be planned for using the most economical mode and class of transportation reasonably available and the most direct and time-efficient route. Officials and employees will travel using government and group rates when available. The town will not reimburse or pay sales tax but will, however, pay meals and room excise taxes.

When this travel policy is not followed, there is no guarantee that all expenditures will be reimbursed. Employees should determine estimates for their travel costs, discuss any extraordinary travel circumstances and expenses with their department heads, and obtain their authorizations in advance of travel.

All travel expenditures are to be documented using the Travel Expense Reimbursement Sheet signed by the traveler and the authorizing department head. Separate sheets must be completed for each traveler.

Adopted January 26, 2021

Town of Tisbury Financial Policies

Budgets

- a) The town will compile detailed budgets for each department each year.
- b) Department budgets should be submitted on forms provided by the accountant, including at least five years' history or more as specified by the finance director. Each submission should include a detailed staffing plan and a capital needs forecast looking out at least five years.
- c) Outside entities, such as the Martha's Vineyard Center for Living, the Dukes County Regional Housing Authority, or any other organization seeking town funding must submit a budget underpinning their financial request.
 - i) Outside entities' budgets should show all aspects of the organization's operations, not just those funded by the town.
 - (1) Budgets should show revenues by categories and expenses by categories in sufficient detail for an outsider to understand the operation.
 - ii) Budgets should include at least five years' history, preferably more.
 - iii) Budgets should show the formula used to allocate the total budget to the six towns.
 - iv) Budgets should include a detailed staffing plan showing positions, pay rates, and expected hours for the coming year. Individuals' names are not required.
 - v) When in doubt, the entity should contact the treasurer, town accountant, or Finance Committee chair.
- d) Budgets for town departments and outside entities should be submitted to finance by early December, on or before the date specified each year by the finance department.
- e) Budgets for departments that report to the Select Board:
 - i) These budgets will be reviewed by the Select Board before they are submitted to the Finance and Advisory Committee for review. The Select Board budget review could be done in a joint meeting with the Finance and Advisory Committee.
 - ii) Once the Select Board has reviewed and approved these budgets, they will be forwarded to the Finance and Advisory Committee for final review and recommendation.
- f) While there is a mechanism that allows the town to transfer unused appropriations between departments at year-end, as approved by the finance director, departments should not rely on this to balance their budgets, as funds may not be available. Departments should monitor their expenditures through the year and should notify the finance director if they expect overruns.

Adopted January 26, 2021

Heading (e) proposed October 21, 2021

Town of Tisbury Financial Policies

Reconciliations

The finance director and all department heads with accounts receivable duties will internally reconcile their respective accounting records and subsequently reconcile them with the finance director

Cashbook Reconciliation

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

The finance director 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.

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

Adopted January 26, 2021

Revenue Turnovers

The Treasurer will establish with the head of each department that receives payments internal controls designed to ensure that all receipts are recorded accurately, kept secure from loss or theft, and turned over timely to the finance director. The Treasurer will ensure surety bonds are maintained for all individuals responsible for handling payments to indemnify the town from potential loss or theft.

On receipt of checks, department employees should immediately stamp the back of the check with a "for deposit only" stamp. Every department receiving payments shall secure them in a locked cashbox or safe until completing a turnover to the finance department. Turnovers must always be handed to an individual in the finance department, not left on a desk or chair.

Each department must turn receipts over at least weekly and must do so immediately whenever cash receipts total \$1,000 or more. At month-end, departmental staff will turn over all revenues no later than 12:00 pm on the last business day of the month. All cash management activity is subject to review by the finance director and independent auditor.

When presented with the turnover, finance department staff will count the receipts in the presence of the authorized department employee. Any inaccuracies on the turnover form should be corrected and then initialed by both parties.

The finance department will post turnovers to Munis promptly, with a goal of being current at the end of each week.

Adopted January 26, 2021

Town Credit Card

Limited credit cards may be issued with the following stipulations with the authorization of the Select Board and the Treasurer. Each employee who is authorized to use the town credit card must sign a declared responsibility contract including the following information:

- The credit card will be in the physical custody of the treasurer. Department heads may sign out the card for short periods of time. The card will be kept in the town vault when not in use.
- Employee must be a department head and employed, elected or appointed for at least six months. The employee may not allow any other individual to use the card or card number for any reason.
- Credit card limit will be \$2,000 for department heads and \$5,000 for the treasurer, or the amount available in your account, whichever is less.
- The credit card is to be used strictly for town purchases that cannot be made using standard billing arrangements. Under no circumstances may personal expenses be charged, regardless of intent to reimburse.
- Employee must be certain that appropriate funds are available in their assigned GL accounts and that the MGL procurement act (Chapter 30B) is followed.
- Employee must have a receipt for all items purchased with the card. Original receipts must be submitted to the Treasurer within seven days of purchase. Employee must assign an account number and sign the receipt.
- Any expenditures or charges not approved by the Selectmen when submitted by warrant are the **sole and personal responsibility** of the employee. Failure to cover these expenses will result in legal action.
- All town expenses are tax exempt. Employee must present a copy of the town's exemption form at the time of purchase (exemption form is available from the Treasurer.) **Any tax charges must be reimbursed to the town personally by the responsible employee.**
- The employee must notify the Treasurer immediately and return the card when separated from service. Any charges made by the employee after the separation date will be the responsibility of the individual.
- If the card is lost or stolen, the employee must immediately notify Bristol County Savings Bank at 866-552-8855.
- Any abuse or negligence on the employee's part may result in discipline up to and including termination.

Prior to using the card the first time, each employee must sign a copy of the form on the next page, and the treasurer shall file and retain those signed forms.

Adopted January 26, 2021

Town of Tisbury Financial Policies

Prior Year Bills

Bills for goods received or services performed in the previous fiscal year should be submitted to Accounting no later than July 15th of each year. Bills submitted after the deadline will have to wait for town meeting approval the following spring to be paid.

Adopted January 26, 2021

Contracts and Procurement

Procurement of goods and services, both purchased and leased, shall be pursuant to Massachusetts General Laws Chapter 30 B, the Uniform Procurement Act and subject to the approval of the town's Chief Procurement Officer. Contracts may only be entered into by authorized personnel, and are subject to the approval of the Chief Procurement Officer

Adopted January 26, 2021

Town of Tisbury Financial Policies

Town Hall Drop Box

The drop box in front of town hall is intended as a convenience for the residents and employees of Tisbury.

This policy covers anything that is put in the drop box in front of Town Hall. It is expected that most items in the drop box will be payments for charges committed to the Collector such as Real Estate taxes. However, there will likely be other payments, as well as applications for permits or licenses, job resumes, correspondence and even absentee ballots. The Treasurer/Collector has taken on the responsibility for the drop box and therefore, reserves the authority to make changes, interpretations, and exceptions to the policies and procedures contained in this policy.

The drop box will be emptied at least once a day any day the Town Hall is open for business. Leaving an item in the drop box is not considered delivered to the appropriate office in the Town Hall. If you need a date/time stamp, it is recommended that you go into the appropriate office of Town Hall and get a time/date stamp to ensure you can prove compliance with any deadlines. This is especially true for any documents for the Assessor's office. In most cases, there is absolutely no authority to extend deadlines or make exceptions. The drop box is intended as a convenience to residents and not an opportunity to beat the system.

1. The Treasurer/Collector staff will be responsible for emptying the Dropbox every day the Town Hall is open for business.
2. Items will be sorted by department and delivered as appropriate to:
 - a) Town Hall departments
 - b) Town Hall mail slot for departments outside of Town Hall
 - c) USPS mailbox for stamped mail obviously put in wrong box
3. Each department should process Dropbox items as they would standard USPS mail with appropriate confidentiality, date/time stamp, urgency etc.
4. Any questions should be directed to the Treasurer/Collector's office.