

Model Financial Policies Handbook

A RESOURCE GUIDE FOR DRAFTING FINANCIAL
POLICIES IN YOUR MUNICIPALITY

Vermont League of Cities and Towns

2010

The **Vermont League of Cities and Towns** (VLCT) was founded in 1967 as a nonprofit, nonpartisan organization dedicated to serving and strengthening Vermont local government. Today, VLCT supports its member municipalities by offering them a comprehensive insurance program, representation before the state and federal governments, and an extensive educational and technical assistance program.

In 2003, VLCT added a new level of service for its member municipalities when it opened the **Municipal Assistance Center** (MAC). MAC is comprised of six professionals with diverse backgrounds in municipal law, public management, municipal research, land use planning and administration, and water quality protection. MAC's mission is to provide local officials with the education, training, and professional assistance they need to fulfill their statutory duties. MAC is supported by membership dues, a state grant, and fees for professional services.

The Center fields telephone inquiries from municipal officials, maintains a comprehensive online resource library of handbooks, reference and training materials, and sponsors workshops on current issues affecting local government. The MAC team is also available to contract with municipalities for individualized assistance, including customized onsite workshops, and ordinance and policy drafting and review.

A publication of the VLCT Municipal Assistance Center

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Introduction

The Government Finance Officers Association (GFOA) strongly recommends financial policies be a component of any governmental financial management program. They are guidelines for operational and strategic decision-making related to financial matters, identifying acceptable or unacceptable courses of action, establishing parameters in which the government can operate, and providing standards against which a government's fiscal performance can be judged.

While Vermont's larger municipalities likely operate with written financial policies, many of the small and mid-sized towns and villages do not. These smaller municipalities can face many of the same economic forces as larger municipalities, but the consequences of poor financial decision-making may actually be more severe because of their smaller budgets and less diverse tax base.

The following model financial policies address several common financial issues that Vermont municipalities face. They have been assembled with the particular needs of small and mid-sized Vermont municipalities in mind. Each model policy assumes that the municipality operates with a basic three- or five-member selectboard, elected treasurer and clerk, and elected auditors. Municipalities that have eliminated the office of auditor – or that operate with a town manager, administrator, bookkeeper, finance officer, or other staff – will need to modify these policies accordingly.

Please note that these model financial policies have been developed for illustrative purposes only. VLCT makes no express or implied endorsement or recommendation of any financial policy, nor does it make any express or implied guarantee of legal enforceability or legal compliance, nor does VLCT represent that any particular policy is appropriate for any particular municipality. Your legal counsel should review any proposed financial policy before adopting it.

Why Adopt Financial Policies?

VLCT believes that the adoption of written financial policies can have a number of benefits for Vermont municipalities:

- Financial policies help educate those municipal officials who may not have a background in government financial management. In Vermont, most elected and appointed municipal officials have no background or expertise in government finance. Nevertheless, these officials may be responsible for the administration of municipal budgets comprising hundreds of thousands or even millions of dollars. Written financial policies can help inform officials, both new and old, of good financial practice, making it more likely that these good practices will be implemented and followed.
- Financial policies may help prevent and resolve conflicts in local government. The responsibilities of Vermont's municipal officers frequently overlap and clear lines of authority can be hard to identify. As a result, the administration of Vermont local government can seem complex, even in the smallest town. The key to effectively navigating this complexity is effective communication and cooperation among local officials. Financial policies can clarify both the responsibilities of local officials and lines of authority. The process of adopting written financial policies can also afford local officials the opportunity to engage in communication and develop common financial goals for their municipalities. Active participation in the process makes it more likely that all the parties involved in financial decision-making will abide by a common set of rules.
- Financial policies can provide continuity and efficiency in the town's financial operations. Selectboard members and other municipal officers often serve relatively short terms and new officers may not be experienced in dealing with financial issues. Financial policies can eliminate the need to reinvent responses to recurring situations, thereby increasing efficiency by standardizing operations.
- Financial policies can fill some of the gaps in Vermont's rudimentary municipal finance laws. Vermont is a Dillon's Rule state, meaning that our municipalities have only those authorities specifically delegated to them by the Legislature and such additional functions as may be necessary to exercise those authorities. For this reason, municipal officials often turn to Vermont statutes for guidance when questions arise. Unfortunately, Vermont's municipal finance statutes have not kept pace with modern financial practices and often fail to provide local officials adequate guidance on the finance issues they commonly face. Well-crafted local financial policies can overcome some of these shortcomings in Vermont's municipal finance laws.
- The adoption of financial policies can foster confidence in local government by increasing transparency, accountability, and consistency in municipal decision-making. The policies can help local officials make more informed decisions about providing services, acquiring and managing capital assets, safeguarding a town's resources, and promoting financial stewardship, all of which may result in a more stable tax rate. The adoption of policies also can help promote strategic thinking in tough economic times.

Where Does a Municipality Start?

Rather than attempt to adopt several financial policies at once, local officials should first consider the town's circumstances and needs. For example, a review of a town's internal controls may reveal areas of weakness in cash management, in which case the treasurer and selectboard should consider adopting a cash receipts policy. Perhaps the selectboard is trying to closely manage a very tight town budget and needs to receive timely and informative financial reports from the treasurer. An accounting, auditing, and financial reporting policy would be useful. Maybe the treasurer and selectboard are considering changing banks, which may provide an opportunity for adoption of an investment policy or a credit card policy. In any case, municipal officials should remember that there is no such thing as a "one size fits all" municipal financial policy. Each policy should be tailored to meet the town's particular needs and circumstances.

Who Within the Municipal Organization Would Adopt Financial Policies?

As noted previously, the responsibilities of Vermont's municipal officers frequently overlap. In many instances, several boards or officers may be involved in a particular transaction or function. In that case, VLCT recommends that the applicable policy be adopted jointly by the boards or officers involved. For example, the law provides that money received by the treasurer on behalf of the town may be invested and reinvested by the treasurer with the approval of the selectboard. Accordingly, the town's investment policy should be jointly crafted and adopted by the treasurer and selectboard. On the other hand, the purchase of goods and services is the responsibility of the selectboard, and that body would adopt a purchasing policy addressing such things as prior authorization of certain purchases and bidding requirements.

How Are Financial Policies Adopted?

Municipal officers are not required to follow any special procedure when adopting financial policies, except that a policy adopted by a town board (e.g., selectboard, board of auditors) may only be adopted by a majority of board members at a meeting held in accordance with Vermont's Open Meeting Law. Note that only municipal officers can adopt municipal policies. Unlike ordinances, there is no permissive referendum process for municipal policies. That being said, a drafting process that invites participation and buy-in from stakeholders – including other municipal officers, employees, and staff – is more likely to result in an effective and useful document. Involving these individuals in the drafting phase of the policy will also insure that the policy is reasonable and realistic in terms of the staff resources needed for compliance.

After initial adoption, local officials should annually review the town's financial policies to insure that each policy remains current. This may involve minor edits or major revisions resulting from economic or legislative changes. Remember, a policy adopted by one board or officer can be rejected or modified by the next officer or board. Annual review will help insure that all of the officials subject to the policy agree with its terms.

Additional Resources

The following publications were utilized in the development of this publication and provide additional information regarding local government financial operations:

- *Basic Financial Policies – A Guide for New Hampshire Cities and Towns*, published by the New Hampshire Local Government Center.
- *Financial Policies: Design and Implementation*, published by the Government Finance Officers Association.

Four VLCT handbooks provided additional information regarding the financial roles and responsibilities of Vermont local officials. All are available in VLCT's online Resource Library at <http://resources.vlct.org>:

- Handbook for Vermont Municipal Treasurers
- Handbook for Vermont Selectboards
- Handbook for Locally Elected Officers
- Handbook for Vermont Town Officers

Eleven model financial policies, noted below, are included at the end of each section:

- Model Accounting, Auditing, and Financial Reporting Policy
- Model Purchasing Policy
- Model Cash Receipts, Petty Cash, and Returned Check Policy
- Model Credit Card Policy
- Model Debt Management Policy
- Model Capital Program and Budget Policy
- Model Investment Policy
- Model Trustees of Public Funds Investment Policy
- Model Fraud Policy
- Model Fund Balance Policy
- Model Balanced Budget Policy

Section 1. Model Accounting, Auditing, and Financial Reporting Policy

As unimaginative as they may appear, accounting, auditing, and financial reporting are vital parts of effective local government. Voters approve a budget and hold the municipal officers accountable for its proper management. If officials don't know how financial resources are being used, or whether they are being used to accomplish the voters' goals as represented in the budget, those officials have failed to fulfill their important role as stewards of public funds.

An accounting, auditing, and financial reporting policy sets the tone for fulfilling this stewardship role. Every town should aspire to establish and maintain high standards for its accounting practices. Such standards inspire confidence in the financial information that is produced and presented to voters. They enable the voters, selectboard, and other officials to make sound decisions in preparing and adopting the town budget and managing town finances.

The following should be considered in the development of an accounting, auditing, and financial reporting policy:

Accounting Standards. Vermont statutes provide no legal standard for municipal government accounting. Unfortunately, the lack of a common standard has resulted in a wide variation in accounting practices among Vermont municipalities. For municipalities seeking to standardize their accounting practices, the generally accepted accounting principles (GAAP) for local governments, established by the Governmental Accounting Standards Board (GASB) are a helpful guideline. GASB is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. GASB is generally recognized by governments, the accounting industry, and capital markets as the official source of generally accepted accounting principles for state and local governments.

The generally accepted accounting principles for local governments promulgated by GASB can assist municipalities in providing officials and voters with financial statements that can be analyzed and compared from period to period. It also provides comparability across municipalities, something that cannot be accomplished now with the variety of reporting formats used throughout the state. There is also less room for error and fraud when specific uniform standards are applied to the accounting process. This adds up to better reporting, more accountability, and, one hopes, more informed and supportive voters.

Compliance with GAAP requires the establishment of a fund accounting system and measuring the financial position and results of operations using the modified accrual basis of accounting for governmental fund types and the accrual basis of accounting for proprietary and fiduciary fund types. For more information about GASB and GAAP for local government, please visit www.gasb.org.

Independent Auditing. Hundreds, if not thousands, of transactions are posted to town books each year, including complex payroll and benefits payments. While compliance with generally accepted accounting practices helps ensure that transactions are accurately booked and reported, mistakes and even fraud can still occur. Independent auditors can review the municipality's accounting system, along with the town's internal controls, and conduct field tests by taking

transactions from a trial balance (the listing all of account balances including revenues, expenses, assets, and liabilities) and tracking down the source documents to be sure that everything has been processed properly and recorded correctly.

The purpose of this review is to determine if the financial statements are free of “material misstatement.” In this regard, an independent auditor will offer an opinion on whether or not the financial statements fairly represent the true financial condition of the town. A management letter is also provided, reporting any material weaknesses in the accounting system – things the auditor considers important enough to be addressed and corrected, such as inadequate documentation of payments being processed or bank accounts not being reconciled. Other reportable conditions that are not deemed to be material are also listed in the management letter and may include items such as lack of an approval process for journal entries or inadequate documentation of accounting processes.

Vermont law requires the election of local auditors. These officials are charged with examining the accounts of town officers and reporting their findings in writing to the voters through the annual town report. 24 V.S.A. § 1681, 1682(a). The amount of time auditors must give to perform their duties depends upon the size of the municipality and the complexity of its budget. The responsibilities of the office may exceed the capacity of local volunteers, and some municipalities have been unable to find persons willing to hold the office. In such instances, a town may vote to eliminate the office of auditor. 17 V.S.A. § 2651b. If the town does vote to eliminate the office, the selectboard will contract with a certified public accountant to perform an annual audit of all town funds.

Even where local auditors have not been eliminated, it is a good practice for municipalities to have their financial statements regularly audited by an independent accounting firm. In addition to determining whether the financial statements are fairly presented in accordance with GAAP, an audit will also review a town’s procedures and internal controls for weaknesses or deficiencies and make recommendations for improvements. While it is helpful to have an independent audit prepared on an annual basis, such a service can be expensive and not every town can afford to have an audit every year. Accordingly, the policy should specify the frequency of the independent audit.

Financial Reporting. In practice, Vermont local government has a four-step financial management process centered on the annual town budget. The selectboard and treasurer undertake preparation of the proposed budget prior to the annual town meeting. The budget is adopted by the voters at the annual meeting and is managed through the fiscal year by the selectboard and other municipal officers having authority to draw orders on the treasurer. Finally, the auditors evaluate the performance of these officers and report this information back to the voters through the town report.

The selectboard carries out its responsibility to manage the town budget under its authority to approve orders for payment of town funds. 24 V.S.A. §§ 1567, 1621, 1622. In order to do so, the selectboard must have timely and accurate information about the status of the town’s finances. While the treasurer is obligated to keep accounts “of moneys paid out by him for the town,” and while such accounts “shall at all times be open to the inspection of persons interested,” there is

no legal obligation for the treasurer to provide reports of the status of town's finances to the selectboard, nor is there any legal requirement as to the form of these reports. 24 V.S.A § 1571.

Why are these financial reports important? Because they give the selectboard and other officials a snapshot of where the municipality stands financially at any given point in time. A Budget Report shows where the town stands in relation to its budget. It is a report of revenues collected and appropriations expended with a column for the variance in each line item – how much the town is either over or under what was budgeted. The Statement of Revenue, Expenditures, and Changes in Fund Balance details revenues and expenditures and shows the difference between the two – either a surplus if the town has more revenue than anticipated or a deficit if it has more expenditures. It shows the beginning fund balance and adds the surplus (or subtracts the deficit) to give the ending fund balance. The Balance Sheet shows the municipalities' assets, then looks at those assets in terms of the amount that is debt (liabilities) and the amount that isn't debt (fund balance). The fund balance reflected on the Balance Sheet should match the ending fund balance from the Statement of Revenue, Expenditures, and Changes in Fund Balance.

The town's annual report should include financial statements prepared in conformance with GAAP reporting principles, as well as additional disclosures necessary for the complete understanding of the financial statements presented. The report should also include a narrative discussion to explain how the town's current financial position and results of operations compare with the prior year and with the budget (management discussion and analysis). It may also be helpful to provide statistical data over a ten-year period to provide a longer-term trend analysis of financial changes.

For more information on municipal financial reports, please see *Excelling in Municipal Finance*, published in the *VLCT News*, which is available through the VLCT Resource Library at <http://resources.vlct.org>.

ACCOUNTING, AUDITING AND FINANCIAL REPORTING POLICY
Town of _____

PURPOSE. The purpose of this Accounting, Auditing and Financial Reporting Policy is to establish and maintain high standards for accounting practices in the Town of _____, thereby enabling voters, the selectboard, and the treasurer to make sound decisions in preparing and adopting the Town budget and managing Town finances.

ACCOUNTING. The accounting practices of the Town will conform to Generally Accepted Accounting Principles for local governments as established by the Governmental Accounting Standards Board. The treasurer will establish and maintain a system of fund accounting and shall measure financial position and results of operations using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for proprietary and fiduciary funds.

AUDITING. [Annually/Not less than every ___ years] the selectboard will cause the Town financial statements to be audited by a qualified, properly licensed independent accounting firm. This audit will be conducted in addition to any audit performed by the Town's elected auditors under 24 V.S.A. § 1681.

MONTHLY AND ANNUAL FINANCIAL REPORTING. The treasurer will prepare monthly financial reports for the selectboard's management purposes. These will consist of:

- **Budget Report** showing revenues collected and appropriations expended for the previous month with the variance from the budget amounts for each line item;
- **Statement of Revenue, Expenditures, and Changes in Fund Balance** showing revenues and expenditures and the difference between the two, the beginning fund balance for the period, the ending fund balance; and
- **Balance Sheet** showing Town assets less liabilities and the fund balance.

The treasurer will also prepare an annual financial report. This report should include financial statements for each of the funds of the Town, as well as appropriate additional disclosures as necessary for the complete understanding of the financial statements presented. In addition, the report should include a narrative discussion to explain how the Town's current financial position and results of financial activities compare with those of the prior year and with budgeted amounts. This report, together with the most recent independent auditor's report and any report prepared by the Town's elected auditors under 24 V.S.A. § 1682, will be reproduced in the Town's annual report each year.

The foregoing Policy is hereby adopted by the selectboard and the treasurer of the Town of _____, Vermont, this ____ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Treasurer

Section 2. Model Purchasing Policy

Vermont law does not require competitive bidding for municipal purchases. However, public scrutiny of the procurement process indicates the necessity for a purchasing policy. The primary objective of such a policy should be to procure the necessary goods and services in an efficient, timely, and cost-effective manner, as well as to encourage the most open, competitive purchasing process practicable to acquire these goods and services at the best possible value while treating all vendors equitably. Such goals will increase the public's confidence in the procurement process.

Unlike most other financial policies that establish broad objectives, purchasing policies blur the line between policies and procedures. Policy elements would include such items as the assignment of authority; procedural elements would include the outline of the bidding process.

Consider the following when developing a purchasing policy:

Purchasing Authority Limits. As described above, the selectboard carries out its responsibility to manage the town budget through its authority to approve orders for payment of town funds. 24 V.S.A. §§ 1567, 1621, 1622. Other boards – such as the board of library trustees and the cemetery commissioners – have corresponding responsibilities to manage their budgets and similar authority to approve orders.

As a budget management tool, the order approval process has a significant shortcoming: orders are typically approved or disapproved by the appropriate board only after a bill has been received for goods or services. In some instances, a town employee or officer could obligate the town to a purchase that would not be approved by the appropriate board. In order to manage this risk, the board should determine the limit of purchasing authority delegated to town officials and employees through a purchasing policy.

Competitive Bidding. While competitive bidding is not required under Vermont law, it can have significant advantages for local governments. A choice of purchasing options allows a municipality to locate the most cost-effective suppliers of goods and services and make effective cost/quality comparisons. The process may include verbal and/or written quotations for purchases below a certain dollar threshold and a formal bidding process for higher dollar purchases. The use of such a process does not necessitate a low-bidder approach. The procedures should be drafted to emphasize what selection criteria will be used in considering each bid. The policy should also address what exceptions may exist to the policy, such as sole source purchases, emergency purchases, or professional services.

Ethics and Conflicts of Interest. If a municipality does not have a separate code of ethics or conflict of interest policy, the purchasing policy can include a provision for such issues. It should be clear that employees are expected to be impartial in carrying out their duties to assure fair competitive access to purchasing by qualified vendors, to prohibit gratuities or other favorable treatment, and to prohibit the use of confidential information for personal gain. VLCT's Model Conflict of Interest Policy is available in VLCT's online Resource Library at <http://resources.vlct.org>.

Preference Provisions. Purchasing policies can be used to achieve other public policy goals, such as a preference for local vendors or for minority/disadvantaged vendors, or a preference for “green” purchases or sustainability.

More information on municipal purchasing policies is available from Municipal Research and Services Center of Washington at www.mrsc.org/Subjects/PubWorks/pb/purchasing.aspx.

PURCHASING POLICY

Town of _____

PURPOSE. The purpose of this Purchasing Policy is to obtain the highest quality goods and services for the Town of _____ at the lowest possible price, to exercise financial control over the purchasing process, to clearly define authority for the purchasing function, to allow fair and equal opportunity among qualified suppliers, and to provide for increased public confidence in the procedures followed in public purchasing.

PURCHASE AUTHORIZATION. No purchases over \$_____ shall be made by any Town officer or employee without prior approval of the selectboard. When making any purchase not subject to the bid process described below, officers and employees must solicit quotes from at least two vendors unless the selectboard has approved a sole source vendor. Vendors will be selected based on cost, the quality of the goods and services offered, and the ability, capacity, and skill of the vendor demonstrated under prior contracts with the Town.

BID PROCESS. All purchases of \$_____ or more shall be subject to a bid process. The bid process shall be initiated by the issuance of a request for bids prepared by the selectboard. Notice of the request for bids shall be made by letters to known providers soliciting bid responses, advertisements posted in three public locations within the Town, and advertisements placed in a newspaper of general circulation in the region.

BID SPECIFICATIONS. Bid specifications shall include:

1. Bid name.
2. Bid submission deadline.
3. Date, location, and time of bid opening.
4. Specifications for the project or services including quantity, design, and performance features.
5. Bond and/or insurance requirements.
6. Any special requirements unique to the purchase.
7. Delivery or completion date.

Once a request for bids has been issued, the bid specifications will be available for inspection at the Town office.

BID SUBMISSION. All bids must be submitted in sealed envelopes, addressed to the Town in care of the selectboard, and plainly marked with the name of the bid and the time of the bid opening. Bid proposals will be date stamped on the outside of the envelope immediately upon receipt. Any bid may be withdrawn in writing prior to the scheduled time for the opening of bids. Any bids received after the time and date specified shall not be considered and shall be returned to the bidder unopened.

Bidders shall bid to specifications and any exceptions must be noted. A bidder submitting a bid thereby certifies that the bid is made in good faith without fraud, collusion, or connection of any

kind with any other bidder for the same work, and that the bidder is competing solely on his/her behalf without connection with or obligation to any undisclosed person or firm.

BID OPENING. Every bid received prior to the bid submission deadline will be publicly opened and read aloud by the selectboard. The bid opening will include the name and address of bidder; for lump sum contracts, the lump sum base bid and the bid for each alternate; for unit price contracts, the unit price for each item and the total, if stated; and the nature and the amount of security furnished with the bid if required.

CRITERIA FOR BID SELECTION. In evaluating bids, the selectboard will consider the following criteria:

1. Price.
2. Bidder's ability to perform within the specified time limits.
3. Bidder's experience and reputation, including past performance for the Town.
4. Quality of the materials and services specified in the bid.
5. Bidder's ability to meet other terms and conditions, including insurance and bond requirements.
6. Bidder's financial responsibility.
7. Bidder's availability to provide future service, maintenance, and support.
8. Nature and size of bidder.
9. Any other factors that the selectboard determines are relevant and appropriate in connection with a given project or service.

The selectboard reserves the right at its sole discretion to reject any and all bids, wholly or in part, to waive any informalities or any irregularities therein, to accept any bid even though it may not be the lowest bid, to call for rebids, to negotiate with any bidder, and to make an award which in its sole and absolute judgment will best serve the Town's interest. The selectboard reserves the right to investigate the financial responsibility of any bidder to determine his or her ability to assure service throughout the term of the contract.

CHANGE ORDERS. If specification changes are made prior to the close of the bid process, the Request For Bids will be amended and notice shall be sent to any bidder who already submitted a bid and a new bid process will be initiated. Once a bid has been accepted, if changes to the specifications become necessary, the selectboard will prepare a change order specifying the scope of the change. Once approved, the contractor and an authorized agent of the Town must sign the change order.

EXCEPTIONS

Sole Source Purchases. If the selectboard determines that there is only one possible source for a proposed purchase, it may waive the bid process and authorize the purchase from the sole source.

Recurring Purchases. If the total value of a recurring purchase of a good or service is anticipated to exceed \$_____ during any fiscal year, the bid process shall be utilized and shall specify the recurring nature of the purchase. Once a bid has been accepted, all future

purchases shall be made from that bidder without necessity of additional bids, until such time as the selectboard votes to initiate a new bid process.

Emergency Purchases. The selectboard may award contracts and make purchases for the purpose of meeting the public emergency without complying with the bid process. Emergency expenditures may include immediate repair or maintenance of town property, vehicles, or equipment if the delay in such repair or maintenance would endanger persons or property or result in substantial impairment of the delivery of important Town services.

Professional Services. The bid process shall not apply to the selection of providers for services that are characterized by a high degree of professional judgment and discretion including legal, financial, auditing, engineering, risk management, and insurance services.

The foregoing Policy is hereby adopted by the selectboard of the Town of _____, Vermont, this ___ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 3. Model Cash Receipts, Petty Cash, and Returned Check Policy

The GFOA's recommended practice on cash receipts controls suggests that proper controls over revenues are imperative to ensure sound financial management practices, instill public confidence in municipal operations, and provide accurate, reliable, and timely information on which financial decisions can be made. Budgeting, revenue forecasting, account reconciliation and review, and financial reporting all rely on the proper recording of revenues. Local officials need to provide for appropriate mechanisms, both automated and manual, to collect all funds legally due to the entity and ensure that proper controls exist over all receipts.

Appropriate internal control procedures should be implemented to ensure the safeguarding of all receipts. One of the most important procedures is the segregation of duties. No one individual should be able to authorize or initiate a transaction, record the transaction in the accounting records, maintain custody of the asset resulting from that transaction, and reconcile the activity in the accounting records that pertain to that transaction. All internal controls should be in writing and reviewed on a regular basis.

Consider the following when developing a cash receipts policy:

Authorized Personnel. Only authorized personnel should receive town funds. The model policy that follows includes a list of local officials who could, in the course of their duties, receive funds on behalf of the town. Towns adopting this policy may choose to include other officials in the list or remove officials who are not strictly required to receive funds as part of their statutory duties.

Timely Deposits and Reconciliations. Deposits should be remitted to the bank in a timely manner, preferably daily, and recorded in the accounting records in a timely manner. This both lessens the risk of loss or theft and allows for the funds to be available for investment as soon as possible. Reconciliations to both the general ledger and to any supporting account ledgers should be routinely performed in a timely manner. The treasurer's records should be reconciled to the monthly bank statements and to the reports received by other departments. Preparation of the reconciliations should involve more than one person.

Returned Checks. Procedures should be established for processing and collecting returned checks. The procedures should include any fees that might be charged to the check writer, any restrictions that may apply to the repayment of the uncollectible amount, and how the transaction would be recorded in the accounting records.

Petty Cash. A cash receipts policy should require all deposits to be made intact – that is, no cash that is included in the deposit should be used to pay for municipal expenditures. If cash is needed for such expenditures, a petty cash fund should be used and proper procedures for its utilization should be established.

CASH RECEIPTS, PETTY CASH AND RETURNED CHECK POLICY
Town of _____

PURPOSE. The purpose of this Cash Receipts Policy is to establish proper management practices over cash, checks, and other receipts in order to instill public confidence in Town operations and to provide accurate, reliable, and timely information upon which financial decisions can be made.

AUTHORIZED PERSONNEL. For internal control purposes, only the following officers, employees, and volunteers are authorized to receive funds on behalf of the Town of _____: treasurer, assistant treasurer, town clerk, assistant town clerk, collector of delinquent taxes, selectboard members, cemetery commissioners, constable, fire warden, town manager, service officer, sewer commissioners, trustees of public funds, water commissioners, zoning administrator, library trustees, librarian, _____, _____, _____, _____.

PROPER PAYEE. All checks, money orders, and credit card payments, regardless of function, must be made payable to the Town of _____. No instruments may be made payable to a Town officer, employee, volunteer, department, committee, board, or group.

RECEIPTS. Persons authorized to receive funds on behalf of the Town must issue a fully completed collection receipt for any cash received [*using a three-part, pre-numbered receipt, or some other receipt or reporting system acceptable to the treasurer*]. The original completed receipt must be issued to the person from whom the funds are received. The second copy must be delivered to the treasurer with the funds. The third copy must be retained by the person authorized to receive funds for audit purposes, and it shall be countersigned by the treasurer when funds are deposited with the treasurer.

SAFEGUARDING FUNDS. Safeguarding funds prior to deposit with the treasurer is the responsibility of authorized personnel receiving the funds. All coins, currency, checks, credit card information, and money orders must be retained in a secure place until deposited with the treasurer in accordance with the section below.

PREPARING AND DEPOSITING FUNDS. Funds collected by authorized persons totaling \$_____ or more must be deposited with the treasurer no later than the following business day. Funds collected totaling less than \$_____ must be deposited with the treasurer no later than the first business day of the following week.

Each person depositing funds with the treasurer must submit a spreadsheet or adding machine tape of the checks in the same sequential order and totaled with each deposit. The treasurer will count and verify the amount deposited in the presence of the person depositing the funds. All deposits made to the treasurer will be issued a receipt or other acknowledgement. The treasurer will take the deposits to the bank daily and retain copies of all deposit statements issued by the bank. Each department will receive from the treasurer a monthly list of deposits that have been verified through the bank statement. Any discrepancies shall be reported to the treasurer.

PETTY CASH. No officer, employee, volunteer, department, committee, board, or group may establish a petty cash system without consent from the selectboard and the treasurer. The selectboard will appoint an officer, employee, or volunteer to be custodian for each petty cash account. A base petty cash amount must be determined by the treasurer. A lockable cash box will be used to store petty cash and must be locked at all times. The key will be kept in a secure location. Only the petty cash custodian and the treasurer will have access to the locked petty cash box and key.

A pre-numbered, two-part receipt will be issued by the custodian or the treasurer for each payment made out of petty cash. This receipt is to be signed by the custodian or treasurer and the officer, employee, or volunteer receiving the petty cash. Payments out of petty cash will be made only when a valid receipt is presented. Should prepayments out of petty cash be necessary, a memo explaining the purpose of the prepayment must be signed by the custodian or treasurer and the officer, employee, or volunteer and placed in the petty cash box or drawer.

At all times the total of receipts added to the cash remaining in the petty cash box must equal the predetermined petty cash amount. Under no circumstance will personal funds be used to compensate shortages. All shortages must be brought to the attention of the treasurer immediately upon discovery.

RETURNED CHECKS. A returned check will be recorded in the accounting system against the revenue in which it was originally posted if the check is not replaced. First-time returned checks will be re-deposited. Upon second receipt of a returned check, the treasurer will notify the check writer and inform him or her that his or her check did not clear and advise that there is a *[Insert a amount based on the fee charged by the Town's bank plus an additional amount to cover the Town's expenses arising from handling the returned check]* return check fee due. Thereafter, full payment, including the return check fee, must be in the form of cash, money order, or bank certified check.

The foregoing Policy is hereby adopted by the selectboard and the treasurer of the Town of _____, Vermont, this ___ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Treasurer

Section 4. Model Credit Card Policy

Many towns have instituted credit card or purchasing card programs as a way to avoid small-dollar, high-volume repetitive purchases, and to avoid the necessity for petty cash funds. Transactions can be done more conveniently and expediently, there is less paperwork to process and fewer checks to write, and there are more merchants from whom purchases can be made.

Such programs provide an opportunity for misuse, so it is important that a credit card policy clearly establish the controls and criteria for card use, and that this information be effectively communicated to those employees who are authorized to use the cards.

The following should be considered in the development of a credit card policy:

Purchasing Controls. The GFOA recommends various controls be established to avoid misuse/abuse of credit cards:

- Instructions on employee responsibility with written acknowledgement by the employee.
- Ongoing training of cardholders.
- Spending and transaction limits for each cardholder (both per transaction and on a monthly basis).
- Written requests for higher spending limits.
- Recordkeeping requirements, including review and approval process.
- Clear guidelines as to the appropriate uses of the cards, including approved merchant codes.
- Guidelines for making purchases by telephone, fax, or online.
- Periodic audits for card activity and retention of documentation.
- Timely reconciliation by cardholders and supervisors.
- Procedures for handling disputes and unauthorized purchases.
- Procedures for card issuance and cancellation, lost or stolen cards, and employee termination.
- Segregation of duties for payment approvals, accounting, and reconciliations.

The accompanying model policy provides a simplified process to identify authorized card users and standards for appropriate credit card use and documentation. It also provides that authorized credit card users will be responsible for the card's protection and custody.

Merchant Category Codes. Though not included in the model policy, the Merchant Category Codes (MCC) system is a process of identifying vendors based upon the type of commodities sold or services offered. Purchasing card programs can be set up to reject certain purchases based on the MCC of a particular vendor. For example, a card program can be set up to reject purchases at vendors identified as bars or cocktail lounges, travel agencies, jewelry stores, liquor stores, etc.

Segregation of Duties. As with so many other policies, adequate segregation of duties is important in the successful operation of a credit card or purchasing card program. No one individual should be able to authorize a transaction, record the transaction, maintain custody of the asset acquired under the transaction, and reconcile the transaction in the accounting records.

CREDIT CARD POLICY
Town of _____

PURPOSE. Credit cards provide a convenient method of obtaining goods and services for the Town. However, by their nature, credit cards provide an opportunity for unauthorized purchases and fraudulent activity. The purpose of this policy is to establish criteria for the proper use of credit cards when conducting Town business.

CARD HOLDERS AND LIMITS. The selectboard will determine which officers and employees of the Town will be authorized to use a Town credit card and will establish appropriate limits for each purchase and the total credit limit for each card. Cards will be issued in the names of authorized officers and employees.

CREDIT CARD USE. Credit cards issued under this policy may only be used by the named cardholder to conduct Town business. Credit cards may not be used for personal purchases, cash advances, or purchases that exceed the cardholder's authorized purchase limit. A cardholder who makes unauthorized purchases or advances will be liable for the amount of such purchases or advances, plus any administrative fees charged by the bank in connection with the misuse. Employees may be subject to disciplinary action for misuse of a Town credit card, up to and including termination.

SECURITY. Authorized credit card users are responsible for the card's protection and custody and shall immediately notify the selectboard and the credit card company or bank if the credit card is lost or stolen.

DOCUMENTATION. Each month, with submission of the credit card bill to the treasurer, authorized credit card users shall submit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the purchase, and the official business for which it was purchased. For over-the-counter purchases, documentation will include the invoice and customer copy of the charge receipt. For internet purchases, documentation will include a copy of the receipt and order conformation page. For telephone purchases, documentation will include a faxed copy of the receipt from the vendor.

SEPARATION. Prior to separation from the Town, the cardholder will surrender the credit card to the selectboard.

The foregoing Policy is hereby adopted by the selectboard of the Town of _____, Vermont, this ___ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 5. Model Debt Management Policy

Though most Vermont municipalities take a very conservative approach to debt, a formal debt management policy can be an important financial management tool for town government. When debt is issued, it obligates the municipality to make regular payments for a number of years into the future. As a result, debt service can impact a town's financial condition over the long term and can limit flexibility to respond to changing needs and priorities.

Vermont law provides a very high ceiling for the limit of municipal debt. According to 24 V.S.A. § 1762, a municipality may not incur an indebtedness for public improvements which, with its previously contracted indebtedness, in the aggregate exceeds ten times the amount of the last grand list. Other statutes on municipal borrowing authority are found in V.S.A. 24, Chapter 53.

A municipal debt management policy will provide written guidelines affecting the amount, issuance, process, and type of debt. A debt management policy establishes criteria for issuing debt obligations so as not to exceed acceptable levels of indebtedness. Debt management policies transmit a message to the public and investors that the municipality is committed to sound financial management. These policies can also provide consistency and continuity in the debt issuance process.

The following should be considered in the development of a debt management policy:

Conditions for Debt Issuance. A debt management policy should specify the conditions or purposes for which the issuance of debt will be proposed by the selectboard, including the purposes and uses of each type of debt, the types of debt that will be utilized (short-term borrowing, capital lease agreements, general obligation bonds, etc.), life of assets acquired with each type of debt, and conditions for refunding debt.

Restrictions on Debt Issuance. Debt management policies should also indicate any restrictions or limitations that are placed on the use of debt, including any prohibited uses, any limitations on the size of each issuance, limitations on the length of maturity for different types of projects, and any statutory limits on the amount of debt that can be issued.

Debt and Debt Service Limits. A limit on the amount of outstanding debt that is allowed should be included in the policy. This limit can be expressed in terms of a percentage of assessed value or as an amount per capita. A limit on the amount of annual debt service (principal and interest) should also be specified. This limit can be expressed as a percentage of revenues or expenditures, including coverage requirements for revenue debt, or as an amount per capita.

Characteristics of Debt Structure. Debt management policies should address the structure of debt issuance, including repayment provisions (level principal payments or level debt service payments), maturity guidelines, the use of debt service funds, and the investment of any bond proceeds (including a discussion of arbitrage regulations).

Debt Issuance Process. Most municipalities in the state utilize the Vermont Municipal Bond Bank to issue general obligation debt, so their procedures detail the debt issuance process. Under other circumstances, the debt management policy would include discussion of the sale process, the use of professionals to assist in the issuance process, bond rating goals, disclosure requirements, and rating agency relations.

For more information on debt management policies, please refer to *Financial Policies: Design and Implementation*, published by the Government Finance Officers Association. A copy of this document can be purchased at www.gfoa.org.

DEBT MANAGEMENT POLICY

Town of _____

PURPOSE. The purpose of this Policy is to establish the guidelines for the issuance of debt by the Town of _____. Debt levels and the related annual debt service expenditures are important long-term obligations that must be managed with available short- and long-term resources. This policy also addresses the level of indebtedness that the Town can reasonably expect to incur without jeopardizing its existing financial position.

Adherence to a debt management policy, along with the utilization of other sound and prudent financial practices and the Town's other financial policies, will assure the lending market that the Town is well managed and will meet its obligations in a timely manner.

PLANNING AND PERFORMANCE. Debt management means adopting and maintaining financial plans for both the issuance and repayment of debt. The determination to issue new debt should be made as a part of the adoption of the annual capital budget, which prioritizes capital projects and identifies the various funding sources available for those projects. Planning for the repayment of debt will include analysis of the operating budget to determine if the fund will incur the additional debt service required by the new debt.

USE OF SHORT-TERM AND LONG-TERM DEBT. Short-term debt should be limited to borrowing to cover short-term, temporary cash flow shortages within the Town's fiscal year through the use of tax anticipation notes in those instances where there is an inadequate level of cash flow, or through the use of bond anticipation notes when cash is required to initiate a capital project prior to the receipt of bond proceeds. The selectboard should manage the Town's finances so as to avoid the use of short-term debt when possible.

Long-term debt should be issued for the acquisition, construction, or improvement of land, buildings, infrastructure, and public improvements that cannot be financed from current revenues or other resources. Current year budget appropriations and accumulated reserve funds should be used to minimize the amount of long-term borrowing that is required.

PURPOSE OF DEBT. General obligation debt funded by general fund property taxes shall be used for projects that provide a general benefit to Town residents and that cannot otherwise be self-supporting. Debt incurred for use by an enterprise fund, even if backed by a general obligation pledge of the Town, shall be self-supporting and repaid solely from the revenues of such fund, unless a general benefit to Town residents can be demonstrated.

REPAYMENT OF DEBT. The selectboard will conservatively project the revenue sources that will be utilized to repay any debt, and will analyze the impact on voters of both the additional debt service as well as any additional operating expenses resulting from the improvement, to determine if new debt should be issued and to structure the appropriate repayment terms for each debt issue. The maturity of long-term debt shall be kept as short as possible to minimize the overall impact on the taxpayers during the life of the debt. At the same time, it should not be so short that the repayment will create an unreasonable burden. In no event shall the life of the debt exceed the life of the improvement being financed.

DEBT RATIOS. The following guidelines will be used when determining if debt should be issued:

1. The town should not incur indebtedness which, with its previously contracted indebtedness, in the aggregate exceeds ___ times the amount of the last grand list.
2. Total town indebtedness per capita should not exceed \$_____.
3. Total debt service (principal and interest) as a percentage of total town budget expenditures should not exceed ____%.

The foregoing Policy is hereby adopted by the selectboard of the Town of _____, Vermont, this ___ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 6. Model Capital Program and Budget Policy

The capital assets of a town and their condition are critical to the quality of services that a municipality can provide. Capital asset expenditures can be more controversial than other expenditures because they typically involve large sums of money, often raised through debt financing, and not every citizen will agree as to the necessity of each project that is undertaken. By using a well thought out capital improvement program, the town can plan for replacement of assets, potential capital reserve funding, operating budget expenditures, and debt service expenditures.

Vermont law provides for adoption of a capital budget and plan at 24 V.S.A. § 4430 and encourages that the capital improvement plan conforms to the municipal plan.

Capital improvement policies need to be general and flexible to accommodate a community's political will while still providing enough guidance to enable sound financial choices. Therefore, the policy will generally consist of guidelines designed to stimulate an informed debate to encourage the most enlightened choices, rather than trying to force efficient or effective decisions by way of a rigid menu of policy choices. Determining the criteria for selecting projects in advance will take the emotion out of the selection process.

Consider the following when developing a capital improvement policy:

Capital Improvement Plan. The basis of any capital improvement program is the capital improvement plan (CIP), a multi-year projection of the town's capital needs and its available financial resources. The purpose of the CIP is to help build consensus on what are the most important projects, thus ensuring these projects are undertaken first. The policy needs to include the criteria that will be used to prioritize the projects that are included in the plan.

Project Financing. There are numerous alternatives for financing capital projects, from pay-as-you-go financing or accumulation of reserve funds to leases and other debt instruments. The policy should include a discussion of the town's preferred financing methods.

For more information on capital planning, please see the *Vermont Land Use Planning Implementation Manual*, published by the Vermont Land Use Education and Training Collaborative. The Implementation Manual is available at www.vpic.info.

CAPITAL PROGRAM AND BUDGET POLICY
Town of _____

PURPOSE. The purpose of this Capital Program and Budget Policy is to establish a capital improvement program (CIP) for the Town of _____ in accordance with 24 V.S.A. § 4433. The capital assets of the Town and their condition are critical to the quality of services provided to the municipality. A CIP is a multi-year financial plan for the construction or acquisition of capital assets. It provides for the planning of future financial resources and financing of projects (including allocations from current operating budgets, funding of capital reserves, or the use of capital debt). A CIP also identifies the future financial resources required to operate and maintain capital assets once they have been acquired. Through a CIP, the Town can plan future operating budget expenditures, debt repayment requirements, and potential reserve fund needs in order to better manage its long-term financial position.

CAPITAL IMPROVEMENT PLAN AND BUDGET The selectboard will adopt a five-year CIP for the Town of _____. This plan will include the Town's plan of capital projects proposed to be undertaken during each of the following five years, the estimated cost of those projects, and the proposed method of financing. The selectboard will review and update the CIP annually.

The CIP will be arranged to indicate order of priority of each capital project and to state for each project the following: (1) a description of each proposed project and the estimated total cost of the project; (2) the proposed method of financing, indicating the amount proposed to be financed by direct budgetary appropriation or duly established reserve funds, the amount estimated to be received from the federal or state government, the amount to be financed by impact fees, and the amount to be financed by the issuance of debt obligations, showing the proposed type or types of obligations, together with the period of probable usefulness for which they are proposed to be issued; and (3) an estimate of the effect, if any, upon operating costs of the municipality.

Each year, the selectboard will develop a capital budget that lists and describes the capital expenditures to be undertaken by the Town during the coming fiscal year. As resources are available, the capital budget will be incorporated into the current year operating budget.

CAPITAL EXPENDITURES. For purposes of the CIP, a capital expenditure is defined as any expenditure for land, land improvements, buildings, building improvements, vehicles, or equipment costing more than \$_____ and any expenditure for infrastructure (e.g., roads, bridges, water and wastewater distribution and collection systems) costing more than \$_____.

RESERVE FUNDS. In conjunction with the Town's debt management policy, the selectboard shall annually propose funding of reserve funds created in accordance with 24 V.S.A. § 2804 to accumulate resources to pay for items included in the CIP. The use of such reserve funds should minimize large fluctuations in the tax rate and will reduce the need for incurring additional debt. Other capital improvements may be funded by bond issue or through the operating budget.

PRIORITY CRITERIA. Capital projects and/or capital assets will receive a higher priority if they meet some or most of the following criteria:

1. The project or asset meets a policy goal or fulfills a strategic objective of the selectboard.
2. The project or asset is required under a state or federal mandate, law, or regulation.
3. The project or asset will mitigate or eliminate a known safety hazard.
4. The project or asset will maintain and improve the delivery of public services to the majority of the population.
5. The project or asset will improve the quality of existing infrastructure.
6. State or federal grant funds are available to assist in funding for project.

The foregoing Policy is hereby adopted by the selectboard of the Town of _____, Vermont, this ___ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 7. Model Investment Policy

Vermont law provides that money received by a treasurer on behalf of the town may be invested and reinvested by the treasurer with the approval of the selectboard. 24 V.S.A. § 1571(b). While there are very specific investment requirements in 24 V.S.A. § 2432 that apply to trustees of public funds, there is nothing beyond the broad grant of authority in 24 V.S.A. § 1571(b) applicable to investments made by the treasurer and selectboard.

Given the amounts that could be invested by a town under 24 V.S.A. § 1571(b), it is imperative that the selectboard and treasurer adopt a policy to guide their investment decisions. The primary purpose of a town's investment policy should be to strike a balance between risk and return while following a conservative investment approach that preserves sufficient liquidity to allow the town to meet its cash flow needs. A well written policy will provide the guidelines, parameters, and procedures for investing the municipality's surplus funds.

Consider the following when developing an investment policy:

Scope. The policy should identify which funds are subject to the policy. Normally, all funds of the government should be subject to the investment policy, except for trust assets, which are typically handled under a separate trust investment policy, and bond fund investments handled under a separate debt management policy. In addition, certain intergovernmental revenues contain restrictions on income earnings, so the policy would not apply to those funds either.

Objectives. The selectboard and treasurer should address the primary objectives of its investment program – safety, liquidity, yield – as well as a discussion of any goals for local investment.

- Safety refers to the preservation of capital and the protection of investment principle and should be the foremost objective of the investment policy. Safety risks include credit risk (the risk of loss due to the failure of the security) and interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market interest rates).
- Liquidity refers to the ability of an investment to be converted into cash with minimal loss of principle or interest to insure that the investment portfolio will be able to meet all reasonably anticipated cash flow requirements.
- Yield is of less importance than safety or liquidity, but is important as an interest earning on an investment is a significant source of additional income for a municipality. A balance must be struck between risk and yield, as lower risk securities generally have a lower yield. Diversification of investments and a routine comparison of the portfolio's performance with market indexes will address concerns over yield.
- Local investment may be an important objective for a municipality if the eligible financial institution demonstrates the intention of using the deposited funds to better the local economy or to invest in community development projects.

Standard of Care. The policy should provide a clear delineation of responsibilities for carrying out the investment activities of the municipality. The GFOA recommends using the “prudent person” rule of investment as the standard of care. This rule provides that investments should 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 probably safety of their capital as well as the probable income derived.

In addition, the policy should include a conflict of interest statement, directing those responsible for investing town funds to refrain from personal business activities that could conflict with the proper execution and management of the investment program.

Authorized Institutions and Authorized Investments. Public deposits should only be made in qualified public depositories as established by state law, and the policy should include guidelines as to the information that should be submitted by financial institutions. The municipality should also review the various investments that are permitted under state statutes and determine which investments are appropriate for their size and the type of portfolio they will have.

Maturity and Diversification Guidelines. Investment portfolios should be diversified to avoid an over-concentration of assets in any particular maturity, issuer, or class of securities. Maturity guidelines should reflect the cash flows of the municipality and the purposes of the investment. Shorter term investments provide readily available funds to meet expenditure requirements. The policy should limit the amount of funds that may be invested in any one issuer to avoid significant credit risk. Further, the policy should establish guidelines as to the diversification of investments by class of security.

Collateralization. Exposure to custodial credit risk – the risk that the municipality may not be able to recover its deposits in the event of the failure of the depository institution – can be minimized by collateralizing all deposits, and by having that collateral held in the name of the municipality with a third party bank or with the bank’s trust department.

Reporting. The policy should specify the frequency and format of any reporting of the investment portfolio. The reports should be issued frequently enough to give an accurate picture of the funds that are available and should provide enough detail for the users to understand the transactions for the period and the status of the portfolio at the end of the period. The policy should also establish benchmarks to determine the performance of the fund. The benchmarks used should be based on similar investment objectives and risk tolerances of comparable municipalities.

For more information on municipal investment policies, please refer to *Financial Policies: Design and Implementation*, published by the Government Finance Officers Association. A copy of this document can be purchased at www.gfoa.org.

INVESTMENT POLICY Town of _____

PURPOSE. In accordance with 24 V.S.A. § 1571(b), moneys received by the treasurer on behalf of the Town of _____ may be invested and reinvested by the treasurer with the approval of the selectboard. The purpose of this Investment Policy is to establish the investment objectives, standards of investing prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the proper management and investment of the funds of the Town of _____.

This Policy does not apply to trust funds held by the Town of _____. These trust funds are managed under a separate investment policy for trust assets, adopted by the _____ trustees of public funds in accordance with 24 V.S.A. § 2432. It does not apply to bond fund investments made in accordance with applicable bond debenture requirements.

OBJECTIVES. The primary objectives in priority order of investment of the funds of the Town of _____ shall be safety, liquidity, yield, and local investment:

Safety. Safety of principal shall be the foremost objective of Town funds. Investments will be undertaken so as to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (the risk of loss due to the failure of the security) and interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market interest rates). Credit risk will be minimized by diversifying the Town's investment portfolio so that the impact of potential losses from any one type of investment will be minimized. Interest rate risk will be minimized by investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the Town's investment portfolio.

Liquidity. The Town's investment portfolio will remain sufficiently liquid to meet all reasonably anticipated operating requirements. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. The portfolio will consist primarily of securities with active secondary or resale markets. A portion of the portfolio may be placed in money market mutual funds to ensure liquidity for short-term funds.

Yield. The investment portfolio will be designed to attain a market rate of return throughout budget and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments will be limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Yield is of secondary importance compared to safety and liquidity objectives.

Local Investment. Where possible, funds may be invested for the betterment of the local economy. The Town may accept a proposal from an eligible institution that provides for a reduced rate of interest, provided that such institution documents the use of deposited

funds for community development projects. Local investment is of tertiary importance compared to the safety, liquidity, and yield objectives described above.

POOLING. Except where prohibited by law, cash and reserve balances from all funds will be consolidated to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to various funds based on their respective participation and in accordance with generally accepted accounting principles.

STANDARD OF CARE. The standard of care to be used by the treasurer and selectboard shall be the prudent person standard and shall be applied in the context of managing an overall portfolio. 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.

CONFLICTS OF INTEREST. The selectboard and the treasurer shall refrain from personal business activity that could conflict with the proper execution and management of the Town's investments or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which the Town conducts business, and further disclose any personal financial or investment positions that could be related to the performance of the Town's investments. Selectboard members and the treasurer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

INTERNAL CONTROLS. The selectboard and treasurer will establish a system of internal controls, which shall be documented in writing to prevent the loss of invested funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town.

AUTHORIZED INVESTMENTS AND INSTITUTIONS. Public deposits shall only be made in qualified public depositories as established by Vermont law. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the Town must supply the following as appropriate:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
2. Proof of National Association of Securities Dealers (NASD) certification;
3. Proof of state registration;
4. Certification of having read and understood and agreeing to comply with the Town's investment policy; and
5. Evidence of adequate insurance coverage.

The treasurer and selectboard will conduct an annual review of the financial condition and registration of all qualified financial institutions and broker/dealers.

The following investments will be permitted under this policy:

1. U.S. Treasury obligations which carry the full faith and credit guarantee of the United States Government and are considered to be the most secure instruments available;
2. U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
3. Certificates of deposit and other evidences of deposit at financial institutions;
4. Bankers acceptances;
5. Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, D-1 or higher) by a nationally recognized rating agency;
6. Investment grade obligations of state and local governments and public authorities;
7. Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
8. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
9. Local government investment pools, either state-administered or developed through joint powers statutes, and other intergovernmental agreement legislation.

COLLATERALIZATION. Collateralization using obligations fully guaranteed by the full faith and credit of a Vermont municipality, the State of Vermont, and/or the United States Government will be required on certificates of deposit and repurchase agreements. The current market value of the applicable collateral will at all times be no less than 102% of the sum of principal plus accrued interest of the certificates of deposit or the repurchase agreement secured by the collateral. Collateral will always be held by an independent party, in the Town's name, with whom the Town has a current custodial agreement. Evidence of ownership must be supplied to, and retained by, the Town.

SAFEKEEPING AND CUSTODY. All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by an independent third-party custodian selected by the treasurer as evidenced by safekeeping receipts in the Town's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

REPORTING. The treasurer will prepare a quarterly investment report that analyzes the status of the current investment portfolio and the individual transactions executed over the last quarter. The report will include a listing of individual securities held at the end of the reporting period, realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over a one-year duration that are not intended to be held until maturity, average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks, listing of investment by maturity date, and percentage of the total portfolio which each type of investment represents.

The foregoing Policy is hereby adopted by the selectboard and the treasurer of the Town of _____, Vermont, this ____ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Treasurer

Section 8. Model Trustees of Public Funds Investment Policy

Vermont law provides that money held in trust by a town for any purpose, including cemetery trust funds, shall be under the charge and management of trustees of public funds unless the person giving the funds directs otherwise. 24 V.S.A. § 2431. It also provides that the income derived from investment of the money must be applied by the trustees to the purpose for which the trust is held. 24 V.S.A. § 2432(a).

Given the fiduciary position held by the trustees of public funds, it is important that they adopt a policy to guide their actions and investment decisions. The primary purpose of such a policy should be to strike a balance between risk and return while following a conservative investment approach that provides appropriate income to meet the trust's objectives. The model investment policy for trustees of public funds establishes investment objectives, standards of investing prudence, eligible investments, reporting requirements, and safekeeping and custodial procedures necessary to properly manage and invest trust funds.

When seeking guidance on investment of trust moneys, trustees should look first to the trust document. Frequently, one who places money in trust with a town also places conditions on how and where such trust moneys can be invested. Trustees must also follow Vermont law, which establishes specific investment vehicles appropriate for investment of town trust moneys. These investment requirements are set out at 24 V.S.A. § 2432(b) and in the model policy.

For additional information, see the discussion of the Model Investment Policy above. For more information on municipal investment policies, please refer to *Financial Policies: Design and Implementation*, published by the Government Finance Officers Association. A copy of this document can be purchased at www.gfoa.org.

TRUSTEES OF PUBLIC FUNDS INVESTMENT POLICY
Town of _____

PURPOSE. In accordance with 24 V.S.A. § 2431, funds held by a town in trust for any purpose, including cemetery trust funds, are under the charge and management of the Town's trustees of public funds. The trustees of public funds have the power to hold, purchase, sell, assign, transfer, and dispose of any of the securities and investments in which any of these funds are invested, as well as the proceeds of such investments. 24 V.S.A. § 2432(c).

The purpose of this Investment Policy is to establish the investment objectives, standards of investing prudence, eligible investments and transactions, reporting requirements, and safekeeping and custodial procedures necessary for the proper management and investment of those funds under the management and control of the trustees of public funds.

OBJECTIVES. The primary objectives in priority order of investment of the trust funds of the Town of _____ shall be safety, liquidity, yield, and local investment:

Safety. Safety of principal shall be the foremost objective of Town trust funds. Investments will be undertaken so as to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk (the risk of loss due to the failure of the security) and interest rate risk (the risk that the market value of securities in the portfolio will fall due to changes in market interest rates). Credit risk will be minimized by diversifying the investment portfolio so that the impact of potential losses from any one type of investment will be minimized. Interest rate risk will be minimized by investing operating funds primarily in shorter term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the investment portfolio.

Liquidity. The investment portfolio will remain sufficiently liquid to meet all reasonably anticipated operating requirements. This will be accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands.

Yield. The investment portfolio will be designed to attain a market rate of return throughout budget and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments will be limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Yield is of secondary importance compared to safety and liquidity objectives.

Local Investment. Where possible, trust funds may be invested for the betterment of the local economy. Local investment is of tertiary importance compared to the safety, liquidity, and yield objectives described above.

STANDARD OF CARE. The standard of care to be used by the trustees of public funds shall be the prudent investor standard set forth at 9 V.S.A. § 4652.

CONFLICTS OF INTEREST. The trustees of public funds shall refrain from personal business activity that could conflict with the proper execution and management of the Town's trust investments or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which the Town conducts business, and further disclose any personal financial or investment positions that could be related to the performance of the Town's trust investments. The trustees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

AUTHORIZED INVESTMENTS AND INSTITUTIONS. In accordance with 24 V.S.A. § 2432(b), the trustees of public funds are authorized to invest in:

1. Any security, including a revenue obligation, issued, insured, or guaranteed by the United States;
2. Such municipal bonds or other bonds that are rated at the time of the transaction by a nationally recognized statistical rating organization in one of its four highest categories;
3. Repurchase agreements or debt securities of any federally insured financial institution as defined in 8 V.S.A. § 11101(32);
4. The shares of an investment company or a unit investment trust that is registered under the federal investment company act of 1940, as amended, if such mutual investment fund has been in operation for at least ten years and has net assets of at least \$500 million; or
5. Deposits in federally insured financial institutions as defined in subdivision 11101(32) of Title 8.

In accordance with 24 V.S.A. § 2432(a), the trustees may also loan trust money, with interest, provided that such loans are secured by a deed or mortgage of real estate in Vermont.

COLLATERALIZATION. Collateralization using obligations fully guaranteed by the full faith and credit of a Vermont municipality, the State of Vermont and/or the United States Government will be required on certificates of deposit and repurchase agreements. The current market value of the applicable collateral will at all times be no less than 102% of the sum of principal plus accrued interest of the certificates of deposit or the repurchase agreement secured by the collateral. Collateral will always be held by an independent party, in the Town's name, with whom the Town has a current custodial agreement. Evidence of ownership must be supplied to, and retained by, the Town.

SAFEKEEPING AND CUSTODY. All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by an independent third-party custodian selected by the treasurer as evidenced by safekeeping receipts in the Town's name.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

REPORTING. In addition to the annual reporting requirement set forth in 24 V.S.A. § 2434, the trustees will prepare a quarterly investment report that analyzes the status of the current investment portfolio and the individual transactions executed over the last quarter.

The foregoing Policy is hereby adopted by the trustees of public funds of the Town of _____, Vermont, this ____ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 9. Model Fraud Prevention Policy

Establishing good internal controls is one way to minimize the opportunity for fraud. Another good way is to adopt a fraud prevention policy that outlines what is expected of all employees in terms of their personal conduct, as well as their role and responsibility in reporting suspected inappropriate actions by others.

A fraud prevention policy must inform employees that fraudulent acts will not be tolerated and explain that each employee has a duty to report any activity that appears to violate any law, regulation, or policy. The policy must also clearly outline the process that is available to report any suspected violation and assure employees that complaints will be investigated confidentially and without retaliation of any kind.

Vermont law provides that town auditors may – and if requested by the selectboard, shall – examine the records of any town officer authorized by law to receive money belonging to the town. If the town has voted to eliminate the office of auditor, this authority is vested in the public accountant upon request of the selectboard. Any town officer who refuses or neglects to submit these records is ineligible for re-election. 24 V.S.A. § 1686.

Consider the following when developing a fraud prevention policy:

Explanation of Fraudulent Activities. Fraud prevention policies should begin with a statement stressing the town's interest in encouraging ethical and honest behavior. It should include an explanation as to what constitutes misconduct or dishonest behavior and clarify that fraud is very different from errors or mistakes. Unlike errors or mistakes, fraud is the result of a deliberate act, an intentional deception to misappropriate assets or to manipulate data for personal gain. The policy should also state that the municipality will not tolerate any acts of fraud, regardless of the dollar amount involved.

Responsibility to Report. The policy should emphasize that each employee has a responsibility to immediately report any suspected acts of fraud. The policy should identify to whom an employee should report, and what to do if that individual is the one suspected of fraud.

Investigation and Reporting. Included in the policy should be the process for investigating the complaint, and a statement assuring employees that reports will be treated in a confidential manner and that retaliation will not be tolerated. The policy should also address the matter of false allegations and the consequences that may result from such allegations. At the conclusion of the investigation, a written response to the reported incident should be made, which will be a public document.

FRAUD PREVENTION POLICY
Town of _____

PURPOSE. The purpose of this policy is to provide a mechanism for employees and officers to bring to the attention of the town auditors [*the public accountant employed by the selectboard*] any complaints regarding the integrity of the Town's internal financial controls or the accuracy or completeness of financial or other information used in or related to the Town's financial statements and reports. Town employees and officers shall not be discharged, demoted, suspended, threatened, harassed, or discriminated against in any manner for raising reasonable questions concerning the fair presentation of town financial statements in accordance with this policy.

REPORTS OF IRREGULARITY. Any employee who has a complaint regarding the integrity of the Town's internal financial controls or the accuracy or completeness of financial or other information used in or related to the Town's financial statements and reports, or who observes any questionable accounting practices, should report such complaint to the town auditors [*the public accountant employed by the selectboard*].

The report should include a description of the matter or irregularity, the period of time during which the employee observed the matter or irregularity, and any steps that the employee has taken to investigate the matter or irregularity, including reporting it to a supervisor and the supervisor's reaction. The report may include, at the employee's option, the employee's contact information if additional information is needed. However a report shall not be deemed deficient because the employee did not include contact information.

Examples of reportable actions include any indication of fraud, misappropriation of Town resources, substantial variation in the Town's financial reporting methodology from prior practice or from generally accepted accounting principles, and the falsification, concealment, or inappropriate destruction of Town financial records.

INVESTIGATION. Upon receiving such a report, the town auditors [*the public accountant employed by the selectboard*] shall investigate the issues identified in the report. The town auditors [*the public accountant employed by the selectboard*] may consult with the selectboard, town manager, treasurer, any other Town employee, legal counsel and independent auditors as a part of their investigation. At the conclusion of the investigation, the town auditors [*the public accountant employed by the selectboard*] shall prepare a written response to the report, which shall be a public document.

In accordance with 24 V.S.A. § 1686(c), any town officer who willfully refuses or neglects to submit his or her books, accounts, vouchers, or tax bills to the auditors upon request, or to furnish all necessary information in relation thereto, shall be ineligible for reelection for the year ensuing and be subject to the penalties otherwise prescribed by law.

The foregoing Policy is hereby adopted by the selectboard and the treasurer of the Town of _____, Vermont, this ____ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 10. Model Fund Balance Reserve Policy

Like any planning effort, municipal budgeting involves an element of risk. When preparing and adopting a proposed budget, neither the selectboard nor the voters can precisely predict circumstances during the coming year. A municipal budget must necessarily be built on certain assumptions and estimates of revenues and expenditures.

In most cases, these assumptions and estimates prove accurate and a municipality will end its fiscal year on target, but an economic downturn can increase property tax delinquencies, commodity prices can rise sharply, or the state may delay payment of financial aid. Unusual weather conditions can require additional labor and equipment expenditures to keep the roads open for travel or a key piece of equipment can break down. These temporary revenue shortfalls and unpredicted expenditures can force a municipality to increase taxes, reduce service levels, delay anticipated projects, or incur short-term debt to cover a deficit.

Reserve Funds. Through establishment of a reserve fund, local governments can mitigate the impact of unforeseen events on the municipal budget. Twenty-four V.S.A. § 2804(a) allows municipalities to establish a reserve fund under the control and direction of the selectboard. Money in the reserve fund can be expended by the selectboard for such purposes for which the reserve fund was established or for other purposes when authorized by a majority of the voters at an annual or special meeting. Creation of a reserve fund would require voter approval of a warning article similar to this:

Shall the voters establish a reserve fund in an amount not to exceed 5% of the general and highway fund budget to cover unanticipated revenue shortfalls and to pay non-recurring and unanticipated general and highway fund expenses, in accordance with 24 V.S.A. § 2804(a)?

A reserve fund balance policy can assist the selectboard in administering such a reserve fund by guiding decisions about how money will be set aside in the reserve fund and the circumstances under which money in it will be spent. This model policy provides that the selectboard will propose funding of the reserve fund through the town budget to maintain the balance at the maximum amount authorized by the voters.

Appropriate Fund Balance. Most financial municipal experts agree that a municipality should maintain financial reserves of at least 5 percent of annual operating expenditures and that the more unstable a municipality's revenue base, the larger its reserves should be. In this regard, Vermont municipalities that rely more heavily on local option tax revenues may consider larger reserves than those that depend almost exclusively on the municipal property tax.

Use of Funds. The model policy provides that the selectboard will only use the reserve fund "to alleviate unanticipated short-term budgetary issues such as revenue shortfalls or unforeseen expenses." It also requires the selectboard to hold a public hearing before authorizing expenditure from the reserve fund. If any reserve fund expenditure reduces the fund balance below 75% of the maximum amount authorized by the voters, the selectboard must develop a plan to restore the funds to the prescribed level.

RESERVE FUND BALANCE POLICY
Town of _____

PURPOSE. The selectboard of the Town of _____ believes that sound financial management requires that sufficient funds be maintained by the Town for unanticipated expenditures and revenue shortfalls during the course of the fiscal year as may be caused by economic downturns, natural disasters, and other unforeseen circumstances. Maintaining such funds will help sustain the stability of the Town tax rate and reduce the need for short-term borrowing.

OBJECTIVE. Upon recommendation of the selectboard, on March __, 20__, voters of the Town authorized establishment of a reserve fund in accordance with 24 V.S.A. § 2804(a). The selectboard’s objective is for adequate funds to be set aside in this reserve fund in a planned and consistent manner and that these moneys not be spent for regular Town expenditures or used to reduce property taxes.

RESERVE FUND EXPENDITURES. The reserve fund was established by the voters for the purpose of covering unanticipated revenue shortfalls and paying non-recurring and unanticipated general and highway fund expenditures of the Town. To this end, the selectboard will only use the reserve fund to alleviate unanticipated short-term budgetary issues such as revenue shortfalls or unforeseen expenses. Any expenditure of the reserve fund by the selectboard for such purposes shall require approval of a majority of selectboard members after due notice and a public hearing. In accordance with 24 V.S.A. § 2804(a), expenditure of the reserve fund for any other purpose shall require the authorization of a majority of the voters present at an annual or special town meeting.

RESERVE FUND APPROPRIATIONS. Annually, the selectboard will propose funding of the contingency reserve fund through the town budget to maintain the balance at the maximum amount authorized by the voters. If an expenditure reduces the contingency reserve fund balance below 75% of the maximum amount authorized by the voters, the selectboard will, as part of its approval, adopt a plan to restore the funds to the prescribed level.

The foregoing Policy is hereby adopted by the selectboard of the Town of _____, Vermont, this ___day of _____ and is effective as of this date until amended or repealed.

Chairperson

Section 11. Model Balanced Budget Policy

A balanced budget is necessary for proper financial management in local government. Overestimation of municipal revenues, deferral of maintenance, replacement of capital assets, and inadequate funding of municipal obligations can necessitate borrowing or increases in tax rates, both of which can limit a municipality's ability to provide future services.

Budget Creation and Administration. By tradition, the selectboard prepares the budget for voter approval at the annual town meeting; by law, it sets the tax rate necessary to raise the specific amounts voted. The selectboard manages the town budget through the course of the fiscal year under its authority to sign orders for payment of town funds. To approve orders, the board must meet and, by a majority of the total number of members of the board, vote to authorize the treasurer to disburse money. The selectboard may vote to authorize one or more members to examine and approve the payment of certain town expenses.

Unanticipated expenditures and revenue shortfalls caused by unforeseen circumstance can require a transfer of money between line items or even deficit spending. The model policy provides that the municipal budget will be administered to provide services in a manner consistent with the voters' expectations in light of actual circumstances and managed to avoid deficit spending and short-term borrowing.

Line Item Transfers. The model policy also provides that all transfers between budget line items will require a majority vote of the selectboard. Highway fund transfers must be made consistent with the requirements of 19 V.S.A. § 312, which provides that funds raised from highway taxes will not be used for any purpose other than that for which the tax was voted.

Budget Closing Plan. At the close of the fiscal year, the treasurer will present a budget closing plan to the selectboard, making recommendations for transfers between line items and recommendations for the application of any budget surplus. Approval of the plan will require a majority vote of the selectboard. Any annual budget deficit will be addressed in accordance with 24 V.S.A. § 1523(a).

BALANCED BUDGET POLICY
Town of _____

PURPOSE. The selectboard of the Town of _____ believes that sound financial management requires that the annual Town budget be developed and administered in such a way that annual revenue from property taxes and other sources equals annual expenses. Adoption and administration of balanced budgets will help maintain the stability of the Town tax rate and reduce the need for borrowing.

BUDGET DEVELOPMENT AND APPROVAL. Each year, the selectboard will develop and present to the voters an operating budget that balances annual revenues and annual expenditures for all funds. The selectboard will avoid proposing annual budgets that overestimate revenues, defer maintenance or replacement of essential capital assets, roll over short-term debt, or inadequately fund Town obligations. Upon voter approval of the town budget, and after the grand list has been lodged in the office of the town clerk, the selectboard will set the tax rate necessary to raise the specific amounts voted, in accordance with 17 V.S.A. § 2664.

BUDGET ADMINISTRATION. The selectboard administers the town budget through its authority to sign orders for payment of town funds. 24 V.S.A. §§ 1576, 1621 and 1622. To approve orders, the selectboard must, by a majority of the total number of members of the board, vote to authorize the treasurer to disburse money. In order to carry out this responsibility effectively, the selectboard must have timely and accurate information about the status of the town's finances. To this end, the selectboard and treasurer have adopted a financial reporting policy under which the treasurer prepares monthly financial reports for the selectboard's budget management purposes.

The selectboard recognizes that unanticipated expenditures and revenue shortfalls caused by circumstances not foreseen at the time a budget is approved by the voters may require transfer of money between line items or even deficit spending. The selectboard will endeavor to administer the Town budget to provide services in a manner consistent with the voters' expectations in light of actual circumstances that arise during the fiscal year, and will manage the budget to avoid, to the extent reasonably possible, deficit spending or the need to borrow money to pay current operating expenses.

LINE ITEM TRANSFERS. During the fiscal year, all transfers between budget line items will require a majority vote of the selectboard. The vote will state the line items that are subject to transfer, the reason for the transfer, and the reason funds are available for transfer. Transfers will be made consistent with any applicable statute or legal obligations that may encumber or restrict the use of certain funds, including 19 V.S.A. § 312. At the close of the fiscal year, the treasurer will present a budget closing plan to the selectboard, making recommendations for transfers between line items, and recommending the application of any budget surplus. Approval of the budget closing plan will require a majority vote of the selectboard. Any annual budget deficit will be addressed in accordance with 24 V.S.A. § 1523(a).

The foregoing Policy is hereby adopted by the selectboard and treasurer of the Town of _____, Vermont, this ____ day of _____ and is effective as of this date until amended or repealed.

Chairperson

Treasurer