

Town of Nantucket, Massachusetts

Financial Policies & Procedures

Approved by the Board of Selectmen 11/16/2016

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INTRODUCTION

Local governance and municipal operations on Nantucket are directed by the town charter, Chapter 289 of the Acts of 1996. The charter vests legislative powers in open town meeting, while establishing a five-member board of selectmen. Selectmen provide general oversight and set priorities, goals and policies for the town.

A comprehensive set of policies, in addition to bolstering a municipality's credit rating, helps to ensure that practices are in place to promote fiscal stability and stewardship of local finances. Beyond enhancing the probability of financial stability for the community going forward, formal policies reinforce internal controls and provide guidance to local officials on effective and responsible management. Financial policies also guide management in decisions related to the budget, debt, capital planning, forecasting, and reporting activities.

The purpose of this document is to establish policies for managing revenues and expenditures in order to: ensure the continuous delivery of Town services at a level that is consistent with the needs and expectations of its citizens; provide for the acquisition and maintenance of appropriate infrastructure; stabilize tax rates; and preserve or improve the Town's credit rating.

This manual will be reviewed on an annual basis by the Town Manager and Director of Municipal Finance for propriety. As necessary, amendments will be presented to the Board of Selectmen for approval.

SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS OVERVIEW

Financial assumptions and projections are realistic and well-grounded from both a long-term and recent trend perspective.

Formal historical trend analysis is performed and updated annually for both revenue and spending; regular effort is made to determine whether revenues or expenditures will deviate from their long-term trends in the upcoming years; evidence of independent revenue forecast exists (when possible).

SECTION 2: BUDGET AMENDMENTS AND UPDATES OVERVIEW

Procedures for reviewing and amending the budget based on updated information and actual performance to ensure fiscal targets are met are in place.

Monthly budget surveillance is performed to identify problem areas and enable timely budget adjustments; management exhibits ability and willingness to address necessary intra-year revenue and expenditure changes to meet fiscal targets.

SECTION 3: LONG-TERM FINANCIAL PLANNING OVERVIEW

Management has a long-term financial plan that allows them to identify future revenues and expenditures as well as address upcoming issues that might affect these.

A multi-year financial plan exists where future issues are identified and possible solutions are considered, if not implemented; revenue and expenditure decisions are made primarily from a long-term perspective. Structural balance is a clear goal of the Town.

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SECTION 4: LONG-TERM CAPITAL PLANNING OVERVIEW

The Town has created a long-term capital improvement plan (CIP). A ten-year rolling CIP with funding identified for all years exists and is linked to the operating budget and long-term revenue and financing strategies.

SECTION 5: INVESTMENT MANAGEMENT POLICIES OVERVIEW

The Town has established investment policies, inclusive of the selection of financial institutions for services and transactions; risk assessment; investment objectives; investment maturities and volatility; portfolio diversification; safekeeping and custody; and investment performance reporting, benchmarking, and disclosure.

Strong investment policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning in the Town.

SECTION 6: DEBT MANAGEMENT POLICIES OVERVIEW

The Town has established policies pertaining to the issuance of debt, such as projects that may or may not be funded with debt (including economic development projects); maturity and debt service structure; use of security and pledges, credit enhancement, derivatives; and debt refunding guidelines.

Debt policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning.

SECTION 7: RESERVE AND LIQUIDITY POLICIES OVERVIEW

The Town has established a formalized operating reserve policy, which takes into account the government's cash flow/operating requirements and the historic volatility of revenues and expenditures through economic cycles.

A formal operating reserve policy is well defined. Reserve levels are clearly linked to the government's cash flow needs and the historic volatility of revenues and expenditures throughout economic cycles. Management has historically adhered to it.

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SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS

1.1 Financial Accounting Policy

Objective:

To provide accurate, meaningful and transparent financial information in order for the Town to better conduct its operations.

Policy:

The Town's fiscal year will begin each July 1st and conclude on the following June 30th.

It is the Town's policy to maintain its accounting records using the Uniform Massachusetts Accounting System (UMAS) and fund accounting. All sources of revenues and other inflows of resources as well as expenditures and outflows of resources are required to be recorded in the Town's accounting records.

The Town's financial statements are prepared in conformity with generally accepted accounting principles applied to state and local governments (GAAP). GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local government entities.

The Town's ledgers are maintained using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when due; certain compensated absences; claims and judgments which are recognized when obligations are expected to be liquidated with current expendable available resources.

The Town will adopt an annual budget each year and record its budget in its accounting system to assure the Town that expenditures do not exceed appropriations.

The Director of Municipal Finance is responsible for establishing and maintaining a system of internal controls adequate to safeguard the Town's assets and ensure that its accounting records are accurate.

Procedure:

The Director of Municipal Finance or designee will prepare monthly reports for the Town Manager, Board of Selectmen, and Finance Committee that analyze and evaluate revenue and expenditure financial performance. Anomalies or one-time occurrences will be explained in a summary section of the report. In the event a major revenue or expense exception occurs, the Director of Municipal Finance will inform Town Manager of the potential long-term impact on the budget and financial condition of the Town.

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The Director of Municipal Finance or designee will complete reconciliations between the accounts recorded in the accounting system with those of the Treasurer, Tax Collector, and other appropriate Town Departments on a monthly basis. Any variances between the accounting system and other departments will be investigated and resolved in a timely manner. Any issues that are not able to be resolved currently will be reported to the Town Manager in the monthly report.

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SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS

1.2 Internal Controls Policy

Objective:

To state the Town's expectations surrounding internal controls.

Policy:

The Director of Municipal Finance is responsible for establishing and maintaining a system of internal controls adequate to safeguard the Town's assets and ensure that its accounting records are accurate.

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an internal controls manual that shall be reviewed and updated periodically by Management. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum: • Control of collusion • Separation of transaction authority from accounting and recordkeeping • Custodial safekeeping • Avoidance of physical delivery securities • Clear delegation of authority to subordinate staff members • Written confirmation of transactions for investments and wire transfers • Dual authorizations of wire transfers • Staff training and • Review, maintenance and monitoring of security procedures both manual and automated. The external auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

The Town will use its best efforts to segregate duties related to incompatible roles and responsibilities, recognizing that cost-benefit may prevent optimal segregation of duties. In those circumstances, mitigating controls such as regular account reconciliations shall be employed.

It is the Town's policy to maintain its accounting records using the Uniform Massachusetts Accounting System, or UMAS, and fund accounting. All sources of revenues and other inflows of resources as well as expenditures and outflows of resources are required to be recorded in the Town's accounting records. The Director of Municipal Finance shall cause the reconciliation of the Town's accounting system to departmental records and independent, third party evidential matter.

Two of the Town's largest assets are cash and receivables, the information about which is maintained by the Town's Collector, Treasurer, and Director of Municipal Finance. To make sure financial records are accurate and no money is missing, these offices will reconcile their cash and receivable records on a monthly basis. Before reconciliations with the Director of Municipal Finance can occur, the Collector and Treasurer must keep current and accurate records. If variances are identified between sets of records, the pertinent financial officers will meet to determine the causes (e.g., missing information, input errors, and timing differences) with the goal of resolving them. The Director of Municipal Finance will report the results of these reconciliations to the Town Manager

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for the purpose of verifying that the reconciliations took place and providing explanations for any variances.

Prompt and frequent reconciliations between these financial offices are essential to maintaining controls and ensuring checks and balances are in place. It is the Town's policy to complete monthly reconciliations of the cash and receivables by the 20th of the subsequent month. (See Appendix A: monthly close timetable). While each office is responsible for conducting its own independent operation, they share a duty to ensure fiscal accountability. Reconciliations are performed to ensure that information was processed properly and that the financial records in each office are accurate.

The Director of Municipal Finance shall cause the investigation of any allegations or suspicions of fraud, ethics violations or other suspected improprieties involving the Town's financial resources.

The Audit Committee shall appoint an independent certified public accountant to audit the books and records of the Town. Although not subject to MGL Chapter 30B, the Town may consider an open bid process for its annual audit services every three (3) years.

The Town shall adopt an "open door" policy, which is intended to facilitate the flow of information throughout the Town and further enhance the Town's internal control system. Information is necessary for the entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS

1.3 Revenue Policy

Objective:

To define the Town's responsibilities related to the revenue streams utilized.

Policy:

The Town will maintain a diversified and stable revenue system. Each year, the Finance Department will update the seven-year revenue forecast and identify potential risks associated with each revenue stream including user fees & charges and one-time revenue sources.

At the start of the annual budget process, the Town will review its four, major revenue sources — tax levy, state aid, local estimated receipts, and available funds — before entertaining departmental spending requests. Given the constraints of Proposition 2½ and fluctuations in state aid, the Town must look to local receipts as a source of needed funds. Any new estimated new growth estimated in the tax levy will be done with the assistance of the Assessor.

Revenues from local receipts should go to the General Fund, unless Town Meeting decides to dedicate specific revenues to revolving funds or enterprise funds, or unless such revenues are required by statute to be dedicated to specific use(s). As with revenue from new growth, local receipts may be cyclical in nature, and the Town should exercise the same caution in incorporating related long-term revenue assumptions into future financial forecasts.

One-time revenue sources are identified as unreserved, undesignated revenue streams that occur on a one-time basis as opposed to a continuous basis each fiscal year. One-time revenue sources include but are not limited to revenue obtained through the sale of public land, grants and gifts.

The Town will not use one-time revenue sources as a resource to balance the operating budget.

Approved uses of one-time revenue sources are as follows:

1. Revenue obtained from the sale of public land will be recognized in accordance with the General Laws of Massachusetts Chapter 44 Section 63 as follows:

“whenever the proceeds of the sale or other disposal of real estate exceeds five hundred dollars, the same shall be applied to the payment of indebtedness incurred in acquiring such real estate or shall be added to the sinking fund, if any, from which said indebtedness is payable, or if no such indebtedness is outstanding may be used for any purpose or purposes for which the town is authorized to incur debt for a period of five years or more or be applied to the payment of indebtedness incurred under clause (3) of section seven, except that the proceeds of a sale in excess of five hundred dollars of any park land by a town shall be used only by said town for acquisition of land for park purposes or for capital improvements for town land”.

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2. Grant funding is only used for the purpose as stipulated in the grant. A financial audit is conducted each year for Federal & State grants to ensure the funds are used as intended by the grantor.

3. Gifts and other one-time revenue sources, such as donations, shall be held by the Town Treasurer and maintained in a separate fund by the Director of Municipal Finance. Gifts and donations can only be expended according to the purpose of the gift and/or donation as specified by the donor. If the Town is unable to use the gift or donation for the specified purpose, the funds will be returned to the donor.

Procedures:

User fees & charges apply to Town programs and services where the intent is to recapture, through fees, up to the full cost of providing such programs and services. On an annual basis, at the beginning of each budgetary cycle, the Finance Department will forward recommendations to Town Manager pertaining to increases and/or decreases to the existing user fee & charges matrix. Within the report to Town Manager, the service detail will indicate if there is an associated subsidy, surplus, or break-even point. Town Manager will review and determine if there is a public benefit to providing a subsidy to support the service or if the user fee needs to be adjusted to achieve full cost recovery. Town Manager's recommendations are then forwarded to the Board of Selectmen for consideration. In order to be incorporated into the financial forecast, the Board of Selectmen will need to adopt changes to the user fee & charges matrix no later than October each fiscal year. The review of user fees & charges that apply to the School system would be conducted by the School Finance Director, Superintendent, and School Committee.

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SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS

1.4 Procurement Policy

Objective:

To establish purchasing standards and practices consistent with state law.

Policy:

The Town shall use its best efforts to secure the most cost beneficial products and services that are of good quality.

The Town shall adhere to state procurement law (Chapters 30, 30B and 149).

Procedures:

- i. The Procurement Officer shall periodically notify Town departments of changes in state procurement laws.
- ii. The Procurement Officer shall manage the access, roles and approval rights within the Town's accounting system.
- iii. The Procurement Officer shall provide all Town departments with a template for use in documenting their compliance with the solicitation of three (3) or more quotes where the contract value is in excess of \$10,000 and under \$35,000 for all contracts within the parameters of MGL Chapter 30B.
- iv. The Procurement Officer shall lead the Town's efforts in the competitive bid process for all contracts in excess of \$35,000.
 - a. Competitive bids shall be advertised in a local newspaper;
 - b. Competitive bids shall be placed in the Central Register; and
 - c. Procurement Officer will organize and document a Public Bid Opening.
- v. The Procurement Officer shall review and/or develop all contracts, leases, and other day-to-day legal documents related to the Town's procurement of goods and services. A database of contracts shall be established and reviewed periodically for relevance.
- vi. Every contract for the construction, reconstruction, alteration, remodeling or repair of any public work, or for the purchase of any material by the Town estimated to cost more than ten thousand dollars, and every contract for the construction, reconstruction, installation, demolition, maintenance or repair of any building by a public agency estimated to cost more than \$25,000 but not more than \$100,000, will be awarded to the lowest responsible and eligible bidder on the basis of competitive bids publicly opened and read by such awarding authority forthwith upon expiration of the time for the filing thereof; provided, however, that such awarding authority may reject any and all bids, if it is in the public interest to do so. Every bid for such contract shall be accompanied by a bid deposit in the form of a bid bond, or cash,

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or a certified check on, or a treasurer's or cashier's check issued by, a responsible bank or trust company, payable to the awarding authority.

- vii. Additionally, all contracts outside of the requirements of Chapter 30B should be maintained by the Director of Municipal Finance, as required by Chapter 41, Section 57 of the MGL.

The amounts reflected in this policy are the current requirements of Massachusetts General Laws. As updates to this section of law occur they will be utilized in the application of this policy. This policy will be updated annually to reflect the current requirements of the MGL in place at the time.

SECTION 1: REVENUE AND EXPENDITURE ASSUMPTIONS

1.5 Financial Assumptions Policy

Objective:

To outline the basis of financial assumptions to be utilized by the Town.

Policy:

The financial assumptions of the Town will incorporate formal historical trend analysis as well as a determination as to whether revenues or expenditures are expected to deviate from their long-term trends.

Procedures:

Upon review of historical information, conservative assumptions will be made about dollar or percentage adjustments to the current year's revenues in order to arrive at projections for the first forecast year. The prior year's cherry sheet is the starting point for revenue projections. The same analysis will be made for each successive year in the forecast. As new information becomes available or circumstances change, the forecast will be revised. With this approach, if projected revenues increase (e.g., new growth, user fees, or State Aid), then a corresponding expenditure increase may be made to the recommended operating or capital budget. Alternatively, the potential revenue gain could be diverted to reserves, or left unexpended and allowed to close at year-end to free cash.

In projecting expenditures, the Town will begin by assuming a maintenance (level service) budget, meaning what it costs to maintain the current level of staffing and mix of services into the future. Using this approach, the Town will also assume that all current laws and regulations will remain in effect during the forecast period. Negotiated collective bargaining cost increases, salary step increases and longevity pay will all be projected to the year a contract ends. Potential personnel costs associated with future contracts will not be included because the purpose of the forecast is to determine what revenue is left after the maintenance budget is funded.

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Section 2: BUDGET AMENDMENTS AND UPDATES

2.1 Budget Process Policy

Objective:

To adopt an operating budget for the Town's general fund.

Policy:

It is the Town's policy to establish a balanced budget for its general appropriation each year. The Town shall use a "bottom-up" approach to budgeting whereby individual Town departments prepare their budgets, which are then forwarded to the Director of Municipal Finance, Town Manager, Finance Committee and Board of Selectmen for review and approval.

Approved Town budgets shall be adopted effective July 1st each year.

Procedure:

- i. The Finance Department prepares the seven-year forecast and assumptions which identify positive and negative financial trends impacting the Town. The information is presented to Town Manager as well as the Board of Selectmen. Once adopted by the Board of Selectmen, the forecast and assumptions are then used as the financial framework for budget preparation.
- ii. A ten-year Capital Improvement Plan is prepared by the Town Manager, Director of Municipal Finance and presented to the Capital Program Committee, the Finance Committee and the Board of Selectmen. Any additional operating costs associated with the first year of the plan are incorporated into the budget forecast.
- iii. The Ad Hoc Budget workgroup will begin meeting in the fall to facilitate communications among the Board of Selectmen, School Committee, and Finance Committee concerning budget issues. The workgroup is comprised of the Chairs and Vice-chairs of the Board of Selectmen, School Committee, and Finance Committee. The Town Manager, Superintendent of Schools, and Director of Municipal Finance also serve as ex officio members of the workgroup.
- iv. The Finance Department and School Business Office, with directions and guidelines from the Town Manager and the Superintendent will develop baseline budget expenditure levels for all departments and Town-wide revenue projections for the upcoming fiscal year. Departments prepare data on performance measures and service levels for inclusion in the budget document. Additionally, departments submit service change request to enhance a current activity, establish an activity and/or obtain equipment associated with an activity. These detailed requests are reviewed and, if necessary, changes made to present a balance budget to the Town Manager and the Superintendent.
- v. The Town Manager and the Superintendent conduct budget workshops with their respective Department Heads to review expenditures for the upcoming year and discuss any significant changes which directly impact new/existing programs or service levels, as well as possible cost reductions. The changes are then used to prepare the Town Manager's budget recommendations to the Board of Selectmen and Finance Committee and Superintendent's budget recommendations to the School Committee.

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- vi. The Board of Selectmen, School Committee, and Finance Committee conduct a series of workshops and public hearings to consider the Town Manager's and Superintendent's budget recommendations. After careful and thorough consideration, the Board of Selectmen; School Committee; and Finance Committee present the budget recommendations to Town Meeting.
- vii. When the budget is adopted at Town Meeting, it becomes effective on July 1st.

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Section 2: BUDGET AMENDMENTS AND UPDATES

2.2 Budget Amendment Policy

Objective:

To document the policy and procedures surrounding budget amendments and/or approved articles.

Policy:

All budget amendments and/or articles shall be approved by a majority or two-thirds vote, as appropriate, at Town Meeting.

The Town Clerk shall notify the Director of Municipal Finance of any approved budget amendments and/or articles. The Assistant Finance Director shall, input the approved budget amendments and/or articles into the Town's accounting system.

Procedure:

As conditions change or circumstances are altered, department heads are required to notify the Finance Department of anticipated requests for budget amendments. Once an official request for a budget amendment has been received it will be processed as follows:

- i. The Director of Municipal Finance will share the request with the Town Manager
- ii. The Board of Selectmen and Finance Committee will then review and make recommendations on the amendment requests.
- iii. The amendments will be presented at a Town Meeting and require a majority or two-thirds vote, as appropriate.
- iv. Once approved, the Town Clerk shall notify the Director of Municipal Finance of the approved amendment.
- v. The Assistant Finance Director will record the amendment in the Town's accounting system.

Section 2: BUDGET AMENDMENTS AND UPDATES

2.3 Line Item Management Policy

Objective:

To ensure expenditures are categorized and paid from the correct account including departmental budgets, revolving funds, reserve funds, trust funds, grants, and gifts.

Policy:

The Director of Municipal Finance must monitor and oversee the Town's adherence to the Town's budget. The Director of Municipal Finance will work with the department heads to complete this review. Documentation of the monitoring process is to be maintained on file throughout the annual audit process.

Procedure:

On a monthly basis, within 15 days after month end, department heads receive an electronic report from the Director of Municipal Finance or designee that includes the year-to-date transaction detail of their respective budgeted expense line items.

On a quarterly basis, the Department heads will be required to sign a printed copy that they agree with the transactions, as well as review open purchase orders, and return the original signed document to the Director of Municipal Finance within ten days of the receipt of the report. The first quarter report will be sent by October 15; the second quarter report will be sent by January 15; the third quarter report will be sent by April 15; and the fourth quarter report will be sent by July 15 each year.

If the department head does not agree with specific transactions, they must follow up with the Director of Municipal Finance within ten days of receipt of the electronic file.

Original signed documents will be used as support during the annual audit.

Section 2: BUDGET AMENDMENTS AND UPDATES

2.4 Budget Transfer Policy

Objective:

To ensure that budget adjustments are valid and properly authorized.

Policy:

All budget transfers made in the Town's accounting system shall be proper based on their economic substance and in accordance with state law.

Procedure:

- i. As conditions change or circumstances are altered, department heads are required to notify the Director of Municipal Finance of anticipated requests for budget transfers. Budget transfers are initiated by a department head.
- ii. A budget transfer form must be completed by the department head and include all pertinent information including amount being transferred, general ledger accounts affected, and a reason for the transfer. The department head will sign off on the request form.
- iii. The budget transfer form is sent to the Director of Municipal Finance for review.
 - a. If the budget transfer is being made between like accounts (i.e., overtime payroll to regular payroll or office supplies to field supplies) within the same appropriation line item approved by the Board of Selectmen in its annual budget process, the budget transfer can be performed internally.
 - i. The Assistant Accountant will prepare the proposed budget transfer entry.
 - ii. The Assistant Finance Director shall sign off on the request form as evidence that the transfer was posted in the accounting system.
 - iii. The Director of Municipal Finance shall sign the request form evidencing review and approval.
 - iv. The Assistant Finance Director shall maintain a file of all budget transfer requests.
 - b. If the budget transfer is being made from dissimilar accounts, the Director of Municipal Finance will determine if appropriate and where the resources will come. These transfers are only authorized during the period of May 1st to July 15th each year. Transfers are only used to offset projected deficits in departmental budgets. Once a funding resource is determined:
 - i. The Director of Municipal Finance will prepare a summary that will be sent to the Board of Selectmen and Finance Committee for review and approval during the period of May 1st to July 15th of each year.
 - ii. Once approved, the Director of Municipal Finance shall sign the transfer request form evidencing review and approval.
 - iii. The Assistant Finance Director shall sign off on the transfer request form as evidence that the transfer was posted in the Town's accounting system.

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- iv. The Assistant Finance Director shall maintain a file of all budget transfer requests.

Section 2: BUDGET AMENDMENTS AND UPDATES

2.5 Budget to Actual Reporting Policy

Objective:

To regularly review the Town's recorded revenues and expenditures against its approved budget.

Policy:

No expenditure shall be made from the Town's general operating budget whereby any portion of the expenditure results in a deficiency in the annual appropriation for that expenditure line item.

Department heads shall have access within the Town's accounting system, to review their budget to actual results. In addition, each month, the Director of Municipal Finance shall provide budget to actual reports to department heads.

The Director of Municipal Finance shall regularly investigate unfavorable budget to actual variances with department heads. Under M.G.L. c. 41, §56, the Director of Municipal Finance should disallow any payment request from a department when the appropriation balance in the line-item to be charged is insufficient to cover the invoice amount. This method is exercised through the warrant process and will prevent appropriations deficits if performed timely.

Budget reports shall be reviewed monthly by the Director of Municipal Finance. Trends in actual revenue compared to projections and actual expenditures compared to appropriations should foreshadow the risk of a deficit.

Procedure:

- i. Within 15 days after the end of each month, the Director of Municipal Finance shall provide a budget to actual report to all department heads. The Director of Municipal Finance shall highlight areas of budgetary concern and require the department head(s) to respond within ten (10) days.
- ii. If necessary, budget transfers and/or expense reclassifications may be initiated by the department head in accordance with the policies and procedures set forth in the Budget Transfer Policy.
- iii. The Director of Municipal Finance shall maintain a database of Town employees and their budgeted salaries and wages by department, which will be communicated to the Human Resource Department, and regularly compare recorded salaries and wages to the employee database. The Director of Municipal Finance shall identify discrepancies and resolve.
- iv. Revenues shall be analyzed monthly by the Director of Municipal Finance. The Director of Municipal Finance shall work with the Treasurer & Collector to resolve budget to actual differences.
- v. All cash and investment accounts shall be reconciled between the Treasurer and Director of Municipal Finance by the 20th day of the subsequent month.

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- vi. The Director of Municipal Finance will provide the Town Manager with a copy of completed monthly close schedule, noting completion of each task and any further notations needed, for review by the 25th of each month.

- vii. On a quarterly basis, the Director of Municipal Finance and Enterprise Fund Departments will make a presentation of the budget to actual results to the Board of Selectmen. The report will then be shared with the Finance Committee.

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Section 2: BUDGET AMENDMENTS AND UPDATES

2.6 Levy Limit Policy

Objective:

To set the Town's tax rate and overall levy in accordance with MGL as well as the ordinances adopted by the Town.

Policy:

It is the Town's policy to set its property tax rate no later than December 15th of each year based on the rules and limitations set forth under MGL. The setting of the tax rate is the responsibility of the Assessor's Department and requires the collaboration of many departments including the offices of the Town Manager, Director of Municipal Finance, Town Clerk and the Board of Selectmen, who shall devote the necessary resources to ensure the timely completion and submission of the final recap package to the Massachusetts Department of Revenue (MA DOR) for certification. During the budgeting process the Town will be authorized to utilize the entire levy limit, with a goal of having 3%-5% of unused levy capacity on the tax rate recapitulation.

Procedures:

- i. Upon notification by the MA DOR that the Town's quinquennial certification has been approved or that the interim property tax forms have been accepted and the MA DOR has approved the Town's new growth, the Town shall calculate its tax levy. The Town's tax levy limit is calculated as (a) the prior year's levy limit plus (b) 2.5% of the prior year's levy limit plus (c) voted overrides, if any, plus (d) new growth adjusted for (e) debt exclusions. In addition, the tax levy cannot exceed 2.5% of the assessed fair value of property within the Town regardless of the amount calculated in the immediately preceding sentence. This is commonly referred to as Prop 2 ½. The Board of Assessors is responsible for determining the Town's tax levy limit each year.
- ii. The Town employs a dual tax rate. The Board of Assessors shall work with the Board of Selectmen to determine the split between residential and commercial property taxes. This shall be completed no later than mid-November of each year. The Town should periodically review the use of a dual tax rate. This process will need to begin approximately one year in advance of the tax rate hearing.
- iii. The Board of Selectmen shall notify the Board of Assessors of the annual residential exemption, which shall be limited to a maximum of 20% of the average fair value of residential property in the Town from the current assessment year or higher up to legal limits if voted accordingly by the Town Meeting.
- iv. The Assessor shall input into its database the Board of Selectmen approved tax rate split and the residential exemption amount.
- v. The Assessor shall compile the necessary documentation within its office and the offices of the Town Manager, Director of Municipal Finance, Town Clerk and Board of Selectmen to prepare the MA DOR Recap. The Board of Assessors shall review and approve the work of the Assessor.

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The approved Recap shall be submitted to the MA DOR for approval no later than December 15th each year.

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SECTION 3: LONG-TERM FINANCIAL PLANNING

3.1 Long-Term Planning Policy

Objective:

To develop and maintain a Long-Term Financial Plan for the Town.

Policy:

It is the Town's policy to develop and maintain, the Long-Term Financial Plan, a forward financial projection for a period of at least seven years, to allow management to evaluate the impact of various government decisions over time, while considering potential upcoming changes or issues and ensuring the long-term financial sustainability of the Town. The Town, at all times, shall maintain a Financial Analyst dedicated to conducting financial analysis. This individual shall possess the competency and skill to adequately service the Town in this capacity. This individual will report directly the Director of Municipal Finance.

The Long-Term Financial Plan will be reviewed and updated quarterly, allowing for at least seven years to be projected at all times.

Procedure:

Each year the following phases will be completed to develop and maintain the Long-Term Financial Plan of the Town:

Mobilization Phase - prepares the Town for long-term planning by creating a consensus on what the purpose and results of the planning process should be.

- i. The Town's Financial Analyst will consult with Director of Municipal Finance, Town Manager, Town Assessor, Board of Selectmen, Finance Committee, and any other Town official or employee deemed appropriate.
- ii. A strategic-planning or a priority-setting session with the above mentioned group will take place to identify and communicate currently known conditions and priorities to be considered during the development and update of the Plan.

Analysis Phase - involves information gathering, trend projection, and analysis of the Long-Term Financial Plan.

- i. The Financial Analyst will analyze the environment in order to gain a better understanding of the forces that impact the Town's financial stability.
- ii. After the analysis has been completed, the Financial Analyst can begin to project various elements of long-term revenue, expenditure, and debt trends.

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- iii. The forecasts can then be used to identify potential challenges to the fiscal stability of the Town. These could be fiscal deficits, environmental challenges, or policy weaknesses. Scenario analysis will be used to present both base case models and stressed case models.

Decision & Adoption Phase – comprises a participative process with the Town’s Financial Analyst, Director of Municipal Finance, Town Manager, Town Treasurer, Town Assessor, Board of Selectmen, Finance Committee, and any other Town official or employee deemed appropriate.

- i. The Long-Term Financial Plan developed will be assessed to determine whether the purposes of the Plan discussed in the mobilization phase were fulfilled.
- ii. The Plan will be formally adopted
- iii. Will determine the processes for executing the Plan to ensure tangible results are realized.

Execution Phase – where the strategies become operational through the budget, financial performance measures, and action plans.

- i. Regular monitoring on the actual results compared to the Long-Term Financial Plan should be completed by the Town’s Financial Analyst.
- ii. Quarterly reporting of the monitoring results should be completed and delivered by the Financial Analyst to the Director of Municipal Finance and Town Manager by the 20th of month following the close of the quarter, with a summary of major variances. This will then be used for presentation to the Board of Selectmen and the Finance Committee.

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SECTION 3: LONG-TERM FINANCIAL PLANNING

3.2 Forecasting Policy

Objective:

To define the forecasting assumptions and methodologies to be utilized by the Town in connection with the Long-Term Financial Plan.

Policy:

The Town's financial forecasting assumptions and methodologies will incorporate formal historical trend analysis as well as a determination as to whether revenues or expenditures are expected to deviate from their long-term trends, inclusive of the identification of new revenue sources or expenditures.

Procedure:

Upon review of historical information, conservative assumptions will be made about dollar or percentage adjustments to the current year's revenues in order to arrive at projections for the first forecast year. The prior year's cherry sheet is the starting point for revenue projections. The same analysis will be made for each successive year in the forecast. As new information becomes available or circumstances change, the forecast will be revised. The Financial Analyst will work along with the Director of Municipal Finance, Town Manager, Town Assessor, Board of Selectmen, Finance Committee, and any other appropriate Town official or employee to evaluate the propriety of the assumptions used. With this approach, if projected revenues are expected to increase (e.g., new growth, user fees, and free cash), then corresponding expenditure increases may be made to the forecasted operating or capital budgets. Alternatively, the potential revenue gain could be diverted to reserves.

In forecasting expenditures, the Town will begin by assuming a maintenance (level service) budget, meaning what it costs to maintain the current level of staffing and mix of services into the future. Using this approach, the Town will also assume that all current laws and regulations will remain in effect during the forecast period. Negotiated collective bargaining cost increases, salary step increases and longevity pay will all be projected to the year a contract ends. Possible personnel costs associated with future contracts will not be included because the purpose of the forecast is to determine what revenue is left after the maintenance budget is funded.

Continuous evaluation of the assumptions utilized will take place to ensure that the forecast captures all currently known circumstances and expectations. The ongoing approach will allow for early detection and identification of upcoming issues. Thereby providing the Town the opportunity to develop a plan to address how the issues may impact the current financial forecast and make any modifications needed.

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SECTION 4: LONG-TERM CAPITAL PLANNING

4.1 Capital Improvement Plan Policy

Objective:

To develop and maintain a Capital Improvement Plan for the Town. Buildings, infrastructure, technology, and major equipment are the physical foundation for providing services to constituents. The procurement, construction, and maintenance of capital assets are a critical activity of the Town and therefore require careful planning.

The capital improvement plan is essential to the future financial health of the Town and continued delivery of services to citizens and businesses.

Policy:

It is the Town's policy to develop and maintain a 10-year Capital Improvement Plan.

For Nantucket, a capital item is defined as a nonrecurring expenditure of \$50,000 or more for land, buildings and/or building improvements having a useful life equaling or exceeding ten years, or an expenditure for municipal infrastructure and equipment having a useful life equaling or exceeding five years. Any proposed expenditure that fails to meet these criteria must be funded in the department's line item budget.

Procedure:

- i. Establish a Capital Program Committee comprised of seven members—five appointed by Selectmen, one by the Finance Committee, and one by the Nantucket Planning and Economic Development Commission.
- ii. The Capital Planning Committee is responsible for maintenance of the 10-year Capital Improvement Plan and the following:

Identifying the needs of the Town using information, including development projections, strategic plans, comprehensive plans, facility master plans, regional plans, and citizen input processes. The Committee should identify present and future service needs that require capital infrastructure or equipment.

The following conditions will be considered when prioritizing the capital plan:

- Imminent threat to the health and safety of citizens/property
- Preservation of operations
- Legal requirement of Federal or State agencies
- Improvement to infrastructure
- Improvement in the efficiency and effectiveness of service delivery
- Alleviation of an overtaxed/overburdened situation (i.e. insufficient instructional space in a school building)

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- Supports community plan (i.e. Master Plan Open Space and Recreation Plan)
- Results in lower energy consumption
- Results in lower operations and maintenance costs
- Continues the phased funding for a project included in a prior year's budget
- Scheduled replacement (i.e. motor vehicles, roofs, computers)

The full extent of project costs should be determined when developing the multi-year capital plan. Cost issues to consider include the following:

- The scope and timing of a planned project
- Identification of the most appropriate approaches, including outside assistance, when estimating project costs and potential revenues
- Adjustment of cost projections based on anticipated inflation
- Quantifying ongoing operating costs associated with each project, and identification of the sources of funding for those costs
- A clear estimate of all major components required to implement a project, including land acquisition needs, design, construction, contingency and post-construction costs
- Recognition of the non-financial impacts of the project (e.g., environmental) on the community

The Committee will be responsible for prioritizing capital requests. Governments are continually faced with extensive capital needs and limited financial resources. Therefore, prioritizing capital project requests is a critical step in the capital plan preparation process. When evaluating project submittals, the Committee should:

- Reflect the relationship of project submittals to financial and governing policies, plans, and studies
- Allow submitting agencies to provide an initial prioritization
- Incorporate input and participation from major stakeholders and the general public
- Adhere to legal requirements and/or mandates
- Anticipate the operating budget impacts resulting from capital projects
- Apply analytical techniques, as appropriate, for evaluating potential projects (e.g., net present value, payback period, cost-benefit analysis, life cycle costing, cash flow modeling)
- Re-evaluate capital projects approved in previous multi-year capital plans
- Use a rating system to facilitate decision-making

The Director of Municipal Finance, in collaboration with the Town Manager, will be responsible for developing financing strategies. Financing strategies should align with expected project requirements while sustaining the financial health of the organization. In undertaking a review of the capital financing plan, the Committee should:

- Anticipate expected revenue and expenditure trends, including their relationship to multi-year financial plans
- Prepare cash flow projections of the amount and timing of the capital financing
- Continue compliance with all established financial policies
- Recognize appropriate legal constraints

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- Consider and estimate funding amounts from all appropriate funding alternatives
- Ensure reliability and stability of identified funding sources
- Evaluate the affordability of the financing strategy, including the impact on debt ratios, taxpayers, ratepayers, and others

The Committee will accomplish the above by undertaking a well-timed process for obtaining necessary inputs, evaluating and prioritizing projects under consideration, and formulating recommendations for the following fiscal year and for long-term phased capital plans.

Any capital project should be evaluated on its total cost to the Town over its useful life. This should include design and planning costs, operating and maintenance costs, disposal costs, and financing costs.

Debt is issued on behalf of Enterprise Funds, but those Funds are expected to cover 100% of their debt service. In some special instances (e.g. major infrastructure projects) the debt of Enterprise Funds may be borne, in part, by the General Fund, with Town Meeting authorization. Some Enterprise Funds are currently, partially subsidized by the Town.

It will be the policy of the Capital Planning Committee to recognize all projected future debt service as an explicit element of the Capital Improvement Plan and to evaluate anticipated future debt service levels against the financial metrics defined later.

Prudent capital planning matches a list of desired capital projects with the Town's ability to finance those projects while maintaining a stable and prudent financial position. Through careful planning and scheduling, municipalities seek to avoid "surprises" in large capital commitments, minimizing any adverse effects on town budgets and financial flexibility.

In reviewing the capital planning programs of other Massachusetts towns, the Capital Planning Committee has observed a wide range of financial metrics and policy options. At this stage of the Town's capital program, the metrics are:

- To maintain or improve the Town's bond rating; any fiscal year's capital expenditures must be financed from available current revenue sources and net new borrowing that does not negatively affect the bond rating.
- Minimize, when possible, overrides to Prop 2 ½
- A minimum amount equivalent to 1% of the prior year's net revenue is allocated to capital improvements, except in the instance that an emergency arises with respect to the operating budget.
- Free Cash may be used to finance capital projects when available.
- Debt Service:
 - Annual debt service expenses will comply with the Debt Management Policy of this manual (See policy 6.3).
 - Debt financing shall be reserved for capital projects and expenditures of \$100,000 or more, or have anticipated 5 year or more useful life spans, or are expected to prolong the useful life of a capital asset by five years or more. Whenever prudent the Town will seek to utilize other funding sources when the cost of the capital project and expenditures are in the range of \$100,000 -

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\$500,000

- o Bond maturities will be done in accordance with MGL, Chapter 44, Sections 7 and 8
- iii. The Committee then reports its recommendations to the Town Manager, Finance Committee and Board of Selectmen as part of the annual budget process.

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SECTION 4: LONG-TERM CAPITAL PLANNING

4.2 Annual Capital Budget Process Policy

Objective:

To adopt an annual capital budget for the Town.

Policy:

It is the Town's policy to develop an annual capital budget.

Approved Town budgets shall be adopted effective July 1st each year.

Procedure:

- i. Each July, the Director of Municipal Finance shall, as part of the Town's general appropriation process, request updates from department heads on capital projects for the next ten-year period, with an emphasis on the next five years. The Director of Municipal Finance shall evaluate in process capital projects and capital projects forecasted to commence based on proceeds received from general obligation bonds or short-term borrowings.
- ii. Department heads shall complete the provided forms and submit these forms to the Director of Municipal Finance by the end of July.
- iii. The Director of Municipal Finance shall ensure that all department heads have submitted their capital requests in the prescribed timeframes set forth and provide requests along with any other capital project forecasts to the Capital Program Committee. The Director of Municipal Finance shall retain the department head submissions as part of the final budget package.
- iv. The requests are then reviewed by the Town Manager and the Board of Selectmen, and submitted to the Capital Planning Committee. The requests should include the estimated number of years to pay back this expenditure. This process will normally occur between August and October.
- v. Subsequently, each Department reviews the need and justification for each of their projects with the Capital Planning Committee in October-November.
- vi. Once satisfied that the department capital budgets are recommended by the Capital Planning Committee and are reasonable and consistent with the Town's Capital Improvement Plan and guidelines, the Director of Municipal Finance shall present the revised capital budget to the Town Manager.
- vii. Once the Town Manager is satisfied with the Town-wide capital budget, the capital budget will be presented to the Board of Selectmen for review and approval. This is generally done by December each year.
- viii. The Board of Selectmen shall meet publicly to review the capital budget.

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- ix. The annual capital budget will be presented at the Annual Town Meeting for review and approval each year.
- x. The Town Clerk shall notify the Director of Municipal Finance of the Town Meeting's approved capital budget.
- xi. The Assistant Finance Director shall input the approved capital budget into the Town's accounting system, for the subsequent fiscal year. The Director of Municipal Finance or a designee shall reconcile the individual Town Meeting approved capital budget to the accounting system to ensure that all capital line items are properly included.

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SECTION 5: INVESTMENT MANAGEMENT POLICIES

5.1 Investment Policy

Objective:

To state the Town's investment objectives, goals, risk tolerance and investment guidelines for the investment of Town funds. The intent of the Investment Policy of the Town of Nantucket is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the Town's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the Town's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

Policy:

In accordance with Massachusetts General Laws (MGL) Chapter 44, Section 55B, the Treasurer is required to invest all public funds at the highest possible rate of interest reasonably available, taking into account acceptable levels of safety, liquidity, and yield while meeting the daily cash requirements for the operation of the Town.

- Safety – The safety of public funds must be the main objective in the investment program. Investments shall be made in a manner that seeks to preserve principal through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- Liquidity – The overall portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal.
- Yield – Investments shall be made to achieve a fair average market rate of return taking into account the safety and liquidity constraints mentioned above as well as any legal requirements imposed by the MGL or the Town Charter.

The Treasurer will adhere to the following risk guidelines for all investments of Town funds:

- Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of a failure of a depository institution, the Town would not be able to recover deposits or the securities used to collateralize the deposits from the institution or third party. For investments, the risk occurs if the Town is unable to recover the value of an investment or collateral in possession of a third party.

The Treasurer will review each financial institution conducting business with the Town on a quarterly basis.

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All securities not held directly by the Town will be held in the Town's name, and tax identification number by a third-party custodian approved by the Treasurer. The Treasurer will receive monthly safekeeping reports from the custodian as well as safekeeping receipts detailing each transaction from the account.

- Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment.

Short-term investments for funds covered in the "Operating Funds" section below, which are by statute limited to one year or less in maturity with all securities held to maturity.

Longer term investments will be made for periods not longer than seven years, maintaining an average maturity no greater than three years for the portfolio.

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

Short term investments for funds covered in the "Operating Funds" section below are by statute limited to US Treasury or Agency securities which carry "AAA" ratings.

Longer term investments in fixed income securities will be made principally for capital preservation and income potential. Corporate debt must be rate "A" or better by either S&P or Moody's rating services. If a security falls below the "A" rating, the security will be monitored by the Treasurer and advisor, if applicable. The security will be noted as an exception to the policy if held in the portfolio. The Treasurer and/or advisor may sell the security if a further decline in value is expected.

- Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer.

The Town will minimize any concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Specific investment amounts and/or issuer limitations are addressed in the Investment Instruments section of this policy.

- Foreign Currency Risk – Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit.

The Town will not invest in any instrument exposed to foreign currency risk.

The Treasurer and Assistant Treasurer shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair their ability to make impartial investment decisions. The Treasurer and Assistant Treasurer shall disclose, at least annually, to the Town Clerk any material personal depository relationship in financial institutions that do business with the Town as well as any material personal financial investment positions or loans with these same institutions.

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The standard of prudence to be used by the Treasurer shall be the “Prudent Person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided the purchases and sale of securities is carried out in accordance with the terms of this policy.

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 speculations but for investment considering the probable safety of their capital as well as the probably income to be derived.

In addition, this section would also apply to the MGL Chapter 44 Section 55A which refers to the liability of the Treasurer for losses due to bankruptcy.

On a quarterly basis, the Treasurer shall issue a report to the Director of Municipal Finance, Town Manager, and the Board of Selectmen containing the following information:

- A listing of total funds on deposit by financial institution or advisor showing percentage of total deposits to each institution, type of insurance coverage or collateral and approximate value of uninsured or uncollateralized funds held by the Town.
- A listing of total funds on deposit by financial institution or advisor by type of deposits or investment showing percentage of total deposits in each institution.
- Summary of interest income, realized and unrealized gains and losses earned on investments on a fiscal year to date basis.
- Detail listing of any exceptions to policy stating reason for exception and anticipated date of correction, if applicable.

Operating Funds

This section of the investment policy pertains to short term operating funds such as general funds, special revenue funds, enterprise funds, bond proceeds and capital project funds.

The Treasurer may invest in the following instruments:

- Massachusetts State Pooled Funds - The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. MMDT seeks to obtain the highest possible level of current income consistent with the preservation of capital and liquidity by investing in a diversified portfolio of high quality money market instruments with an average dollar-weighted portfolio maturity of 90 days or less. MMDT investments are not guaranteed by the State, FDIC, or any other governmental agency. The Treasurer may invest an unlimited amount.
- US Treasury Obligations – Treasury obligations must be held to maturity. The maturity date of these securities must be no greater than one year from the date of purchase. The Treasurer may invest an unlimited amount

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- US Agency Obligations – Agency obligations must be held to maturity. The maturity date of these securities must be no greater than one year from the date of purchase. The Treasurer may invest an unlimited amount
- Bank accounts or Certificate of Deposit accounts with a final maturity no greater than one year from the date of purchase may be made for unlimited amounts if the deposit is fully collateralized by a third party agreement or securities owned by a depository institution that have been segregated from the day to day assets of the institution in order to provide collateralization.
- Bank Accounts, Certificate of Deposit accounts (CDs) and/or brokered CDs with a final maturity no greater than one year from the date of purchase up to the FDIC coverage limits. All account balances in a single depository institution are considered in the aggregate to determine FDIC coverage limits.
- Bank accounts or Certificate of Deposit with a final maturity no greater than one year from the date of purchase may be made for unlimited amounts if the depository institution is a member of the Depository Insurance Fund (DIF) or the Share Insurance Fund (SIF). These funds insure all deposits held at a member Massachusetts state chartered savings bank or co-operative bank respectively.
- Money Market Mutual Funds that are registered with the Securities & Exchange Commission that have received the highest possible rating from at least one nationally recognized statistical rating organization and as referenced in the General Laws of Massachusetts (MGL) Chapter 44 Section 55.
- Uninsured or unsecured bank accounts or Certificates of Deposit accounts with a final maturity no greater than one year from the date of purchase are allowed to be held by the Town subject to the following limitations:
 - i. The aggregate uninsured portion of deposits held at any one institution cannot exceed 5% of the institutions total deposits reflected on the bank's last filed FDIC Call Report.
 - i. The goal of the Town is to have 0% of the Town funds held in uninsured accounts. If an exception is necessary, this percentage may be increased for no more than seven days under the oversight of the Director of Municipal Finance (i.e. during times of heavy collections or in anticipation of large payments to be made by the Town such as debt service, pension expense, or other expenses determined by the Treasurer as necessitating special cash handling.)
 - ii. Within the last 30 days of each fiscal year, no funds shall be uninsured.

Diversification of funds between financial institutions is another important tool available to the Treasurer to ensure the safety of funds on deposit. Given the above limitations regarding investment types and dollar limits as well as insurance coverage requirements, the need to place further limitations on the funds placed in one financial institution is not necessary provided the following:

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- All financial institutions with which the Town conducts business will be reviewed by the Treasurer on a quarterly basis utilizing the Veribanc ratings report. In addition, the Treasurer will review the Call Reports and/or the Uniform Bank Performance Report of any institution receiving a “Yellow” classification or receiving less than three stars on the previous quarter’s Veribanc report, noting trends in capital ratios, net income, operating expenses, loan losses and loan delinquencies, or any other determining factors which may have resulting in the lower rating. The Treasurer will meet with the representatives of the institution, as necessary, to further enforce the financial review.
- The Treasurer will, after conducting this review, determine the proper deposit levels to maintain at such institutions or implement an “exit” plan, if necessary, for the eventual removal of Town funds from the institution.

As a sound practice, however, the Treasurer will attempt to maintain no more than 40% of the Town total funds in one financial institution or with a single advisor.

Also, in accordance with Chapter 44, Section 55 of the MGL, the Treasurer will not at any one time have on deposit in a bank or trust company or banking company an amount exceeding 60% of the capital and surplus of each bank or trust company or banking company unless satisfactory security is given for such excess.

Trust and Other Special Funds

This section of the investment policy applies to funds with special circumstances such as Stabilization and Trust funds.

Trust funds may be established as a pooled investment portfolio. The accounting of each fund will be maintained separately to ensure that each fund receives their proportionate share of interest realized and unrealized gains or losses.

The MGL Chapter 44 Section 54 states that money should be deposited into savings bank, trust companies incorporated under the laws of the Commonwealth, banking companies incorporated under the laws of the Commonwealth which are members of the Federal Deposit Insurance Corporation, or national banks, or invested in participation units in a combined investment fund under Chapter 29, Section 38A, or in a paid-up shares and accounts of an in co-operative banks, or in shares of savings and loan associations or in share or savings depositors of federal savings and loan associations doing business in the Commonwealth.

Additionally, the Town may invest such funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth; provided that not more than 15% of any such trust funds shall be invested in bank stocks and insurance company stocks, nor shall more than 1 ½ % of such funds be invested in the stock of any one bank or insurance company. MGL Chapter 167 Section 15A and Section 15B describes the list of legal investments for savings banks which dictates the allowable investments for municipalities.

The Treasurer may invest trust funds in the following instruments:

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- Massachusetts State Pooled Funds - The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the State Treasurer. MMDT seeks to obtain the highest possible level of current income consistent with the preservation of capital and liquidity by investing in a diversified portfolio of high quality money market instruments with an average dollar-weighted portfolio maturity of 90 days or less. MMDT investments are not guaranteed by the State, FDIC, or any other governmental agency. The Treasurer may invest an unlimited amount.
- US Treasuries – Us Treasuries maybe sold prior to maturity. The Treasurer may invest an unlimited amount with maturity limits as stated in the interest rate risk section of this policy.
- US Agencies – US Agency obligations that may be sold prior to maturity. The Treasurer may invest an unlimited amount with maturity limits as stated in the interest rate risk section of this policy.
- Bank accounts or Certificate of Deposit with a final maturity no greater than one year from the date of purchase may be made for unlimited amounts if the depository institution is a member of the Depository Insurance Fund (DIF) or the Share Insurance Fund (SIF). These funds insure all deposits held at a member Massachusetts state chartered savings bank or co-operative bank respectively.
- Bank Accounts, Certificate of Deposit accounts (CDs) and/or brokered CDs with a final maturity no greater than one year from the date of purchase up to the FDIC coverage limits. All account balances in a single depository institution are considered in the aggregate to determine FDIC coverage limits.
- Bank accounts or Certificate of Deposit accounts with length of maturity limits from the date of purchase, as stated in the interest rate risk section of this policy, may be made for unlimited amounts if the deposit is fully collateralized by a third party agreement or securities owned by a depository institution that have been segregated from the day to day assets of the institution in order to provide collateralization.
- Uninsured or unsecured bank accounts or Certificates of Deposit accounts with a final maturity no greater than one year from the date of purchase are allowed to be held by the Town subject to the following limitations:
 - ii. The aggregate uninsured portion of deposits held at any one institution cannot exceed 5% of the institutions total deposits reflected on the bank’s last filed FDIC Call Report.
 - iii. The goal of the Town is to have 0% of the Town funds held in uninsured accounts. If an exception is necessary, this percentage may be increased for no more than seven days under the oversight of the Director of Municipal Finance.
 - iv. The credit worthiness of the depository will be tracked by the Treasurer utilizing Veribanc rating report.

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- Common and preferred stock, investment funds, and other items that are listed in the State of Massachusetts List of Legal Investments.

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SECTION 6: DEBT MANAGEMENT POLICIES

6.1 Debt Issuance Policy

Objective:

To enable the Town to respond to short-term and long-term financial needs through the issuance of short-term and long-term borrowings.

Policy:

The Treasurer, upon notification that short and/or long-term borrowings have been approved by Town Meeting and upon coordination with the Director of Municipal Finance and Town Manager, shall enter into short and long-term borrowings on terms deemed favorable to the Town and in accordance with state law. All borrowing documents shall contain the endorsements of the Treasurer, the Director of Municipal Finance and the Town Manager and have the Town seal affixed to the documents.

Short-term borrowings shall be recorded as a liability in the fund for which the short-term borrowing is made. Long-term borrowings shall be recorded as revenues in the fund for which the long-term borrowing is made.

The Town shall not finance its current operations through the issuance of long-term debt.

The Town shall use bond counsel on all long-term debt issuances.

The Town shall notify the MA DOR within two (2) days of any votes to approve the issuance of debt.

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SECTION 6: DEBT MANAGEMENT POLICIES

6.2 Debt Repayment Policy

Objective:

To properly account for debt repayments.

Policy:

Repayments of principal on short-term borrowings shall be recorded as reductions in liabilities in the fund for which the short-term borrowing was recorded. Interest payments shall be recorded in the fund for which the short-term borrowing was recorded. Short-term debt must have a portion of its principal repaid within two (2) years of issuance and may not be outstanding for more than five (5) years.

Repayments of principal on long-term debt shall be separately recorded from interest payments in the Town's accounting records. Both principal and interest payments on long-term debt shall be recorded in the fund for which the long-term borrowing was recorded.

The Town shall refinance its debt in periods in which interest rates decline and it's deemed cost beneficial to do such. The Town's Financial Advisor will provide regular guidance and evaluation in this area.

SECTION 6: DEBT MANAGEMENT POLICIES

6.3 Debt Management Policy

Objective:

To establish parameters and guidance to make decisions on capital spending and issuance of debt as a means to fund them. In order to minimize debt service expenditures, the Town shall endeavor to take appropriate actions to maintain the highest possible credit rating from Moody's Investors Service, Inc. and Standard & Poor's, Inc.

Policy:

Purposes for which debt may be issued:

- a. The Town during emergency situations may issue debt to provide for emergency infrastructure repair or replacement.
- b. The Town generally will only consider financing major capital improvements with a total cost exceeding \$500,000 through the issuance of long-term debt contingent on a Proposition 2 ½ debt exclusion approval unless there is some other source of funds to pay the debt service. Such costs may include planning, design and land acquisition costs for such improvements.
- c. The Town generally will only consider issuing debt to finance only those projects that have been included in the Capital Improvement Plan. For the purpose of this Policy, lease-purchase financings shall be considered debt and are required to be included in the Capital Improvement Plan.
- d. The Town will not fund current operating expenditures through the issuance of debt (other than in connection with the issuance of tax anticipation notes).
- e. Any capital projects or acquisitions of \$100,000 or less and with an amortization term of five or fewer years must be funded on a pay-as-you-go basis or, if intended to be funded through the issuance of debt, should be funded with annually issued notes where the principal is paid down each year in equal annual payments.
- f. The Town shall comply with Massachusetts General Laws, Chapter 44, sections 7 and 8 which regulate the purpose for which municipalities may incur debt and the maximum maturity for bonds issued for each purpose.

Criteria for Issuance:

Short Term Debt - The Town may choose to issue bond anticipation notes as a source of interim financing when deemed prudent. Bond anticipation notes may also be used as a form of short-term permanent financing (generally up to five years under the current statutes) by renewing the notes over a number of years and reducing the principal amount of notes on renewal. Before issuing such notes, the Treasurer will contact the Town's Financial Advisor for consultation. Bond anticipation notes may be sold at either a competitive or negotiated sale or by private placement when in the best interest of the Town.

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Long Term Debt - General obligation bonds (and general obligation BANs) are backed by the Town's pledge of its full faith and credit to pay interest and principal of the obligations. Unless paid from other sources, the bonds are payable from general property tax revenues. General obligation bonds should be used only to finance or refinance capital improvements and long-term assets, or other costs directly associated with financing of a project which has been determined to be beneficial to a significant proportion of the citizens of the Town and for which repayment sources, if any, have been identified. Bonding should be used only after considering alternative funding sources such as project revenues, Federal and State grants, and special assessments.

Massachusetts General Law allows communities, subject to voter approval, to exclude certain debt from the limits imposed by Proposition 2 ½. A voter-approved exclusion for the purpose of raising funds for debt service costs is referred to as a debt exclusion. The Town considers this to be an important component to its debt management program. All references to debt service ceiling limits and debt strategies which follow are exclusive of such voter approved exclusions.

The general Fund debt service target shall not exceed 12% percent of the General Fund budget, except that General Fund debt service could exceed that for financing completed with the approval of a Proposition 2 ½ debt exclusion, to fund a federal or state mandate, to allow for maintenance of operating licenses, or to fund the recovery from a natural disaster. The issuances approved under the Proposition 2 ½ debt exclusion, to fund a federal or state mandate, to allow for maintenance of operating licenses, or to fund the recovery from a natural disaster are not included in the calculation of debt service target.

Other Town departments with special conditions covered by this policy are those established by M.G.L. Chapter 44, Section 53F½ as Enterprise Funds. While their capital investment financing is also a GO (general obligation) of the Town, their debt service is supported by rate payer dollars or available unrestricted retained earnings of the fund, not taxpayer dollars, and thus is not included in the debt service targets outlined above. The debt service target shall not exceed 7% percent of the Water and Airport Enterprise Funds operating budgets, except that special approval is granted from the appropriate governing commissioners. All other enterprise funds will follow the guidance of their governing commissions to determine the appropriate level of debt funding, with the goal of maintaining self-sustaining operations.

The average life of the combined debt service of all outstanding debt shall not be greater than ten years. The Town will endeavor to structure new bond issues so as to provide that 65%, of the Town's overall outstanding debt will be retired in the succeeding ten fiscal years.

Selection of Consultants and Service Providers:

- a. Solicitation: The Town shall establish a solicitation and selection process for securing professional services that are required to develop and implement the Town's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing the highest quality services at competitive prices.
- b. Financing Team: The Town employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the Town's financing transactions include its internal financial professionals (the Director of Municipal Finance, Town Treasurer, Financial Analyst, Town Manager and Finance

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Department staff, among others), its Bond Counsel, and its Financial Advisor. Other outside firms, such as those providing paying agent/registrars, trustee, credit enhancement, auditing, or printing services, are retained as required.

- c. **Bond Counsel Involvement:** The Bond Counsel will issue an opinion as to the legality and, where applicable, the tax-exempt status of all obligations. The Town also may seek the advice of Bond Counsel on other types of financing and on any other questions involving federal tax law applicable to tax-exempt bonds. Bond Counsel also is responsible for the preparation of the resolution authorizing issuance of obligations, various closing documents to complete their sale and issuance, and performance of other services as defined by contract approved by the Town.
- d. **Financial Advisor Involvement:** The Town will seek the advice of the Financial Advisor when appropriate and when required by law. The Financial Advisor will advise on the structuring of obligations to be issued, inform the Town of various options, advise the Town as to how choices will impact the marketability of the Town's obligations, and provide other services as defined by contract approved by the Town. To ensure independence, the Financial Advisor neither will bid on nor underwrite any Town debt issues for which it is serving as Financial Advisor. The Financial Advisor will inform the Treasurer of significant issues that could affect the marketability of its debt or impact its credit rating.

Refunding of Long-Term Debt:

A refunding of long-term debt involves the refinancing of an outstanding bond issue by issuing new bonds. Most refundings are performed to take advantage of current interest rates that are lower than those rates on outstanding bonds. Such refundings are for interest rate savings. The Town may consider a refunding for three primary reasons:

- b. To reduce interest costs.
- c. To restructure debt service, but generally only if the present value of debt service savings exceeds two (2%) percent of the debt service amount of the refunded bonds.
- d. To eliminate old bond covenants that may have become restrictive.

The Town's Financial Advisor conducts analysis on an ongoing basis to evaluate the potential refunding opportunities available to the Town. This information is provided to the Director of Municipal Finance. On a quarterly basis a summary report of this information will be provided to the Board of Selectmen and the Finance Committee.

Disclosure/Arbitrage Compliance:

- a. **Rating Agencies:** Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. Town staff, with assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. A credit rating will be sought from one or more nationally recognized credit reporting agencies as recommended by the Town's financial professionals in conjunction with the Town's financial advisor.

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- b. Arbitrage, Private Activity Use/Payment and Covenant/Representation Compliance: The Town shall establish a system of record keeping and reporting to ensure compliance with arbitrage limitation, arbitrage rebate, and private activity use and payment limitations applicable to its tax-exempt obligations under the Federal tax code. This effort shall include tracking expenditure of and investment earning on proceeds of bond and note issues and lease purchase transactions, calculating rebate payments in compliance with tax law, and remitting any rebateable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the Town's outstanding debt issues. Additionally, private activity uses and payment, general financial reporting and certification requirements embodied in bond covenants, if any, or tax compliance or regulatory agreement covenants or representations in connection with the Town's tax-exempt obligations shall be monitored to ensure compliance with all such covenants and representations.

- c. Continuing Disclosure: The Town is committed to continuing disclosure of financial and pertinent credit information relevant to the Town's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure, including requirements regarding annual financial information and material event filings incorporated in the Town's continuing disclosure agreements entered into in connection with the issuance of its debt obligations.

Integration with Capital Planning:

The Town prepares a multi-year Capital Improvement Plan for consideration and adoption as part of the Town's budget process. Annually, the capital budget identifies revenue sources and expenditures for the current year and the next succeeding ten fiscal years. As part of the capital project planning process, the financial impact of each proposed project will be evaluated and updated annually. To fund the Capital Improvement Program, the Town will use general revenues (pay-as-you-go), debt financing, State and Federal Aid, special assessments or a combination thereof.

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SECTION 6: DEBT MANAGEMENT POLICIES

6.4 Tax-Exempt Governmental Purpose Bond Compliance Policy

Objective:

To ensure compliance with federal tax law and regulations pertaining to the use of tax-exempt governmental purpose bonds and to the use of property, projects and equipment funded with tax-exempt governmental purpose bonds.

Policy:

It is the Treasurer's responsibility to convey to the Director of Municipal Finance, the Town Manager, and the Chief Procurement Officer, the Treasurer's expectations as to their performance relating to project implementation, project expenditures, documentation, and information required by the Treasurer to remain in compliance with applicable tax law. Since all the responsible parties participate in the issuance of Town bonds, the Treasurer will provide direction to those responsible parties during the process of issuing bonds, at the time of the delivery of bond proceeds, and after the delivery of bond proceeds but prior to the final maturity of the bonds.

Procedure:

- i. The proper use of tax-exempt bond proceeds and the proper use of bond-funded property, projects, equipment, etc. (hereafter "property"), will be confirmed and documented through Bond Counsel's review prior to the issuance of tax-exempt bonds and will be addressed in the legal opinion issued by Bond Counsel and in the Tax Certificate (or Non-Arbitrage Certificate) prepared by Bond Counsel as part of the final bond transcript.
- ii. The continued proper use of property funded with tax-exempt bond proceeds will be monitored by the Treasurer through an annual reminder of such to appropriate Town officials and through the review of any Town proposals considering the change in use of the property or Town procurements relating to such property. The procurement of service contracts, management contracts and leases for the limited use of Town property should also be reviewed by the Treasurer. The Treasurer will be responsible for managing any remedial actions, if required.
- iii. The Federal Tax code sets explicit expectations relating to the expenditure of bond proceeds. There are certain "safe harbors" for small issuers. If expenditure expectations for small issuers are not met, the unexpended bond proceeds must be yield restricted. There are also expenditure thresholds to be satisfied for bonds issued where the Town cannot use the "small issuer" exemption. If these thresholds are not met, the Town may be required to rebate its positive arbitrage earnings to the Federal Treasury.
- iv. It is the responsibility of the Treasurer to review the expenditure requirements cited in the Tax Certificate and to monitor the expenditure of bond proceeds until all funds are expended.
- v. It is the responsibility of the Treasurer to determine rebate exposure; to procure arbitrage calculation services; to make rebate payments, as required, to the Federal Treasury; and to

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- prepare 8038-T forms for such purposes. It is also the responsibility of the Treasurer to reserve funds for such rebate payments, as appropriate, and to report the rebate liability to the Town's independent financial auditor.
- vi. The proper filings of forms 8038-G and 8038-GC are essential with every tax-exempt financing. All 8038-G's and 8038-GC's are to be signed by the Town Treasurer. No other official in the Town is authorized to execute these forms.
 - vii. It is the responsibility of the Treasurer to ensure rebate payments, if required, are made on a timely basis. Such payments must be made within 60 days of the maturity of a note; within 60 days of the fifth anniversary, and multiples thereof, of the issue of a bond; and within 60 days of the final maturity of a bond. The payment of a rebate is to be accompanied by and documented on the form 8038-T.
 - viii. It is the responsibility of the Treasurer to ensure all proper documentation is produced and retained as required. Such documentation will include, but not necessarily be limited to, the following: Tax Certificates or Non-Arbitrage Certificates, Note and Bond Transcripts, Forms 8038-G and 8038-GC, Projected expenditure cash flows prepared for each financing prior to issue, the record of expenditure of funds, the record of investment earnings on unexpended bond proceeds prior to full expenditure, yield restricted investments, rebate calculations, rebate payments, Form 8038-T, list of projected tax-exempt financings during each fiscal year, and management contracts.
 - ix. It is the responsibility of the Treasurer to address violations associated with any tax-exempt financing when violations are discovered. The violation may be addressed through the Voluntary Compliance Agreement Program (VCAP). Alternatively, remedial action may be required under Section 1.141-12 of the Internal Revenue Service regulations. The Treasurer shall consult with the Town's Bond Counsel and/or Financial Advisor as appropriate.
 - x. At any time during the fiscal year, if there is a change or use or disposition of property contemplated, the Town Manager shall inform the Treasurer of the proposal. As needed, the Treasurer shall consult with Bond Counsel and/or the Town's financial advisor relating to such proposal.

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SECTION 7: RESERVE AND LIQUIDITY POLICIES

7.1 Reserve Ratio

Objective:

___ Reserve funds are defined as unassigned and assigned fund balance as reflected annually in the GAAP financial statements. Managing these two funds is a critical component of the Town's credit evaluation, bond rating and perception of financial position.

Policy:

Standard and Poor Rating Service uses a metric that includes the sum of unassigned and assigned fund balance divided by total expenditures plus transfers out. In order to achieve the highest grade in this area a calculation of 15% or greater is required. The Town shall seek to maintain such a ratio at 15% or greater. For purposes of this policy, this will be called the reserve ratio.

Two statutory components of this GAAP reserve in Massachusetts are Free Cash and the Town's Stabilization Funds. Policies within these specific statutory areas directly impact the Town's GAAP reserves and therefore the Town's reserve ratio.

7.2 Free Cash

Objective:

To define appropriate uses of free cash and to assist in the accumulation of reserve funds in order to reduce risk in managing the Town's current and long-term needs as well as strengthen the Town's financial position and enhance its credit rating.

Policy:

Free Cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's Director of Municipal Finance. Free cash is not available for appropriation until certified by the Director of Accounts.

Appropriate uses of free cash include: funding the Stabilization Funds; the OPEB Trust Fund; funding capital projects with an estimated cost between \$100,000 and \$500,000 for which long-term borrowing is authorized at terms of five or fewer years; funding extraordinary deficits that would otherwise be carried over to the following year; remaining in unreserved, undesignated fund balance until the sum of unappropriated free cash is equal to or greater than 5% of general fund expenditures. The purpose of maintaining an unappropriated amount of free cash is to provide for cash flow and to have funds available for emergency appropriations.

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Exceptions to the free cash policy shall be made only under extraordinary circumstances and any such exception shall be explained to the voters in a statement written by the Board of Selectmen in the Annual Town Meeting or Special Town Meeting warrant, if applicable. The Town will not use free cash as a source to balance its annual operating budget.

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SECTION 7: RESERVE AND LIQUIDITY POLICIES

7.3 Stabilization Funds Policy

Objective:

To accumulate stabilization funds in order to reduce risk in managing the Town's current and long-term needs as well as strengthen the Town's financial position and enhance its credit rating.

Policy:

Stabilization Funds are designed to accumulate amounts for capital and other future spending purposes, although they may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed 10% of the prior year's tax levy. Stabilization Funds earn interest on their outstanding balances and this interest becomes part of the funds. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money into or from the Stabilization Funds. The Town has established two stabilization funds; a General Stabilization Fund and a Capital Stabilization Fund. The Town's General Stabilization Fund Balance goal is to meet or exceed 7% of annual general fund expenditures, while the Capital Stabilization Fund Balance goal is to meet or exceed 3% of annual general fund expenditures. Neither of these Stabilization funds will exceed 12% of general fund expenditures.

Appropriate uses of the Town's General Stabilization Fund include: an appropriation if the State Aid payments are reduced after the budget is voted by Town Meeting, an appropriation if net State Aid receipts are less than the average of the prior two fiscal years, an appropriation if local receipts are projected to be less than the average of the prior three fiscal years, or an appropriation in the event of a catastrophic or emergency event if the financial impact of the event is in excess of an amount which the Finance Committee Reserve Fund can fund.

Appropriate uses of the Town's Capital Stabilization Fund include: funding projects approved in the capital improvement plan or an appropriation in the event of a catastrophic or emergency event if the financial impact of the event is in excess of an amount which the Finance Committee Reserve Fund can cover.

There will not be any additional withdrawals from the Stabilization Fund until the amount withdrawn is replenished. Funding to replenish the Stabilization Fund shall come from Free Cash or from other available revenue. If Free Cash or available revenue is insufficient to replenish the Stabilization Fund in the immediately following fiscal year, the replenishment shall occur as soon as Free Cash or available revenue exists, and no further withdrawal shall occur until the fund has been replenished.

SECTION 7: RESERVE AND LIQUIDITY POLICIES

7.4 Liquidity Policy

Objective:

To ensure that obligations will be met without adversely affecting either the daily operations or the financial condition of the Town. It is the responsibility of the Treasurer to manage the Town's cash and ensure that account balances are sufficient to cover municipal obligations in a timely manner. The objective of the cash flow forecast and liquidity policy is to help anticipate periods of low balances and to better manage any short-term borrowing, if any, needed to fill gaps. The policy will also reveal periods when account balances are positive and the potential to maximize investment income exists.

Policy:

The Town will regularly compute a liquidity measurement, which involves assessing the Town's cash inflows against its outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls. Eligible liquid assets are defined as cash, bank bills and CDs issued by a bank and deposits at call, or convertible within 2 days.

This will require the measurement and forecast of the Town's prospective cash flows for assets, liabilities, off-balance sheet commitments and derivatives over a variety of time horizons, under normal conditions and stressed conditions.

The Town will develop a strategy and implement, as needed, for dealing with temporary and long-term liquidity disruptions as they arise (e.g. revenue anticipation notes, tax anticipation notes, modifying investment holdings, etc.)

A cash flow forecast will be developed after approval of the annual budget and before July 1 each year. At this time, the Treasurer can rely on the revenue projections that fund the budget and on the appropriations that were approved. By adjusting past patterns of monthly spending and collections to current year revenue projections and appropriations, a reasonable forecast of the Town's cash flow needs will emerge.

Procedures:

As a starting point, municipal and school payroll warrants together with vendor warrants can provide a very general perspective. Annual revenue amounts will be based on revenue projections which support the annual budget. The monthly forecast will be refined by accounting for anticipated deviations from the prior year, special circumstances, or other expectations in the coming fiscal year. At the end of each month through the course of the fiscal year, the cash flow projections will be replaced by actual monthly expenditures or receipts. If revenues are insufficient to cover costs and short-term borrowing is used to fill the gap, the note proceeds must be added to the forecast as revenue, and later payments of interest and principal will be inserted as expenditures.