

# **Important Tips and Info for Managing Municipal Finances**



**Knowing some of the basics of Municipal Accounting and other Municipal Financial Processes is an Important step in managing a communities Municipal Finances.**

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# Tips and Info for Managing Municipal Finances

## 1 Forward

The purpose of this manual is to provide Municipal Officers and other Municipal Officials tips and information on the basics of Municipal Accounting and other Municipal Financial Processes. Understanding these basics is essential for the proper management of the financial affairs of any community. These tips and info are directed, mainly, to the Municipal Officers and other Municipal Officials such as members of the Warrant & Finance (Budget) Committee and members of the local School Board.

I was elected to the Board of Selectmen in the Town of Acton in 1989. It was also the year that the town transitioned into the computer age. I soon realized that the town was changing. Our population was increasing, the demand for services was increasing and our budget was growing proportionally. One system in need of change was our financial system. Going to a computerized accounting system was only the first step in the many changes to come.

One of the significant events that prompted me to take action was in 1991, as Chairman of the Board of Selectmen, I couldn't wait for the results of our annual audit for the previous year. As chair, I had been conservative in budgeting the Revenues and made sure that there were no overdrafts in the Appropriations. When I looked at the "Undesignated Fund Balance", I was shocked to see that it was a negative number. How could that be, I asked the auditor. He could not explain it. His response was, that in accordance with the financial equation used in Municipal Accounting, "Assets - Liabilities = Fund Balance", he could measure our assets and liabilities. By subtracting the liabilities from the assets, he could come up with the Fund Balance. The Fund Balance was made up of a Designated Fund Balance and an Undesignated Fund Balance. The Designated Fund Balance consisted of the Balances carried forward by the Town Meeting Articles. By subtracting the Designated Fund Balance from the overall Fund Balance, the amount left was the Undesignated Fund Balance. This event caused me to spend countless hours in discussions with other Selectmen, Town Managers, Finance Directors, Auditors and others in my quest for more information on Municipal Accounting and other Municipal Finances.

To the best of my knowledge, the information contained in this manual is not available in any one current document. This manual is a compilation of information that I have accumulated from various sources over the last 20 years. It includes various policies, rules and procedures developed for the Town of Acton during my nine-and-a-half years as a Selectman. The information in this manual is, also offered to others who may be interested in understanding and providing better management of the financial affairs of their community.

I wish to thank all those who have contributed to helping me with this project and especially to my good friend and neighbor, Jerry Nulton, for the cover page and his help in formatting. Over the years, I have gained much of my information from the Maine Municipal Association and from a Manual by Robert Reny, entitled "Model Finance and Accounting Procedures".

If any one has any comments, questions or corrections, feel free to call me at 207-636-3205 or email me at [\[ran@metrocast.net\]](mailto:ran@metrocast.net).

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## 2 Introduction to the Basics of Municipal Accounting

This section provides an introduction to the Basics of Municipal Accounting. It should provide you with a basic familiarity to read and understand the various financial reports, necessary for the proper management of the financial affairs of your community.

The Municipal Accounting System consists of:

1. Source Documents - Source Documents are the original documents that provide the necessary detail, such as checks, receipts, invoices, time cards, purchase orders and various forms (request for payment or reimbursement) that have been signed by an authorized official.
2. Journals (Books of Original Entry) - Journals are used to make the first formal recording of a financial transaction. The data is, generally, taken from a source document. The four most common types of journal are, cash receipts journal, cash disbursements journal, payroll journal and a general journal for all entries not recorded in one of the other journals.
3. Ledgers - Ledgers record the summary totals of the transactions from the journals. They provide the balances in any account at a given point in time. The General Ledger (GL) consists of an individual account sheet for every Asset, Liability, Revenue, Expense and Capital Account in use by a given municipality.
4. There may be times when more detailed records are required than is practical in the General Ledger. For those transactions, a Subsidiary Ledger is used. Examples of Subsidiary Ledgers are Revenue Control, Expense (Appropriation) Control, Current Taxes Receivable and Tax Liens.
5. Procedures and Controls - It is recommended that every municipality have a written "Financial Policy and Procedures Manual". The manual, not only establishes the policy to be followed in the municipal financial system, but also provides the forms and standardized procedures necessary to classify, record, summarize, control and report information correctly in the accounting system. It also provides everyone involved with the knowledge of who is responsible for what. The manual may include many of the sections found in this guide.

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## 3 General Ledger

The General Ledger is the centerpiece of Municipal Accounting. It provides the balances in any one account at a given point in time. It is laid out in the format of the basic accounting equation used in Municipal Accounting.

### **Assets - Liabilities = Fund Balance**

The Assets are listed at the top of the General Ledger, followed by Liabilities and ending with Fund Balance accounts and other Equity Accounts. Municipal Accounting utilizes a double-entry bookkeeping system. The General Ledger is laid out in the form of a “T”, with Debits on the left side and Credits on the right side. The Assets and Expense Accounts are listed as a Debit (on the left side) and the Liabilities, Fund Balance and Revenue Accounts are listed as a Credit (on the right side). When a transaction is entered into the General Ledger, the entry will include at least one debit and one credit. The Debits must always equal the Credits. For example, if someone was to make a payment on their RE taxes, there would be a Credit (decrease) entry for Taxes Receivable and a Debit (increase) entry in the Cash account. If a Grant were received, there would be a Credit (increase) in the Revenue account and a Debit (increase) in the Cash account. A balance is always maintained in all the accounts with the total of all the Debit entries equaling the total of all the Credit entries. This provides the basic proof of accuracy for the Double-Entry Bookkeeping System.

### 3.1 Fund Accounting

Municipal Accounting is also known as Fund Accounting. Most of the accounts associated with the operation of a Municipality are grouped into what is called the “General Fund”. Other funds may be established when revenues and expenditures need to be tracked separately. It is recommended that the number of funds be kept to a minimum.

### 3.2 Cash vs. Accrual Basis of Accounting

In a Cash Basis of Accounting, revenues are recognized when actually received and expenses are recorded when actually paid. In a Full Accrual Basis of Accounting, revenues are recorded at the time they are earned. The expenses are recorded when the liability is incurred. Most municipalities use what is known as the Modified Accrual Basis of Accounting, where the revenues are recorded when they are measurable and available. Expenses are generally recognized and recorded when the liability is incurred as under the Full Accrual Basis. Some small municipalities may still be using the Cash Basis method. The Modified Accrual basis is the preferred method for the municipal accounting systems General Fund. All Nonexpendable Trust Funds, such as Cemetery Trust Funds or School Scholarship Funds utilize the Full Accrual Basis of Accounting.

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## 3.3 Reports

In order to properly manage their areas of responsibility, the Municipal Officers and other Municipal Officials need to review and understand various periodical financial reports. Certain interim Financial Reports should be reviewed on a monthly basis. The monthly Revenue and Expenditure reports should have the Budgeted Amount and the Actual Amount listed for each account. Some systems also have a column that shows the percentage of the budgeted amounts received or expended.

It is recommended that the following reports be submitted to the Municipal Officers for their review, on a monthly basis:

**Expense Report** – This report lists the Budgeted Expenditures as appropriated by the Town Meeting and the Actual Amounts Expended.

**Revenue Report** – This report lists the Estimated Revenues that are to be used to reduce the amount to be raised by taxation and the Actual Amounts Received.

**Trial Balance Report of the General Ledger** (It is important for the total balance to be equal for the Debit and Credit columns.)

**Tax Collector's Report of all Tax Receivables** for that month and YTD.

At the end of the year, there should be a final report that shows the total figures for each account that have been received or expended. It should also show any balances.

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## 4 Budgeting

The Budgeting process is one of the most important and fundamental aspects of municipal administration. Maine Law (30 MRSA ss5101-12) states that every municipality shall submit and adopt a budget yearly.

The two different budgeting processes being used throughout the State of Maine are “Net Budgeting” and “Gross Budgeting”. Many of the smaller communities, throughout the state are still using a “Net Budgeting Process”. This process consists of:

1. Subtracting non-tax anticipated sources of revenue from the estimated cost of the municipal function being performed.
2. Dedicating certain revenues only for specific activities.
3. Carrying over certain “Open Account Balances” from one Fiscal Year to another.

With “Net Budgeting”, the focus is more on the “Amount to be Raised by Taxation”, rather than on the “Total Expenditure”. It is difficult to provide full accountability of the revenues and expenditures using this process. A larger Departmental Budget can have a smaller amount to be raised by taxation if Management uses more revenues and balances carried than a smaller departmental budget that is only funded by taxes. The focus should be on the total expenditures and not only on the amount to be raised by taxes. Sometimes, in “Net Budgeting” the total expenditures are not appropriated. It is important to remember, that you need to budget your revenues as well as the expenditures and that they need to be appropriated.

Gross Budgeting focuses on the total expenditures and the total estimated revenues. The revenues are budgeted separately and a separate article is developed to appropriate all the revenues to be used to reduce the amount to be raised by taxation. Balances that are left over at the end of the year are allowed to lapse into the Undesignated Fund Balance. A portion of the Undesignated Fund Balance may be used to reduce the amount to be raised by taxation. The only time that a balance would be carried over to the next Fiscal Year would be, if it was part of a designated revenue, that was being used to fund a particular expenditure and not all of the revenue was used to cover the expenditures. An example might be in the use of a state or federal grant that restricted the use of those particular funds. The amount to be appropriated would be the total expenditures for that account.

When budgeting revenues, all the revenues received in the prior years need to be reviewed and analyzed to see if there are any abnormalities. The effect of the economy should also to be taken into consideration. If the economy has taken a downturn, there may be less state or federal funding, excise taxes and town clerk fees.

A portion of the Undesignated Fund Balance may be used to reduce the amount to be raised by taxes or may be used to offset certain capital expenditures in the budget. How much to be used depends on how much is in the fund. A “rule of thumb” for determining the amount to be retained in the fund is to have a minimum of 10% of the total gross budget (Total Appropriations). Some accountants

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recommend maintaining 8-24% for Cash Flow purposes and for emergencies that may come up after going to Commitment.

Another source of funding might be certain designated Reserve Funds that have been set up for special purposes.

One thing that must be remembered, is that all expenditures and all revenues must be appropriated. When the Town Meeting votes to appropriate, it is authorizing the expenditure of funds and the use of certain revenues. An article needs to be inserted in the Town Meeting Warrant that appropriates all of the revenues, balances carried and the amount of undesignated fund balance that is to be used to reduce the amount to be raised by taxation.

A budget schedule should be developed and issued approximately 4 months prior to the Annual Town Meeting. Along with the budget schedule, it is important for the Municipal Officers to establish budget goals for the coming year. This provides a guideline for everyone to follow in developing his or her budgets. If, in developing their budget, a department head or committee chairperson finds it necessary to exceed the established goal set by the Municipal Officers, they should provide the reasons why in writing. Copies of the current and prior years budgeted expenses and actual expenditures should be provided to each department head and committee chairperson to help them in the development of their proposed budget. Standard budget forms may be used as a part of the budget process.

Once the budgets have been completed, they should be submitted to the Municipal Officers. The Municipal Officers will review the budgets and draft the articles for the Town Meeting that will appropriate the funds for the overall budgets. The articles and the proposed budgets are then submitted to the Warrant & Finance (Budget) Committee for their review and recommendation.

When the Warrant & Finance (Budget) committee has completed their review and made their recommendation on all of the articles, the Municipal Officers will complete the warrant and send it to the printers. The warrant must be posted at least 7 days prior to the Town Meeting. The date to start the 7 day posting may be different from the actual date of the town meeting, where everybody assembles to vote on the overall town meeting warrant. If elections of municipal officials or referendum questions, to be voted on by "Secret Ballot" are held prior to the general voting on the general town meeting articles, the date to be used for purposes of the posting would be the date that the date that the elections or referendums take place.

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## 5 Audits

Maine Law (30 MRSA section 5233) requires that each Municipality have an Annual Post-Audit made of its accounts covering the last complete Fiscal Year. Approximately two months, prior to the end of the Fiscal Year, the Municipal Officers need to decide whether to renew the contract for doing the Annual Audit or whether to go out with a Notice of Request for Proposal (RFP) for the Annual Audit. The RFP should include a deadline for completion of the Audit. The audit should be completed prior to going to commitment to ensure that any Prior Years Figures, used in determining the commitment, are accurate.

The Year-End work is very closely related to the work of the Auditors and should be coordinated with them as much as possible. It is advisable to meet with the Auditors prior to the years end and have them help in making up a checklist of items that the auditors will require in the conduct of their Audit and to assist in the proper closing of the Towns Books.

Be sure that the audit report contains a breakdown of the "Designated Fund Balances". The breakdown should contain all of the "Balances Carried" to the next Fiscal Year. It is important for the Municipal Officers to understand what the various figures mean in the audit report. They need to take seriously the comments and recommendations of the auditor and be willing to implement any recommendations. The audit can be a very useful and effective tool in improving the management of the municipal finances of the community.

Care should be exercised in choosing an Auditor. Price alone should not determine the selection of an Auditor. Experience in Municipal Accounting/Audit is a very important factor that should be taken into consideration in the evaluation process. It should be remembered that the Auditor works for and reports to the Municipal Officers and not the staff.

Example (1) is a sample of a "Notice of Request for Proposal for Annual Audit" and Example (2) is a sample "RFP for Annual Independent Audit".

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## 5.1 Example (1): Notice of Request for Proposal

### NOTICE OF REQUEST FOR

### PROPOSALS FOR ANNUAL INDEPENDENT AUDIT

The Town of **NAME OF TOWN**, Maine will receive sealed proposals for ANNUAL INDEPENDENT AUDIT services until **INSERT TIME A.M./P.M.** on **INSERT DAY, INSERT DATE** at the **INSERT NAME OF OFFICE AND ADDRESS**, Maine at which time and place all proposals will be publicly opened and read aloud. Contract documents, specifications and the Request for Proposals are on file at the **INSERT NAME OF OFFICE AND ADDRESS, TELEPHONE NUMBER.**

Date: \_\_\_\_\_

Town of **INSERT NAME**, Maine

By: \_\_\_\_\_  
INSERT AUTHORIZED SIGNATURE

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## 5.2 Example (2): Request for Proposal

### REQUEST FOR PROPOSALS

### ANNUAL INDEPENDENT AUDIT

The Town of **INSERT NAME**, Maine invites qualified independent public accountants to submit proposals for the performance of an audit of its financial accounts and records covering the period **INSERT DATE** through **INSERT DATE**, for the purpose of rendering an auditor's opinion regarding the fairness of applicable financial statements and the compliance of the municipality with applicable legal provisions, in accordance with generally accepted auditing standards.

#### A. GENERAL INFORMATION

**INSERT GENERAL INFORMATION** (TYPE OF RECORD KEEPING SYSTEM, SIZE OF BUDGET, POPULATION ETC.)

#### B. AUDIT SPECIFICATIONS

Indicate in the proposal if the firm agrees to meet the following specifications. Explain any exceptions.

1. The audit firm shall be engaged to conduct a financial and compliance audit of the accounts, records and procedures of all departments, funds, account groups and/or entities of the municipality as stated in Section A of the Request for Proposal.
2. This examination shall be made in accordance with generally accepted auditing standards and procedures, applicable to governmental units, as prescribed in the following documents:
  - a. American Institute of Certified Public Accountants, Statements on Auditing Standards and Audits of State and Local Governmental units.
  - b. United States General Accounting Office, Statements of Audit of Governmental Organizations, Programs, Activities and Functions and Guidelines for Financial and Compliance Audits of Federally Assisted Programs.
3. The audit shall be conducted to satisfy the requirements the State of Maine Department of Audit and Title 30-a M.R.S.A., Section 5823. The firm shall also file the Municipal Audit Procedural Form and a copy of the auditor's report with the State Department of Audit within thirty days after completion of the Audit.
4. The firm shall submit a written report containing an expression of opinion that the financial statements are fairly stated, or if a qualified or adverse opinion or disclaimer of opinion is necessary, the reasons therefore. The firm shall submit **INSERT NUMBER** copies of the final draft of its report no later than **INSERT DATE** days after the close of the Fiscal Year.
5. In connection with the examination of the records and financial statements, the Firm shall review the system of internal control, operating procedures and compliance with budgetary and legal requirements by the municipality.

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6. The firm shall agree to make available its working papers upon request to meet any municipal financial needs, as well as in accordance with any federal and state grant provisions.
7. Staff involved with the audit must have the appropriate certification, training, background and experience to perform the audit according to the rules and regulations of the Single Audit Act and the audit process shall be conducted in conformance with the Single Audit Act.
8. The partner or manager in charge of the audit shall be available to attend public meetings at which the auditor's report may be discussed. The partner or manager in charge of the audit shall also be available to discuss the auditor's report or other reports required by this proposal with the municipality's financial staff as required.
9. The municipality views its engagement of an audit as an ongoing professional relationship in which the firm is expected to provide consultation services during the terms of their proposal. As such, the firm is expected to consult as required on auditing, accounting, financial reporting and other financial management questions, which arise during the course of the year.

### C. INSTRUCTION FOR SUBMITTING

Six copies of the proposal will be accepted in sealed envelopes marked "Independent Audit Proposal" until **INSERT TIME** on **INSERT DAY, INSERT DATE**.

In order to obtain uniform evaluation and maximum comparability, the proposal must be organized in the following manner:

1. Title Page  
The Title Page should reference the RFP subject and name of the municipality, the firm's name, address, and telephone number, the date, and the name and title of the contact person.
2. Table of Contents  
The Table of Contents must clearly identify the organization of the proposal by sections and include page numbers for easy reference.
3. Letter of Transmittal  
The letter should state the firm's understanding of the scope of the audit and contain a firm commitment to meet the audit specifications contained in Section II within the proper time period(s).

In addition, the letter should identify the name of the person who will be authorized to make a representation for the firm and include that person's title, address and phone number.

4. Qualifications of the Firm  
This section must include all relevant information to assist the municipality in evaluating the firm's qualifications and experience in conducting municipal audits. The proposal must include at minimum:

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## a. General Profile

Information included should state whether the firm is local, regional or national, give the location of the office from which audit is to be conducted, the number and positions of the various professional staff located at that office, and describe the range of services performed by that office, such as audit, accounting, tax and management services.

## b. Staff Qualifications

The next section of the proposal must identify specifically who will be assigned to the audit, such as partner, manager, and supervisor. Resumes for each person assigned to the audit should be included.

## c. Relevant Experience

This section should describe the firm's municipal auditing experience including names and phone numbers of municipal officials responsible for the audits that can be contacted for more information.

## 5. Technical Approach

The proposal must include a summary of the firm's technical approach to performing a municipal audit. The proposal should include a brief description of the audit procedures and/or techniques to be followed, presented in a form which shall best aid the municipality in evaluating your firm's ability to identify, evaluate and communicate on local government financial problems.

## 6. Compensation

The proposal must indicate the maximum total fee your firm will charge for the audit services outlined in Section B of this Request for Proposal. The final payment shall become due only after the submission of all reports required by Section B and their acceptance by the municipality. Should the firm encounter circumstances requiring an increase on the extent of detailed investigation, or should the municipality require an increase in the scope of the audit, written notice to the effect must be given to the other party. The engagement can then be modified by mutual agreement of both practices as to additional work and compensation.

## D. MUNICIPAL ASSISTANCE

The municipality's staff shall render all feasible assistance to the audit firm and shall respond promptly to requests for information, provide all necessary books and records, and provide physical facilities required by the firm for the expeditious conduct of the audit engagement.

The municipality shall have adjusted and/or closed all accounts and shall have them available for examination within **INSERT NUMBER OF** days after the close of the Fiscal Year. The municipality will also make its records and other financial documents available prior to the end of the Fiscal Year so that the firm may begin its preliminary work well before the close of the Fiscal Year, in order to complete the audit report on a timely basis.

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## E. EVALUATION OF PROPOSALS

The municipality shall evaluate the proposals on the basis of the qualifications, experience and responsiveness of the audit firms, as well as the estimated cost of the engagement. The municipality must be satisfied that the auditors and their firm have solid understanding of government programs generally and the operations of the municipality in particular.

The municipality may wish to conduct oral interviews with the firms considered most qualified in order to assist the municipality in the selection process. The municipality reserves the right to except any proposal, or reject any or all proposals, if it feels it is in the best interest of the municipality to do so.

## F. FURTHER INFORMATION

Audit firms who want additional information or clarification should contact the municipality. Any inquiries should be directed to **INSERT NAME, TITLE, INSERT ADDRESS AND TELEPHONE NUMBER**

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## 6 Cash Flow Analysis

At the beginning of the Fiscal Year, the Treasurer should create a “Cash Flow Analysis” of the cash that is available throughout the coming year to pay all the bills and payroll. The bulk of the cash available comes from the receipt of real estate taxes and personal property taxes. Those municipalities sending tax bills out once a year will find that there will not be enough revenues available to carry them throughout the year. Even those municipalities that have gone to twice a year tax billing, may find that they may run out of cash if they do not carry the recommended amount of “Undesignated Fund Balance”.

By creating a cash flow analysis, the Municipal Officers can anticipate the need for a Tax Anticipated Note (TAN). This is a short-term note that the town repays as the tax receivables come in.

The analysis starts by listing out the total estimated revenues and the total estimated expenditures on a monthly basis. The estimates are based on the prior year figures and modified by looking at the upcoming year’s estimated revenues and expenditures. It is important to take into consideration any major expenditures or increases in the budget, which was authorized by the Town Meeting for the current year.

Beginning with the Cash Balance, available at the start of the Fiscal Year, the estimated Monthly Revenues are added and the Estimated Monthly Expenditures are subtracted, yielding a Net Cash Balance for that month. This is repeated for all twelve months. For any months that show a “Negative Cash Balance”, an analyses needs to be made of the revenues and expenditures to see if any changes can be made. It may show that if the Tax Commitment had been made sooner, it would bring in some tax revenue sooner. Perhaps, there may be a large expenditure that could be delayed. If neither actions are able to correct the situation, then it will be necessary to obtain a loan or a “Line of Credit from a Financial Institution. This generally happens just prior to Commitment and only requires a short-term loan, which would be paid off upon receipt of sufficient funds.

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## 7 Rules for Financial Management of Municipal/School Funds

Years of experience have resulted in the compilation of the following rules that must be adhered to in order to maintain control over the budget.

1. All Expenditures and the use of Revenues must be authorized by the Town Meeting.
2. No accounts may be legally over-expended except for the Road/Highway Account and the General Assistance Account. An overdraft in the Road/Highway account may not exceed 15% of the Appropriated amount and must have the written consent of the Selectmen. All overdrafts must be ratified by the voters by the next Annual Town Meeting. Appropriate actions should be taken to prevent the necessity of having to overdraft an account. MMA advises that Municipal Officers and in some cases the Treasurer may be held liable for any overdrafts that are not ratified by the Town Meeting.
3. Within a specific appropriation, a subaccount may be over expended as long as the overall appropriation does not exceed what was voted by the Town Meeting for that article. This procedure is preferred over the transfer of funds from one subaccount to another. It is recommended that the Municipal Officers not allow the transfer of funds. The transfer of funds from one account to another must be authorized by the Town Meeting.
4. All funds to be carried over to the next Fiscal Year must be designated. (This is usually done with one Article listing all the funds to be carried over).
5. All undesignated funds and balances lapse into the Town's Undesignated Fund Balance (Surplus), except for undesignated school funds. Undesignated school funds and balances lapse into a School Undesignated Fund Balance Account for school purposes. It is recommended that the Undesignated Fund Balance be at least 10% of the total amount appropriated.
6. When designated revenues are used in the appropriation, there are strict limitations to their use. You are only allowed to use what is appropriated. If an appropriation consists of an estimated amount of \$10,000 and you receive only \$5,000, you must cut your budgeted expenditures by \$5,000 for that account. If you receive \$15,000 instead of \$10,000 you cannot spend the extra \$5,000 because it was not appropriated. If funds are received during the upcoming Fiscal Year that were not specifically appropriated then they cannot be used unless authorized by the Town Meeting. They may be carried forward or they will lapse into the Undesignated Fund Balance or into the School's Fund Balance.

**NOTE:** The appropriations may only be increased if the new revenues have been appropriated by a Town Meeting Article. The use of **all** Revenues must be approved by the Town Meeting. These include all Revenues that are to be used to reduce taxes when figuring the Commitment.

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## 8 Purchasing Guidelines

Having a set of policies and procedures is an important part of controlling municipal costs. The following is a set of purchasing guidelines used by the Town of Acton.

### 8.1 POLICY

It is the policy of the Town of \_\_\_\_\_ to make maximum use of Purchase Orders in the purchase of goods and services.

### 8.2 PURPOSE

The use of Purchase Orders will allow the Town to provide the best guarantees that tax money and public funds are spent in the most prudent fashion. It provides a full audit trail of purchases and is an important tool to help prevent overdrafts and control spending within budget limits.

### 8.3 SCOPE

The following procedures shall apply to all departments except the school department. The school department will use its own procedures for the use of Purchase Orders.

### 8.4 RESPONSIBILITIES OF THE PURCHASING AGENT AND DEPARTMENT HEADS

An effective centralized purchasing system is based upon standard procedures being utilized by all departments on a consistent basis. These procedures must be clearly explained and communicated to all who are involved in the purchase of goods and services with public funds. Specific responsibilities for various aspects of purchasing are shared by the purchasing agent and department heads as follows:

#### 8.4.1 PURCHASING AGENT RESPONSIBILITIES:

**NOTE:** The ( \_\_\_\_\_ ) is designated as the Purchasing Agent for the Town of \_\_\_\_\_.

- A. Where departments are authorized to purchase directly from vendors (for example, under \$200.00 in value), assist them in ensuring that procedures are followed.
- B. Purchase all goods and services valued over \$200.00 in total price, for the departments other than the school department, when requested.
- C. Receives and reviews all Purchase orders (PO's) for availability of funds; enters PO into accounting system and processes PO.
- D. Responsible for certifying the availability of funds before any purchase over \$200.00 is made.
- E. If the unencumbered balance in the appropriation account is insufficient, returns PO to the originating department with **NOTICE OF INSUFFICIENT FUNDS** attached.
- F. Upon receipt of an invoice, the Purchasing Agent pulls PO from file and forwards to appropriate department head for authorization of payment and receiving report. Files office copy in "active" file.
- G. Upon receipt of approval from department head, processes PO for payment; liquidates account encumbrance; enters all date in the computerized accounting system.

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- H. Upon receipt of vendor's invoice from department without an accompanying PO, return PO to department with attached notice of **NO PURCHASE ORDER**. If a purchase was made without an authorized PO issued by the Purchasing Agent, do not process for payment.
- I. Prepare all contracts for execution, including any performance bonds, insurance certificates, labor and materials bonds, obtain the required signatures, distribute contract documents, and assign contract numbers to all contracts and agreements awarded by the municipality. He/She shall also maintain these files with any additional documents or correspondence relating to contracts or agreements. Purchasing files will contain all material associated with the planning, bidding, and acquisition of the product or service.
- J. Supervise and maintain control of any storerooms or other facilities for the storage or distribution of supplies for any two or more departments/offices.
- K. Coordinate with the school department for consolidated purchases of common items such as paper goods, fuel oil, etc.
- L. Compile and maintain lists of prospective vendors of supplies and services and invite bids and proposals from such vendors.
- M. Maintain bid files and other documents. Note that certain vendor files containing some confidential vendor business information is not considered open to the public, particularly financial information needed for qualifications analysis, but not for public review.

### 8.4.2 DEPARTMENT HEAD RESPONSIBILITIES:

- A. For purchases up to the minimum amount (for example \$200.00 in total value), to purchase goods and services for the orderly and efficient operation of their departments within the appropriated budget.
- B. Work cooperatively with the Purchasing Agent within the purchasing system to ensure the best interests of the municipality and its departments are met.
- C. Anticipate the department's needs well in advance, so as to minimize the needs for emergency purchase.
- D. Prepare item descriptions and specifications, so as to provide the vendor with a clear indication of the department's needs.
- E. Upon receipt of goods or services, to review the Purchase Order and invoice for conformity. Attach receiving report to invoice.
- F. When there is a discrepancy of cost or dissatisfaction with goods received, to notify the Purchasing Agent at once to resolve problem. No bill should be processed for payment where goods are unsatisfactory, or there is a price discrepancy between original Purchase Order and bill received.

## 8.5 PROCEDURES

### 8.5.1 PURCHASES UP TO THE MINIMUM AMOUNT

Any purchases up to \$200.00 may be made, without a PO, by the Department Head or an employee with the Department Head's concurrence. If the Town of Acton has a charge account with the particular store or vendor then the goods may be charged to the Town's account. If the Town does not have an account with a particular store or vendor then the

## **Tips and Info for Managing Municipal Finances**

employee may pay for the goods and apply for reimbursement from the Town using forms supplied by the Treasurer's Office.

### **8.5.2 PURCHASES FROM \$200.00 TO \$1000.00**

Any purchases of goods or services from \$200.00 to \$1000.00 shall require the use of a regular Purchase Order Form:

- A.** The Department shall request the purchase on a Purchase Order form. This form shall be submitted to the Purchasing Agent by the requesting Department.
- B.** The Department Head or his designee shall contact as many vendors as necessary in order to obtain at least three (3) written or verbal quotations.
- C.** The Department Head shall select the appropriate vendor. In exceptional circumstances, if the lowest quotation is not recommended, it must be indicated as attachments to the Purchase Order Form with full documentation and explanation to the Selectmen for approval.
- D.** Once filled out, the Purchase order will be forwarded to the Purchasing Agent for processing.
- E.** The Purchasing Agent will then certify as to the availability of funds and will execute the purchase if approved.

### **8.5.3 PURCHASES EXCEEDING MAXIMUM AMOUNT**

Purchases or contracts exceeding \$1000.00 shall be by bid or Request for Proposal (RFP). Unless you have someone fully knowledgeable to write up the specifications for going out to bid, it is recommended that the "Request for Proposal" be used.

- A.** The Department Head shall prepare specifications for Bid/RFP items and shall obtain technical assistance as needed in interpreting and preparing certain specifications.
- B.** All Bid/RFP specifications must be approved as to form by the Board of Selectmen.
- C.** After approval of the purchase by the Selectmen, the Purchasing Agent shall invite all Bids/RFP's by advertisement in at least one newspaper of general circulation in the municipality, such publication to be at least one week before the time of Bid opening. A typical Bid/RFP invitation is shown below.

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## SAMPLE

### BID/RFP NOTICE

The Town of Acton, Maine invites Bids/RFP for the supply of (name of bid item). Bid/RFP specifications are available from the Office of Selectmen, 35 H Road, Acton, Maine, 04001, Tel.636-3839. Sealed Bids will be received until \_\_\_\_\_ AM/PM, (date), at which time Bids will be opened and publicly read. The Town reserves the right to reject any and all Bids/Proposals if deemed in the interest of the Town.

- a. All Bids/RFP's shall be opened in public. Bids meeting the specifications shall be reviewed by the Selectmen in consultation with the Department Head or committee.
- b. The Department Head or committee shall then make a bid award recommendation. If the Department Head or committee recommends that the lowest Bid be accepted and the Selectmen know of no extenuating circumstances, the Selectmen shall so award the Bid.
- c. If there are extenuating circumstances felt by the Department Head, Committee or Selectmen, the Board of Selectmen may award the Bid to other than the lowest Bidder or may reject any or all Bids.
- d. RFP's shall be reviewed for content and the ability to fulfill the requirements/specifications contained in the RFP as well as the price quoted.
- e. At the direction of the Selectmen, the Purchasing Agent shall prepare a Notice of Award Form to be attached to the purchase order or contract.

### **8.5.4 CHANGE ORDERS**

Whenever a change of any kind occurs on the original purchase order, a new Purchase Order, with the updated information must be submitted by the department, modifying the Purchase Order. The modified order will be rerouted for approval with the notation as to "Modifying or Changing Purchase Order No. \_\_\_\_\_".

### **8.5.5 EMERGENCY PURCHASES**

#### a. **GENERAL**

Although the occasion for **emergency purchases** will arise, this practice should be **kept to a minimum** by anticipating the department's needs well in advance and using the regular purchasing guidelines. The **competitive procurement** provisions can only be **waived** by the Selectmen for a purchase over the \$1000.00 limit when there exists a **special emergency** involving the health or safety of the people or property. When an emergency purchase is made, the department doing so, or the Purchasing Agent will attempt to make the purchase at the most competitive price. An emergency generally relates to needed repairs to equipment or facilities which must be kept operating to protect the health and/or safety of persons, or property.

#### b. **EMERGENCY PURCHASE PROCEDURE**

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If the need for any emergency purchase arises, the following procedure should be followed:

- 1) The Department Head or Purchasing Agent should prepare a Purchase order and give a clear explanation of the nature of the emergency in the "remarks" section. The Purchase Order should then be marked "**Emergency**". Every effort shall be made to inform the Selectmen of the need for the purchase and obtain his/her approval. Attempts should be made to obtain competitive quotes, if possible.
- 2) This Purchase Order should be promptly forwarded to the Selectmen, regardless of dollar value. In the event that the emergency should occur when the Selectmen's Office is closed, the purchase may be made and the emergency Purchase Order submitted to the Selectmen as soon thereafter as possible.
- 3) Where the purchase price exceeds the unencumbered balance. In the Department's budget account, the Department shall immediately notify the Selectmen of the need. No purchase shall be completed prior to such notification and approval by the Selectmen.

### 8.6 PROCEDURES FOR RECEIPT OF SUPPLIES OR SERVICES

The following procedures shall be followed for the receipt of all supplies or services:

a. **FULL RECEIPT OF SHIPMENT**

The Department Head will notify the Purchasing Agent that supplies were received by signing the invoice and forwarding it to the Purchasing Agent.

b. **PARTIAL RECEIPT OF SHIPMENT**

If partial shipment of an order is received, the Department Head should note what remains to be received. The invoice or packing slip should also be noted that the order is incomplete and the Purchasing Agent should be notified.

c. **INSPECTION AND ACCEPTANCE**

The Department Head will be responsible for the inspection of supplies or services received. He will determine that the supplies or services are as specified and satisfactory before accepting same.

d. **PAYMENT OF TRANSPORTATION CHARGES**

All orders to suppliers will normally specify that transportation charges will be prepaid by the supplier to the point of delivery.

e. **INVOICES NECESSARY**

The person making the purchase will insure that the invoice is to the Town of Acton and should also insure that the vendor provides a legible and complete description of the item purchased on the invoice. A copy of the supplier's invoice signed by the person making the purchase will be delivered to the Department Head who shall verify the receipt of the item and insure that the invoice reflects the department and activity for which the purchase was made by signing the invoice. Invoices shall be delivered to the Purchasing Agent as soon as possible.

# Tips and Info for Managing Municipal Finances

## 9 Investment Policy

Every Municipality should have an "Investment Policy. The following is an example that may be used:

"This investment policy applies to all transactions involving the Financial Assets of the Town of \_\_\_\_\_. The main objective is safety of Principal. Each investment transaction shall seek to ensure that Capital losses are avoided. Assets of the Town shall be invested only in Certificates of Deposit, Treasury Bills, and Treasury Bonds of the U.S. Government, Repurchase agreements with banks chartered by the State of Maine and Collateralized by U.S. Treasury Bills. The Treasurer shall only make investments as directed by the Board of Selectmen. Presently, all funds, except Trust Funds, are maintained in a single checking account with the \_\_\_\_\_ Bank. The funds may be invested by the bank as part of a Cash Management Account where they are invested on a daily basis therefore providing interest income to the Town."

# Tips and Info for Managing Municipal Finances

## 10 Capital Improvement Program (CIP)

### 10.1 GENERAL

1. In its most basic form, a CIP is no more than a schedule listing Capital Improvements, in order of priority, together with cost estimates and the proposed method of financing them.
2. A CIP provides the following benefits to the Community:
  - a. Focuses attention on Community goals, needs and capabilities.
  - b. Maintains a sound and stable Financial Management Program.
  - c. Repairs or replaces existing facilities/equipment.
  - d. Achieves optimum use of Taxpayers money.
  - e. Enhances likelihood for Grant-in-Aid monies.
  - f. Serves and informs the Public Interest in Projects.
3. Capital Improvement Projects must meet the following criteria:
  - a. Total cost of no less than \$3000.00 - \$5000.00. Items below this figure will normally be included in the Maintenance Account.
  - b. Minimal useful life of three years.

### 10.2 PROCEDURE

1. The Selectmen shall appoint a Capital Improvement Committee (CIC).
2. The CIC shall prepare a Capital Improvement Plan that meets the long-term needs of the Town. In preparing the CIP, the CIC will:
  - a. Make an inventory of all the Municipal Assets.
  - b. Determine the condition of the Assets.
  - c. Determine the Useful Life of the Assets.
3. The CIC will also develop a list of any new proposed Capital Improvement Projects. The cost of each Capital Improvement shall be determined.
4. Once the list and costs have been determined, it will be necessary to establish a priority list for the proposed projects.
5. The plan or update of the plan should be presented to the Selectmen, along with recommendations for financing the improvements, in sufficient time so that it may be included with other Town Meeting Articles for the Annual Town Meeting.
6. In order to fund the proposed Capital Improvements, It will be necessary to establish a Capital Improvement Fund. It is suggested that an annual amount be appropriated each year to maintain the fund. Many smaller Capital Improvement Projects may be funded by the Capital Improvement Fund without having to use money raised by taxes. Larger Capital Improvement projects may have to be funded by borrowing the whole amount and having the annual payments come from the Capital Improvement Fund.

# Tips and Info for Managing Municipal Finances

## 11 Commitment Process

Prior to starting the Commitment Process, it is important that the Annual Audit for the Prior year to have been completed. This is to ensure that any estimated balances from the prior year that have been authorized by the Annual Town Meeting, are in fact valid balances. All revenues and balances, to be used to reduce the amount to be raised by taxation, must be appropriated by the Town Meeting. When considering the amount of Undesignated Fund Balance, to be used to reduce the amount to be used in the commitment process, consideration needs to be taken, as to how much is left in the Undesignated Fund Balance Account. The audit report should show the balance as of the end of the year. It is recommended that a minimum of 10% of the overall total budget be retained in the Undesignated Fund Balance to cover emergencies during the current year and to enhance the cash flow of the town.

Once all of the property valuations, as of April 1<sup>st</sup> of the prior year, have been entered into the computer, a cross check of the names and addresses should be done between the tax assessing files and the tax billing files. Any errors found should be corrected.

The following steps outline the procedure to be used by the Tax Assessors in the commitment of the Taxes to the Tax Collector:

1. Ensure that all the changes affecting assessed values (as of 1 April) are entered in the computer.
2. Run a "Commitment Verify Report" and check for any errors. Make Corrections as necessary.
3. Run a "Valuation Analysis" to obtain the Total Valuation for Real Estate and Personal Property.
4. Run a list of Homestead Exemptions to determine the amount of valuation due to the Homestead Exemption. Add this amount to the total valuation for use in determining the tax rate.
5. Ensure that all Appropriations have been entered into the Expense (Appropriation) Accounts.
6. On the Assessor's form used for the Municipal Tax Rate Calculation, the total appropriations should be the same as the total appropriation on the appropriation control report. The total deductions should equal the estimated revenues on the revenue control report.
7. Calculate the minimum and maximum tax rates. The minimum tax rate would be without using any overlay. The maximum overlay set by state statues is 5% over that amount needed to be raised by taxes. It is recommended that a minimum amount be chosen to round off the tax rate, but should, also be enough to cover the amount of abatements estimated for the current tax year.
8. After determining the amount of overlay, calculate the tax rate and the total taxes to be committed.
9. Fill out the commitment sheets to the Tax Collector and Treasurer.

## **Tips and Info for Managing Municipal Finances**

10. Run a Trial Commitment on green bar paper, if okay, then run a Final Commitment using 2 part commitment paper.
11. Determine the percentage of total taxes (excluding overlay) for the County Taxes, Municipal Taxes and School Taxes. Then, using the percentages, determine the portion of the overall mil rate that will be used for the County Taxes, the Municipal Appropriations and the School Appropriations.
12. Determine the percent that the Tax Bill would have increased without State Aid for Education and State Revenue Sharing.
13. Provide the Commitment and other appropriate information, as determined in the previous steps, to the Tax Collector and Treasurer. A copy should be retained for the Selectmen/Assessor's Files.
14. Once the Commitment has been verified, a separate backup should be set up to off load only the R.E. and P.P. Files, and this labeled "20XX Tax Commitment Files". Continue to use the correct backup for the day to day backups.

# Tips and Info for Managing Municipal Finances

## **12 Tax Collection**

Once the taxes have been committed by the Assessors, the Tax Collector becomes legally responsible for the collection of those taxes within the time period stated in the tax commitment and is required to exhaust all legal avenues available for collection. The Tax Collectors & Treasurers Manual put out by MMA provides various procedures that may be used in the collection of taxes. The Tax Collector shall exhibit to the Board of Selectmen, an account of all the monies received on taxes committed to him or her, at least once every two months.

# **Tips and Info for Managing Municipal Finances**

## **13 Tax Settlement and Discharge**

Upon completion of collection of taxes for a given year, the Tax Collector shall prepare a "Certificate of Settlement" (Example3) and present it to the Selectmen for approval. The certificate shall be accompanied by appropriate supporting documents.

After the Selectmen have had a reasonable opportunity to review the statement and supporting documents, they will indicate their approval of the figures as presented by signing the discharge of liability at the bottom of the certificate. This action should be taken at a regularly scheduled Selectmen's meeting.

Once the certificate is signed, the Tax Collector is free of liability for the collection of any remaining balance of taxes for that year.

# Tips and Info for Managing Municipal Finances

## 14 Example 3: CERTIFICATE OF SETTLEMENT AND DISCHARGE

STATE OF MAINE

COUNTY OF \_\_\_\_\_ ss.

TO \_\_\_\_\_, Tax Collector of the Municipality of \_\_\_\_\_ within this county:

We hereby certify that the 20\_\_\_\_ taxes committed to you consisting of:

1. Real and Personal Tax Commitments:       \$ \_\_\_\_\_
2. Supplemental Commitments Totaling:       \$ \_\_\_\_\_
3. Interest:                                       \$ \_\_\_\_\_
4. A Grand Total of:                           \$ \_\_\_\_\_
5. Cash Payments:                             \$ \_\_\_\_\_
6. Abatements Granted:                     \$ \_\_\_\_\_
7. Tax Lien Mortgages:                     \$ \_\_\_\_\_  
(recorded in the \_\_\_\_\_ County Registry of Deeds)
8. Other Credits:                             \$ \_\_\_\_\_
9. A Net Total Of:                             \$ \_\_\_\_\_
10. Balance Due Of:                           \$ \_\_\_\_\_

Under the authority contained in MRSA, Title 36, Section 736, as amended, we hereby discharge you from further liability or obligation to collect the balance due of:

\$ \_\_\_\_\_ and acknowledge receipt of the tax lists for the taxable year 20\_\_\_\_.

Given under our hands this \_\_\_\_\_ day of \_\_\_\_\_ A.D. 20\_\_\_\_\_.

Municipal Officers:

\_\_\_\_\_

# Tips and Info for Managing Municipal Finances

## 15 Certificate of Settlement and Discharge

### INSTRUCTIONS

USE A SEPARATE FORM FOR EACH COMMITMENT YEAR.

EXECUTE IN TRIPLICATE (one each for tax collector, municipal records, and the bondsman).

Line 1-4. - Enter total commitments for the single taxable year, i.e., personal, real and supplemental taxes. Interest paid on taxes after the due date is entered on line 4 and line 8. do not use commitments of other years. Use separate form for recommitted taxes of previous years.

Line 5. - Enter cash collections supported by treasurer's receipts.

Line 6. - Enter abatements granted to the taxpayer or the tax collector according to the assessors' records.

Line 7. - Enter only recorded tax lien mortgage sums. Do not enter unrecorded liens of tax collector's deeds. Do not credit unrecorded liens on this form.

Line 8. - Include here such items as tax deeds, discounts for early payment, suits brought in the name of the Municipality, interest, etc.

Line 9. - Total of lines 5 through 9.

Line 10. - Subtract line 9 from line 4.

# Tips and Info for Managing Municipal Finances

## 16 What affects the Tax Rate?

Essentially, the Tax Rate is determined by dividing the Commitment by the Taxable Valuation.

**Example:** For the Town of Acton in 2009, our Taxable Valuation was \$556,877,752 and our Commitment was \$5,763,684.73.

**Tax Rate:** Dividing the Commitment by the Taxable Valuation gave us a Tax Rate of \$10.35/ \$1000.

The following parameters have an effect on the Tax Rate:

**Valuation:** For each \$1,000,000 increase in Taxable Valuation, there will be only a \$.02 decrease in the Tax Rate.

**Commitment:** For every \$100,000 increase in the Commitment, there will be an increase of \$.18 in the Tax Rate.

### What affects the Commitment?

- (1) Appropriations
- (2) Revenues
- (3) Amount of Undesignated Fund Balance to be used to reduce Taxes
- (4) Overlay

### Comments

The major factor affecting the Commitment is Appropriations. Any significant increase in the Appropriations will need to be offset by increased Revenues or more utilization of the Undesignated Fund Balance.

Normally, revenues do not vary that much from year to year, but are an integral part of the process in reducing the amount to be raised by taxation. If there is a major change in the amount of revenues used, then it will have a major impact on the tax rate.

In determining the amount of Undesignated Fund Balance, to be used in reducing the Commitment, it is recommended that at least 10% of the Total Appropriations or 15% of the Commitment be retained for Cash Flow purposes and to be available for emergencies.

In determining Overlay, state statues allow a maximum of 5% of the Commitment, to be added and no less than 0%. It is recommended that a minimal amount be used, that can be used to round off the Tax Rate, which can be used for offsetting any abatements issued. Using too much Overlay, only increases the Tax Rate unnecessarily.

One of the things to remember when determining the tax rate is that it is better to have a stabilized tax rate, than have the tax rate go up and down from year to year. If things go right and you have a good year financially, keep the same tax rate and let the undesignated fund balance build up a little so that you have a reserve built up that you can fall back on in the bad years.

# Tips and Info for Managing Municipal Finances

## 17 Town Meeting Articles (involving Funding)

The Board of Selectmen have the basic responsibility for writing the Town Meeting Articles. Town Meeting Articles, involving Funding, are written in a variety of ways. One of the older ways and still in use today in many of the small towns is:

“To see what sum the Town will vote to raise and/or appropriate for \_\_\_\_\_.”

According to MMA, the problem with this is, that by not having any amount in the article itself, it leaves the total amount open ended. The motion on the floor may overwrite the figure that is recommended by the finance committee or the selectmen. A motion on the floor may, also, be amended to increase the amount. Articles written in this manner have no upper limit.

It is preferred to include a definite amount in the body of the article, such as “To see if the Town will raise and/or appropriate \$ XXX for \_\_\_\_\_. By having a set figure in the body of the article, it sets an upper limit for what can be appropriated. You can not increase the figure listed in the article. The main thing to remember is to include the word “appropriate” in all articles pertaining to funding. The definition of “appropriate” is to authorize. The Town Meeting needs to “appropriate” (authorize) all expenditures and the use of all revenues.

Some towns appropriate the amount, requested in each article. The total appropriations approved by the Town Meeting then become the total appropriations listed in the Commitment. A separate article is written to appropriate the total revenue and balances to be used to offset the amount to be raised by taxation. An example of this type of article is:

“To see if the Town will appropriate the following revenues, funds and fund balances to cover the expenditures appropriated in the previous articles: (The remaining funding is to be raised by taxation.)

Estimated FY ( ) Municipal Revenues	\$ XXXX *
Capital Improvement Fund	\$ XXXX
Undesignated Fund Balance	\$ XXXX

\* (This figure is determined during the initial budget process. Budgeting Revenues should be part of the Budget Process.)

I find that this method to be much cleaner and clearer when doing the Commitment. You can compare the total appropriations and the total revenues used in the commitment to what was appropriated by the Town Meeting.

# Tips and Info for Managing Municipal Finances

## 18 Chart of Accounts

Many small communities still use a simplified chart of accounts that have been passed on over the years. Most small town treasurers and selectmen have very limited training or knowledge on municipal accounting. For these towns, their chart of accounts may not be arranged in the format recommended by the Government Finance Officers Association (GFOA). Much of the auditors time in doing the Annual Audit is spent trying to get the town's data into the format used by the auditor. In 2006, the Maine State Legislature enacted a resolve for the Department of Audit to develop a "Model Chart of Accounts". A committee was formed in the summer of 2006 to develop the Model Chart of Accounts. In 2007, an Act was passed by the 123<sup>rd</sup> Legislature to improve the access to Chart of Accounts. This Act required that the Model Chart of Accounts be made available on the Department of Audit's website [[www.maine.gov/audit/](http://www.maine.gov/audit/)], for access for all Municipal and County Governments. The Act did not make the use mandatory, but may be used voluntarily by any level of government.

**Note:** Overlay is listed as an "Expense Account" (account 50930) in the Model Chart of Accounts. Overlay is not an expense, but, by definition, is part of the taxes to be raised and therefore a Revenue and is actually part of the Commitment. Overlay is not, normally, considered as part of the Budget Process and should not be listed as an expense.