

# **FINANCIAL POLICY MANUAL**

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## **TOWN OF AVON, MASSACHUSETTS**

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**EDWARD J. COLLINS, JR. CENTER FOR PUBLIC MANAGEMENT**

**DECEMBER 19, 2019**

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INTRODUCTION .....	3
FINANCIAL POLICY REVIEW PROCESS.....	3
A. GENERAL BUDGET POLICIES .....	4
A-1 Balanced Budget.....	4
A-2 Budget Preparation and Submission.....	4
A-3 Revenue and Expenditure Forecast.....	6
A-4 Position Control/Vacancies .....	7
A-5 Personal Policies and Labor Contracts .....	7
B. ENTERPRISE FUNDS.....	8
C. RESERVE FUNDS/FUND BALANCE POLICIES .....	8
C-1 Free Cash .....	9
C-2 Stabilization Funds.....	10
C-3 General Reserve Fund.....	11
C-4 Overlay Reserve Fund .....	11
D. CAPITAL IMPROVEMENT PLAN AND POLICIES.....	12
D-1 Capital Improvement Plan Budget .....	12
D-2 Capital Improvement Financing .....	12
D-3 Capital Improvement Planning Process.....	13
E. GRANTS MANAGEMENT POLICIES .....	15
E-1 Grant Administration .....	15
E-2 Impact on Operating Budget .....	16
E-3 Impact on Capital Improvement Program and Debt Management .....	16
F. POLICIES REGARDING ESTABLISHMENT OF FEES .....	16
F-1 Fees and Charges .....	16
G. USE VOF ONE-TIME REVENUES.....	17
H. UNFUNDED LIABILITIES POLICIES .....	18
H-1 Pensions/Retirement .....	18
H-2 OPEB's .....	18
H-3 Compensating Balances.....	19
I. RISK MANAGEMENT POLICIES .....	20
I-1 Risk Management Program .....	20
I-2. Anti-Fraud Policy.....	20
J. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES .....	22
J-1 Annual Audit.....	22
J-2 Audit Review .....	23
J-3 Monthly Reporting .....	23
J-4 Cash Collections .....	23
J-5 Reconciling Cash and Receivables .....	24
J-6 Cash Flow Forecasting and Budgeting .....	25
K. PROCUREMENT AND PURCHASING POLICIES .....	25
L. INVESTMENT POLICIES .....	26
L-1 Investment Policy.....	26
L-2 Post-Issuance Tax Compliance Procedure .....	27
Appendix.....	28

## INTRODUCTION

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In order to ensure the growing and continued financial health of the Town of Avon, provide the public with confidence that Town officials seriously respect their responsibility for fiscal stewardship, and demonstrate to bond rating agencies that the Town has thoughtfully prepared for its future, the financial policies outlined below shall guide the Town.

### **Objectives:**

*The objectives of the Financial Management Policies are as follows:*

- A. To guide the Board of Selectmen, the Finance Committee, and management staff in evaluating and implementing decisions that have significant impact on the Town.*
- B. To set forth planning and operating principles which require that the cost of government be clearly identified and that financial risk be minimized.*
- C. To employ balanced and fair fee and user revenue policies that provide funding for required and needed programs.*
- D. To regularly evaluate the Town's financial capacity to meet present and future needs.*
- E. To promote credible and sound financial management by providing accurate and timely information on the Town's financial condition to elected officials, staff, the public and external interests.*
- F. To ensure that current and future capital needs are addressed in a comprehensive and financially sound manner.*
- G. To promote improvement in the Town's credit rating and provide financial resources sufficient to meet the Town's obligations on all municipal debt and other long-term obligations.*
- H. To establish an effective system of internal controls that ensures the legal use of financial resources.*
- I. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.*
- J. To ensure cash solvency, budgetary solvency, and service level solvency.*

## **FINANCIAL POLICY REVIEW PROCESS**

### **Background:**

The financial condition of a community may suddenly change, either strengthened or weakened, due to a number of circumstances including: a catastrophe, weather conditions, a change in the national economy, or a significant change in the certified valuation. Such changes may make it difficult to respond while continuing to follow the existing financial policies. To adjust to these occurrences, a community must be able to review current policies and adjust the policies to the new conditions.

**Policy:**

The Town shall review financial policies every five years. In the event that the Town Administrator recommends that a policy review take place earlier than five years, the Board of Selectmen shall reconvene the Financial Policy Review Committee, including members or designees of the Selectmen, Finance Committee, School Committee, and Capital Planning and Outlay Committee (the "Capital Committee"). The Financial Policy Committee shall meet to review, add, delete policies, or edit existing policies.

**A. GENERAL BUDGET POLICIES**

**A-1 Balanced Budget**

**Background:**

All Massachusetts municipalities are required by state law to prepare balanced annual budgets.

The Government Finance Officers Association (GFOA) notes a true structurally balanced budget is one that supports financial sustainability for multiple years into the future.

**Policy:**

The Town will not balance the budget by using one time or other nonrecurring revenues to fund ongoing expenditures. The Town will not use budgetary procedures that balance the budget at the expense of future years, such as postponing or deferring payment of expenses already incurred, accruing future year revenues, or rolling over short-term debt to defer making principal payments.

The Town budget shall also support a financially sound operating position by maintaining reserves for emergencies and providing sufficient liquidity to pay bills on time and avoid revenue anticipation borrowing. (also, Section H. Unfunded Liabilities Policies.)

**References:**

M.G.L. c.44, §31

*Achieving a Structurally Balanced Budget*, Government Finance Officers Association Best Practice, February 2012

**A-2 Preparation and Submission of Budget and Budget Message**

**Background:**

**Policy:**

The Town Administrator will coordinate, prepare and submit the annual budget proposal simultaneously to the Board of Selectmen and Finance Committee no later than the first Thursday in January of each year. The Town Administrator's proposed budget shall include all estimated revenues, including general and enterprise funds, all estimated expenditures and supporting documents. The Town Administrator shall provide written documentation of budget assumptions and shall include a five- year history of free cash certification, stabilization fund balance, and overlay surplus. The Town Administrator shall also indicate any major differences from the current fiscal year in

revenues and expenditures, together with reasons for such changes and include such other material as the Board of Selectmen and Finance Committee deem necessary. The School Committee shall submit its proposed budget to the Board of Selectmen and Finance Committee no later than February 1 of each year.

The Board of Selectmen and Finance Committee will separately review the Town Administrator's draft Annual Budget and approve a final proposal of the Annual Budget to the Town Meeting, no later than April 1 of each year. The Board of Selectmen, School Committee and Finance Committee will make every effort to reconcile any differences that may exist between their recommendations. The Finance Committee will present its recommended Annual Budget to the Town Meeting. The Finance Committee's budget proposal shall provide a complete financial plan of all general and enterprise funds and activities for the ensuing fiscal year, an accompanying budget message, and supporting documents. The budget message from the Finance Committee shall explain the proposed budget for all Town agencies in fiscal terms and in terms of work programs. It shall outline the proposed financial policies for the Town for the ensuing fiscal year, describe the important features of the budget, indicate any major differences from the current fiscal year in financial policies, expenditures, and revenues, together with the reason(s) for such changes, summarize the Town's debt position, and include such other material as the Finance Committee deems desirable or the Board of Selectmen and Town Meeting may reasonably require.

In the event that the Board of Selectmen or School Committee have a different budget proposal, they may make a "motion to Amend" the Finance Committee's warrant article at Town Meeting. The Town Meeting shall review all budget proposals and amendments, and adopt balanced budgets in which current revenues (non-one-time) equal or exceed current expenditures. Expenditures shall be realistically budgeted and estimated revenues shall be conservatively budgeted to allow for unanticipated events. The Town shall present said estimates and assumptions behind revenue estimates along with the balanced budget.

The Town shall work toward the implementation of a budget document that meets the high standards of the Government Finance Officers Association "Distinguished Budget Presentation Award Program."

The Annual financial Plan will adhere to the Principles of Budgeting:

**Comprehensiveness** – Requires that the budget embrace all of the activities of the government;

**Exclusiveness** – The budget should deal with only financial matters, and not with substantive legislation;

**Unity** – Requires the budget to be presented in gross terms, including all revenues and expenditures;

**Specification** – Requires that expenditures be made only for the purpose for which it was appropriated;

**Annuality** – Requires that budgets be presented each year and that they cover only one fiscal year;

**Accuracy** – Means that the revenues and expenditures should be correctly, although conservatively, estimated;

**Clarity** – Means that the budget proposal must be understandable to all who may read it;

**Publicity** – Means that the budget document must be offered for public consumption, to maximize the understanding of the proposal and the participation in the public authorization process.

The GFOA considers this as the greatest importance for an explanation to be included as a part of the legislative discussion, explaining the key issues of importance included in the document. It is equally important to distribute

this information to the general public to give them a greater understanding of the issues confronting the community.

### **A-3 Revenue and Expenditure Forecast**

#### **Background:**

A critical step in maintaining a sound financial plan is the preparation of a multi-year revenue/expenditure forecast(s). Long term financial planning, including revenue and expenditure assumptions, is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

The Massachusetts Division of Local Services (DLS) states that a financial forecast, or multi-year revenue and expenditure forecast, allows a municipality to evaluate the impact of various government decisions over time.

A forecast will provide decision-makers with an indication of the long-term fiscal impact of current policies and budget decisions, and will allow staff, the Finance Committee, and the Board of Selectmen to test various "what-if" scenarios and examine the fiscal impact on future budgets.

#### **Policy:**

Each year the Town's finance team shall prepare and maintain a five-year Financial Forecast for General Fund and Enterprise Fund operations based on current service levels and current funding sources and including the five-year Capital Improvement Plan. The forecast shall include 3 to 5 years of historic data for trend analysis purposes.

The forecast shall be used as a budget tool to enable Town officials to review operating needs, identify fiscal challenges and opportunities, and develop long-term budgeting policies as part of an overall strategic plan. The forecast shall be designed to provide an outlook on the implications of changes in revenues and expenditures and allow for analyzing multiple scenarios. The forecast will: 1) provide insight into whether the current mix and level of resources in the General Fund are likely to continue to be sufficient to cover current service levels and capital projects; and, 2) identify the resources needed to maintain required enterprise fund operations and 3) estimate the impact on rate payers.

#### **Procedure:**

The Town Administrator, in cooperation with other Town finance departments, will review fiscal assumptions every year when the forecast is updated and will input data that is timely and accurate in preparation of the forecast. The forecast and the associated assumptions shall be made available to the Board of Selectmen, the Finance Committee, and the public no later than upon submission of the Capital Improvement Plan.

#### **References:**

*Revenue and Expenditure Forecasting*, MA DOR Division of Local Services Best Practice.

*Financial Forecasting in the Budget Preparation Process*, Government Finance Officers Association Best Practice, February 2014.

*Financial Management Assessment*, Standard and Poor's, June 2006.

### **A-4 Position Control/Vacancies**

#### **Background:**

The largest segment of a town's budget is its personnel costs. Failure to accurately monitor the approved personnel budget can lead to errors in budgeting, over or under staffing, incorrect grading, and other personnel costs.

**Policy:**

The Town shall maintain a personnel system that accurately tracks authorized, filled and unfilled positions as well as their funding source. Annual budgets shall be prepared that account for all the costs necessary to cover positions that the Town intends to have during that budget period. The School district will maintain its own personnel system.

**A-5 Personnel Policies and Labor Contracts**

**Background:**

For the purposes of these policies, the following definitions shall apply:

- Personnel Policies are the documents that represent the conditions of employment, wages, benefits, hiring, promotions, classifications, and many other categories of employer/employee relations. Collective bargaining agreements, as well as state laws and regulations, take precedence over the terms included in the Personnel Policy.
- Classification Plans are the schedules that identify employees by job category, job title, and union/non-union status on a typical Grade structure. Pay Plans are the wage schedules that specify pay rates, typically on an annual step or merit system, for each union and non-union position.
- Memorandums of Agreement (MOAs) are the documents that represent agreement between a municipality and the various labor unions. They are created when a municipality and the respective union have reached agreement for a contract period about wages and working conditions.
- Collective Bargaining Agreements (CBAs) are the documents that incorporate the negotiated changes and represent the total agreement that exists between a municipality and a union / association.
- Side Letters are documents that represent a short-term agreement between a municipality and a union / association.

**Policy:**

Pay plans and pay rates shall be monitored by the Town Administrator, or designee, to ensure compliance with labor contracts, personnel policies, and accuracy. Contract proposals and agreements will be fully costed out to understand the short- and long-term impact on Town finances. In order to foster transparency in the provision of employment agreements and benefits, the Town will prepare and maintain documents that are publicly available including personnel policies, pay plans, classification plans, memorandums of agreement, collective bargaining agreements, and side letters. The School district will maintain its own personnel system.

**B. ENTERPRISE FUND POLICIES**

**B-1 Self Sufficiency and Rates**

**Background:**

Enterprise Funds provide a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods and services. Under enterprise accounting, the revenues and expenditures

of the service are segregated into a separate fund with its own financial statements, rather than commingled with revenues and expenditures of all other government activities. Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service.

**Policy:**

In the event that the Town establishes an Enterprise Fund, the Funds (e.g., Water/Sewer Funds, Other) shall be fully supported by the revenue from their rates, fees, and other revenue generating operations. The methodology for calculating indirect costs shall be explicitly documented and agreed upon by Town Finance and Enterprise Department heads and incorporated in the budget documents submitted for review and approval by the Town.

Rates and fees for enterprise services shall be set at a level to provide for self- supporting enterprise operations, including direct and indirect costs. Capital projects shall be financed from enterprise revenues and grants.

Each Enterprise Fund shall be reviewed annually by the responsible board, commission, or department head to project revenues and expenditures for the next fiscal year and generate estimates of the current fiscal year and the projections for future years in order to prevent the need for subsidy by the General Fund operating budget. Estimates of capital project costs, debt service, and other liabilities shall be included in this analysis in order to project future enterprise fund budgets and revenues necessary to maintain self-sufficiency.

Changes in the rates and/or rate structure shall be carefully analyzed prior to recommendation and implementation in order to ascertain the short- and long-term impact on rate payers. The Board of Selectmen may elect to recommend in writing a waiver of self-sufficiency and rate policies in order to provide a subsidy or loan from the General Fund to the Enterprise Fund in order to meet other policy goals of the Town.

**References:**

MGL, Chap 44, Sec 53F1/2

Enterprise Funds, MA DOR Division of Local Services Best Practice

## **C. RESERVE FUNDS/FUND BALANCE POLICIES**

**Background:**

A municipality's fiscal policies should include a plan for maintaining reserves. Operating reserves (or fund balance) are a prudent fiscal management tool and an important factor in the analysis of financial flexibility. The Town of Avon will maintain a level of reserves that protects the Town from emergency conditions that may require financial flexibility, contributes to sufficient liquidity to pay all Town expenses without short-term borrowing, and maintains or improves the high credit rating that the Town currently holds. To provide for adequate levels of reserves to protect the Town's financial condition over the long-term, the Town of Avon has adopted the following financial reserves policy statements:

The Town's primary vehicle for reserve funds will be the general stabilization account. The Town will also set up special-use stabilization accounts to help balance significant swings in one or other functional areas. A 2/3 vote by town meeting is required to appropriate funds into any stabilization fund.

### **C.1 Free Cash**



**Background:**

Free Cash is the amount of the community's funds that are unrestricted and available for appropriation. Free Cash is generated when actual revenue collections are more than budget estimates, and when expenditures and encumbrances are less than appropriations, or both. It may be appropriated after certified by the Massachusetts Department of Revenue after the close of each fiscal year. Appropriation requires a simple majority vote by town meeting. Free Cash is not a fund and interest does not accrue to the balance.

Free Cash provides a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency, or other unanticipated expenditure, non-recurring capital expenditures and uneven cash flow. Free cash can serve as a source for funding capital funds or replenish other reserves.

GFOA notes it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures).

The Massachusetts Department of Revenue suggests that a municipality strive to generate free cash in an amount equal to 3-to-5% of its annual budget

**Policy:**

The Town of Avon shall not utilize free cash to fund the operating budget.

Free cash shall not be depleted in any year, so that the following year's calculation will begin with a positive balance. Conservative revenue projections and departmental appropriations shall be managed to produce excess income and departmental budget turn backs.

Free Cash may be used for certain one-time expenditures, such as major capital projects, emergencies, other unanticipated expenditures, or to replenish other reserves. The distribution of Free Cash will largely be determined by the balance of the Town's General Stabilization Fund.

In the event that the Town's General Stabilization Fund is less than 5% of budgeted revenues, the Town will:

1. Appropriate 80% of the previous year's certified Free Cash to the Town's general Stabilization Fund;
2. Appropriate 10% of the previous year's certified Free Cash to the OPEB Trust;
3. Appropriate 10% of the previous year's certified Free Cash to the Capital Stabilization Fund.

In the event that the Town's General Stabilization Fund is between 5% and 10% of budgeted revenues, the Town will:

1. Appropriate 75% of the previous year's Certified Free Cash to the Town's General Stabilization Fund;
2. Appropriate 10% of the previous year's Certified Free Cash to the Town's OPEB Trust;
3. Appropriate 15% of the previous year's Certified Free Cash to the Town's Capital Stabilization Fund.

In the event that the Town's General Stabilization Fund balance is greater than 10% of budgeted revenues, the Town shall use Free Cash in the following way:

1. Appropriate the amount necessary to keep the General Stabilization Fund at 10% of budgeted revenues after factoring growth of budget;
2. Appropriate 30% of the remained of previous year's certified free cash to the Town's OPEB Trust;

3. Appropriate 70% of the remainder of the previous year's certified free cash towards the Capital Stabilization Fund or other one-time expenses;

**References:**

*Free Cash*, MA DOR Division of Local Services Best Practice.

*Appropriate Level of Unrestricted Fund Balance in the General Fund*, Government Finance Officers Association Best Practice, September 2015.

*Reserve Policies*, MA DOR Division of Local Services Best Practice.

**C-2 Stabilization Funds**

**Background:**

A stabilization fund is designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose.

Under State law, a municipality 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. Generally, a majority vote of town meeting is required to establish, amend the purpose of, or appropriate money into a stabilization fund, and a two-thirds majority is required to appropriate money from a stabilization fund. Any interest generated by a fund must be added to and become a part of the fund. The total of all stabilization fund balances shall not exceed 10% of a municipality's equalized values.

**C-2a General Stabilization Policy:**

The Town of Avon is committed to responsible stewardship of its financial resources. A key component of the Town's financial position is its General Stabilization Fund. A General Stabilization Fund is a mechanism for setting aside money, either for emergency and unforeseen situations according to the Massachusetts Division of Local Services. Such a fund is intended to equalize the effect of fluctuations in elastic revenues over time and to provide a "rainy day" fund.

**Policy:**

The Town shall maintain a General Stabilization Fund of not less than 7.5% of the prior year's operating budget for the purpose of extraordinary or unforeseen expenditures with an optimum balance of 10% of prior year net budget revenue. The Town will endeavor to leave this balance unspent, except in the event of an emergency or extraordinary or unforeseen events. If it is necessary to draw down from the General Stabilization Fund, the Town will ensure that it is restored through the appropriation of revenues such as free cash and/or one-time revenues. Withdrawals from the General Stabilization Fund for operating expenses will not occur except under one or more of the following circumstances:

- The Governor utilizes executive authority to reduce budget line items for local aid (9C cuts) by 10% or more;
- State budget appropriations for local aid is reduced by 15% or more from the prior fiscal year;
- A catastrophic act occurs which requires the use of one-time revenues

Language restricting withdrawals from the General Stabilization Fund can be waived upon written request of the Town Administrator and Superintendent of Schools followed by a majority vote of two out of the following three committees: Board of Selectmen, School Committee, and Finance Committee.

In accordance with Massachusetts General Law, withdrawals from the General Stabilization Fund will only be made by a two-thirds vote of Town Meeting.

**C-2b Capital Stabilization Policy:**

The Town shall maintain a special purpose Capital Stabilization Fund that shall serve as a funding source for the Town’s capital improvement plan. It is the goal of the Town to have all “pay-as-you-go” capital appropriations, with the exception of capital funded through grants, to be funded from the Capital Stabilization Account. Upon meeting the Town’s Funding policies for undesignated fund balance and the General Stabilization Fund, the remaining Certifies Free Cash may be appropriated into the Capital Stabilization Fund.

**Policy:**

The Capital Stabilization Fund shall be used for the purpose of General Fund “pay-as-you-go” capital appropriations.

**References:**

M.G.L. c. 40 §5B

*Special Purpose Stabilization Funds*, MA DOR Division of Local Services Best Practice.

**C-3 General Reserve Fund**

The General Reserve Fund is appropriated each year to support any emergency and unforeseen occurrences. The funds can be accessed by a vote of the Board of Selectmen requesting that the Finance Committee authorize the expenditure. Each vote requires a simple majority of the policy board.

**Policy:**

The Town shall phase up the annual appropriation of the General Reserve fund to the amount of 0.5% of General Fund revenues by FY 2023.

**C-4 Overlay Reserve**

The Overlay Reserve is determined in any year by the Board of Assessors. The appropriation is not required to be approved by Town Meeting. The purpose of this fund is to support the reduction of the annual property tax levy due to abatements, exemptions receivables, and interest due. The Overlay Reserve for each fiscal year are consolidated into one fund.

**Policy:**

Although the Board of Assessors is an autonomous independent Board, they are part of an overall effort to provide sound financial practices. As such, the Board of Selectmen may ask the Board of Assessors that the balance of the Overlay Reserve be no more than the estimated cost of outstanding abatement applications and annual exemptions. The Selectmen may request that any funds over the estimated cost of outstanding abatements, annual exemptions, receivables and interest due be released to Overlay Surplus by the end of each fiscal year. The decision, however, is that of the Board of Assessors.

References:

MGL 47, Section 31

## **D. CAPITAL IMPROVEMENT PLAN AND POLICIES**

### **Background:**

Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of any municipality's budget and operation. Prudent planning and funding of capital assets ensures that a municipality can provide quality public services in a financially sound manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible. The development of a Capital Improvement Program (CIP) is the mechanism that a municipality uses to identify projects, prioritize funding, and create a long-term financial plan that can be achieved within the limitations of the budget environment.

Long term capital planning is one of the local government financial practices that credit rating agencies evaluate when assessing municipalities for credit quality.

### **References:**

*Financial Management Assessment*, Standard and Poor's, June 2006.

### **D-1 Capital Improvement Plan Budget**

#### **Policy:**

The Town shall comply with Article V-7 of the Town's Bylaws as it relates to the capital planning process. The Capital Committee shall submit the annual capital budget to Annual Town Meeting and shall also prepare an annual report that includes the proposed schedule of capital expenditures over the next five years. The Board of Selectmen and Finance Committee may provide support or alternative proposals to the Capital Committee recommendations at Town Meeting.

### **D-2 Capital Improvement Financing**

#### **Background:**

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

- Prior Year Net Revenue - Gross general fund revenues, less debt exclusions and available funds (e.g., free cash, stabilization, Community Preservation, ambulance fees and overlay surplus).
- Net Capital Investment - Gross costs from local debt, less Proposition 2 ½ debt exclusion amounts, plus the cost of capital leases, direct capital expenses (e.g., "pay-as-you-go capital) funded from capital stabilization fund and the general fund, and other local amounts approved as part of the capital budget.

- Capital Investment as a Percent of Prior Year Operating Budget – The Net Capital Investment divided by the Prior Year Net Revenue. (For FY2020, Net Capital Investment is about 0.2 percent of the Town’s Prior Year Operating Budget. These Funds have been appropriated to a Capital Reserve Account.

**Policy:**

The Avon Capital Improvement Plan shall be prepared and financed in accordance with the following policies:

- Outside Funding – State, federal, or private grant funding shall be pursued and used to finance the capital budget wherever possible.
- Net Capital Investment as % of Prior Year Operating Budget – The annual Net Capital Investment target shall be phased up to a level of 1% of Prior Year Net Revenue.
- Local Funding -The first source of capital investment shall be the Capital Stabilization Fund. Even when a significant balance exists in this account, the Town will be cautious about the amount of borrowing to be done with the capital stabilization fund as the funding source. The Town will then use modest amounts from the capital stabilization or other reserves such as free cash above target levels to fund pay-as-you go capital needs in order to meet the 1 % Net Capital Investment target above. In the event that annual deposits into the capital stabilization fund change significantly, the Town will revisit this capital funding policy.
- Levy Supported Capital Commitment - The Town shall phase up its net revenue supported capital commitment over a period of time with a goal of achieving a 1% commitment by FY 2024. In each year, the first \$50,000 will be appropriated to a Capital Reserve account and the remainder appropriated to the Capital Stabilization Fund;
- Debt-Financing/Borrowing -
  - The term of borrowing for a capital project shall not exceed its estimated useful life.
  - The Town will attempt to maintain a long-term debt schedule such that at least 50% of its outstanding principal will be paid within 10 years.
  - The Town will strive to issue level principal debt such that debt service will decline over the term of the issue as another means to mitigate risk regarding this funding source.
  - For any capital item of \$100,000 or less potentially funded by debt, the true cost of borrowing, including but not limited to debt service, legal services, and staff time shall be determined and made public prior to debt authorization.
  - The impact of level debt service versus level principal/declining debt on total project cost and on the Town’s operating budget shall be analyzed before borrowing is authorized.

**D-3 Capital Improvement Planning Process**

**Background:**

Article 5-7 of the Town’s Bylaws (see Appendix 1) guides the Town’s capital improvement planning process. The below policy provides additional detail for participants in the planning process.

**Policy D-3a:**

The Town Administrator shall be responsible for requesting departments and Town Boards to submit their annual and long- term capital proposals to the executive office no later than October 1 of each year. After discussion and review of all proposals, the Town Administrator shall assemble and submit all qualified (projects over \$25,000) to the Capital Committee along with recommendations on priorities and available funding and source.

The Capital Committee shall discuss and review all qualified capital proposals with the departments and Boards who have submitted the proposal. The Capital Committee shall develop a recommendation for the annual capital budget and long-term capital plan and submit it to the Board of Selectmen, School Committee and Finance Committee for review.

The Board of Selectmen, School Committee and Finance Committee may, independently, review the recommendations of the Capital Committee and develop recommendations. In the event that the Board of Selectmen, Finance Committee or School Committee have alternative positions to the Capital Committee recommendations, the Capital Committee will convene a meeting with these Boards to attempt to reach consensus on the annual capital budget prior to the Town Meeting. The Capital Committee shall submit the Capital warrant article to Town Meeting. If positions cannot be reconciled, the Board of Selectmen, School Committee and / or Finance Committee may offer a motion to amend the Capital committee's article at Town Meeting.

A capital item is defined as a construction, reconstruction, rehabilitation, purchase of a building, purchase of land or purchase of equipment. In order to qualify as a capital project, the capital expenditure must have a useful life of five years or more, and must exceed \$25,000 in cost, be purchased or undertaken at intervals not less than 3 years, and have a useful life of at least three years. All Officers, Boards, Commissions, and Committees shall, by January 30 of each year, submit to the Finance Committee information concerning all anticipated Capital Projects and Purchases requiring Town Meeting action, as directed by the Bylaw.

Additional policies are identified below:

- The Capital Committee will coordinate development of the capital improvement budget.
- Future operating costs associated with new capital improvement will be projected and included in operating budget forecasts, as appropriate.
- Federal, state, or private grants or loans shall be used to finance only those capital improvements that are consistent with the Town's Capital Improvement Plan and priorities, and for which operating and maintenance costs have been included in operating budget forecasts.
- All assets shall be maintained at a level adequate to protect the Town's capital investment and to minimize future maintenance and replacement costs.
- Equipment replacement and building repair needs shall be projected for the next five years and will be updated each year. From this projection, a maintenance and replacement schedule will be developed and followed.
- Capital projects shall be prioritized based upon criteria establish by the Town.
- The estimated costs and potential funding sources for each proposed capital project shall be determined before it is submitted to the Capital Committee and Town Meeting for appropriation.
- Except as required by an emergency, all approved capital projects must be part of the annual adopted Capital Improvement Plan as required by the Town Bylaw.

**Policy D-3b:**

To meet the annual policy deadline, the calendar for development of the capital improvement plan is as follows:

- The Town Administrator shall provide directions and capital improvement request forms to officers, boards, commissions, committees, department directors, and other involved staff on or about September 1 of each year.
- Department directors and other involved staff shall return request forms to the Town Administrator on or about October 1 of each year.
- The Town Administrator shall meet with department directors and other involved regarding their capital budget, develop a capital budget recommendation and make adjustments to the Five- Year Capital Plan, as needed. The Town Administrator shall submit all qualified capital requests and his recommendation to the Capital Committee no later than December 1 of each year.
- The Capital Committee shall review all qualified proposals and the recommendations of the Town Administrator and submit a recommended Capital budget and long -term capital plan to the Board of Selectmen, School Committee and Finance Committee no later than the first Thursday in January.
- The Board of Selectmen, School Committee and Finance Committee shall review the capital budget and long-term capital plan of the Capital Committee and complete their recommendations no later than February 1 of each year.
- The Capital Committee, Board of Selectmen, School Committee and Finance Committee shall meet to discuss any differences for capital recommendations no later than March 1 of each year

**References:**

Town of Avon By Law (Article 5-7)

**E. GRANTS MANAGEMENT POLICIES**

**Background:**

DLS recommends analyzing current and future impact of grants on operating budget, Capital Improvement Plan, and debt management.

The Government Finance Officers Association recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements.

**E-1 Grant Administration**

**Policy:**

The Town shall consistently seek to maximize the benefits of grants while minimizing their risks. Prior to acceptance of a grant award, the Town shall consider any specialized requirement(s) that apply to the general operations of the grant, specific compliance rules, monitoring of other parties (e.g., sub-grantees) that may receive resources from the grant, specialized reporting requirements, and any long term commitments required by the grant, such as the requirement - either as a condition of the grant itself or politically - to financially maintain a program or asset after the expiration of the grant, among other considerations. The Town shall ensure that it appropriately administers grants after their acceptance, as inappropriate administration can result in the failure to meet all grant requirements, potentially resulting in the need to return some or all of the resources to the provider.

## **E-2 Impact on Operating Budget**

### **Policy:**

When positions are funded by grants, the current and future impact on the operating budget shall be analyzed. When allowable, the cost for providing benefits, such as health insurance, should be included in the grant budget to cover the Town's cost for providing that benefit.

In all cases where some costs are not covered (e.g., personnel-related benefit costs or indirect costs), those costs should be clearly disclosed prior to the determination to accept the grant. With such disclosure, a proposed plan to cover such unreimbursed costs shall also be presented at the same time for concurrent approval.

## **E-3 Impact on Capital Improvement Plan and Debt Management**

### **Policy:**

When grants are accepted for capital purposes, the Town shall include in its capital improvement plan any share of costs associated with the grant and project the Town's share of debt service in its debt management plan. Any future increase or decrease in operating costs associated with the grant should be identified in the Town's revenue /expenditure forecast.

### **References:**

*Administering Grants Effectively*, Government Finance Officers Association Best Practice, May 2013.

## **F. POLICIES REGARDING ESTABLISHMENT AND USE OF FEES**

### **F-1 Fees and Charges**

#### **Background:**

The Government Finance Officers Association recommends that when certain services provided especially benefit a particular group, governments should consider charges and fees on the service recipients. Well-designed charges and fees not only reduce the need for additional revenue sources, but promote service efficiency. Regular and consistent review of all fees is necessary to ensure the costs associated with the delivery of specific services have been appropriately identified and that a municipality is collecting reasonable charges.

The Division of Local Services recommends communities adopt written policies for setting charges and fees. A policy should identify what factors are to be taken into account when pricing services. It should also state whether the community intends to recover the full cost of providing the service or benefit and under what circumstances a charge or fee is set at less than full recovery (e.g., debt exclusion or another subsidy). Such a policy and the fee structure should be reviewed periodically to ensure they remain current, and both should be communicated with the public clearly and openly.

#### **Policy:**



Town fees and charges shall be reviewed periodically in relation to the cost of providing the service. The Town will compare rates with nearby communities to determine if the fees established are competitive. The Town may decide against full cost recovery where greater public benefit is demonstrated. Exceptions to full recovery costs include cases where: the fee maximums are established by the General Laws of Massachusetts (MGL) or where a policy decision has been made otherwise.

In such cases when fees do not cover costs, the Town may explore other options for the delivery of the services.

**References:**

M.G.L. c.140

Emerson College v. Boston, 391 Mass. 415 (1984).

*Costing Municipal Services: Workbook and Case Study*, MA DOR Division of Local Services' workbook.

*Establishing Government Charges and Fees*, Government Finance Officers Association Best Practice, February 2014

Division of Local Services, A Guide to Financial Management for Town Officials, p. 20-21.

## **G. USE OF ONE TIME REVENUE**

### **G-1 Use of One Time Revenue**

**Background:**

The Government Finance Officers Association recommends that communities develop guidance on the use of one-time revenues to minimize services disruptions due to the non-recurrence of these sources.

The Division of Local Services states that funding operations with one-time revenues, without identifying future available offsets, effectively postpones difficult decisions necessary to achieve a structurally sound, sustainable spending plan. One-time revenue is usually defined as nonrecurring revenue.

In addition, caution should be taken with inconsistent revenue, the amount of which fluctuates from year to year. In FY2017, the Town of Avon used approximately \$300,000 in one-time and highly volatile revenue sources in balancing its annual operating budget.”

For the purpose of this policy, highly volatile revenues shall be defined as those revenues that are not assured and in fact, show a trend that within the most recent 5 years there has been at least one fiscal year of no funding.

**Policy:**

Beginning in FY2018, the Town shall reduce its use of one-time and highly volatile revenues each year until it ceases using one-time or highly volatile revenue sources for recurring costs in the annual Town operating budget. One-time and highly volatile revenues shall be appropriated to reserve funds, used to fund one-time budget or capital costs, and/or address unfunded liabilities.

## **H. UNFUNDED LIABILITIES POLICIES**

### **Background:**

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Avon and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB).

### **H-1 Pensions/Retirement**

#### **Background:**

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch.32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State. The Town of Avon is a member of the Norfolk County Retirement System and pays an annual pension assessment to the County. Pursuant to current state law, the Norfolk County Retirement System has established, as of December 31, 2017, a funding schedule to fully-fund this liability by 2040.

#### **Policy:**

In accordance with state law, PERAC regulations and government accounting standards, the Town shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the County retirement board.

#### **References:**

M.G.L. c.32

### **H-2 Other Post- Employment Benefits (OPEB)**

#### **Background:**

OPEB consists primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 74 and No. 75 to address the OPEB issue. These policies replaced GASB 43 and GASB 45. The GASB policies require the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while requiring the accrual of the OPEB expense over the same period of time. The reporting requirements include disclosures and schedules providing actuarially determined values related to the funded status of OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

#### **Policy:**

While there is currently no legal requirement to fund OPEB, the Town recognizes the importance and financial advantage of initiating early and regular funding for these long-term obligations. The Town will endeavor to appropriate a minimum of 1% annually of town wide salaries, with a goal of 2%, into the irrevocable trust established under MGL c. 32B, §20.

In order to determine the funding schedule, the Town shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB's requirement. Careful consideration shall be given to identifying the investment vehicle that offers the best rate of return in the safest possible environment based upon the Prudent Investor Standard.

**References:**

Statement No.74, Reporting for Postemployment Benefit Plans Other Than Pension Plans, Governmental Accounting Standards Board, June 2015.

Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Governmental Accounting Standards Board, June 2015.

GASB Statements 74 and 75, on Other Postemployment Benefits, Governmental Accounting Standards Board.

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**H-3 Compensated Absences**

**Background:**

Another unfunded liability, not frequently monitored by cities and towns, is the cost of accumulating sick leave and vacation buy-backs payable to employees upon retirement. These benefits are typically defined in the labor agreements and personnel policies of municipalities. While it is difficult to precisely forecast the expenditures to be made in any one fiscal year, a state statute can be adopted and local practices can be established to set aside funds for this liability.

**Policy:**

Avon may establish a Special Revenue Fund for Town Employees in accordance with MGL ch.40, sec.13D and shall annually determine the amount of monies to be deposited to this reserve fund

**References:**

*MGL Ch. 40, Sec.13D Reserve Fund for Future Payment of Accrued Liabilities for Compensated Absences*

**I. RISK MANAGEMENT POLICIES**

**I-1 Risk Management Program**

**Background:**

In recognition that during daily operations, a municipality is constantly exposed to potential impact of property loss, personal injury, and liability, the Government Financial Officers Association recommends that governments develop a comprehensive risk management program that identifies, reduces or minimizes risk to its property, interests, and employees. Costs and consequences of harmful or damaging incidents arising from those risks should be contained.

**Policy:**

The Town's insurance programs shall be aimed at covering the potential impact of the types of property loss, personal injury, and liability the Town is exposed to on a regular basis. If a Town board or commission wishes to add item(s) to the Town's insurance policy, said board or commission shall cover the costs to be incurred.

The Town shall develop and maintain a risk management program to protect the Town against the financial consequences of accidental loss of property, liability and personal injury to the extent possible through effective prevention and loss control policies and practices.

**References:**

*Creating a Comprehensive Risk Management Program*, Government Finance Officers Association Best Practice, March 2009.

**I-2 Anti-Fraud Policy and Response Program**

**Background:**

The Town of Avon is committed to its duty to ensure effective stewardship of public money and other assets and resources for which it is responsible. It is the policy of the Town of Avon to prevent and deter all forms of fraud that could threaten the security of its assets or its reputation. The Town is committed to the prevention, detection, investigation and corrective action relative to fraud.

Avon adopted its original risk management and fraud prevention policy in December, 2017 and minor changes are included in the below sections.

***What is Fraud?***

Fraud is a violation of trust that is defined as a deception deliberately practiced to secure unfair or unlawful gain. The term includes but is not limited to such acts as deception, bribery, forgery, extortion, theft, embezzlement, misappropriation of money or assets, false representation, the concealment of material facts relating to any of the above and collusion or conspiracy to commit any or all of the above.

***Antifraud Processes***

The Town is committed to ensure that the opportunity to commit fraud is eliminated. Most important is that an ethical environment is created from the top and flows through the organization. All cases of suspected fraud will be investigated and appropriate action will be taken.

The Town recognizes there may only be a suspicion of fraud - thus any concerns should be reported to the Town Accountant. If the concern involves the Town Accountant, any concerns should be reported to the Town Administrator.

The Town Accountant is the logical point person for investigation of financial fraud. However, fraud, as defined in this policy could be attempted by voters, candidates for employment, contractors, etc. It is recommended that all fraud be reported to the Town Administrator (or the Superintendent of Schools in circumstances related to the School Department), who will designate the appropriate individual(s) to investigate the matter and report back to the Town Administrator (and/or Superintendent of Schools).

***Anti-Fraud Policy and Response Program***

### *Applicability*

This Policy applies to all employees of the Town of Avon.

### *Fraud*

Fraud can cover many activities; however, this Policy is directed primarily at financial matters. It may include, but is not limited to:

#### Misappropriation of Assets

- 1) Forgery, alteration or misappropriation of checks, drafts, promissory notes or securities
- 2) Unauthorized use, or disposition of funds or property (for example, misuse of city owned computer hardware, software, data and other records; use of city owned equipment, vehicles or work time for non-city purposes)
- 3) Embezzlement
- 4) Theft
- 5) Falsifying time sheets or payroll records
- 6) Falsifying travel or entertainment expenses and/or utilizing city funds to pay for personal expenses or for personal benefit
- 7) Fictitious reporting of receipt of funds

#### Fraudulent Financial Reporting

- 1) Improper revenue recognition
- 2) Improper expense/expenditure recognition
- 3) Overstatement of assets
- 4) Understatement of liabilities

#### Expenditures and Liabilities for Improper Purposes

Payments in money or other property, including but not limited to such things as jobs for families and friends, use of vacation properties, discounted or free services in exchange for benefits and other things of value, bribes and kickbacks.

#### **POLICY:**

The Town will investigate any suspected acts of fraud, or misappropriation of property. An objective and impartial investigation will be conducted regardless of the position, title, and length of service or relationship with the Town of any person, group or organization reasonably believed to have committed fraud. Each Department Head is responsible for instituting and maintaining a system of internal control to provide reasonable assurance for the prevention and detection of fraud, misappropriations and other irregularities. Management should be familiar with the types of improprieties that might occur within their area of responsibility and be alert for any indications of such conduct.

All department heads or individuals, upon discovery of any violation of this policy, must notify the Town Accountant of the violation. If it is determined by the Town Accountant that corrective action may be provided for internally within the department, the department head or individual will notify the Town Accountant as to the steps taken to correct the violation.

Upon conclusion of the investigation, the results will be reported to the Town Administrator (or School Superintendent, as applicable). All significant findings will also be reported to the Chairman of the Board of

Selectmen (or Chairman of the School Committee, as applicable). Where there are reasonable grounds to believe that a fraud may have occurred, the town shall pursue appropriate legal remedies for recovery of the assets.

## **J. ACCOUNTING/AUDITING/FINANCIAL REPORTING POLICIES**

### **J-1 Annual Audit**

#### **Background:**

The objective of an audit is to obtain independent assurance that a community's year-end financial statements are reliable, accurate, and complete. An audit also helps to ensure that financial checks and balances are in place to protect public assets. Consequently, it can be a powerful tool by which a community can build taxpayer confidence in government operations.

The Government Finance Officers Association (GFOA) recommends that communities engage the same auditor by entering into multiyear agreements, or a series of one-year contracts, for a term of at least five years. A multiyear agreement allows for greater continuity and enables a new auditor to spread initial start-up costs over multiple years, potentially reducing costs in the initial years.

However, after this term, the GFOA recommends a full, competitive selection process and a rotation of auditors after each multiyear agreement, provided there is adequate competition among qualified auditors. Contracting with a new audit firm not only brings a fresh perspective, but it also reflects good practice.

Where competition is limited, participation of the current auditors is acceptable, assuming their past performance has been satisfactory and conformed to industry standards. In the event the Town chooses to remain with an audit firm, it is advisable to rotate the audit manager on a regular basis.

#### **Policy:**

The Town shall have an independent outside audit performed by a certified public accountant each year. The Board of Selectmen shall provide for such an audit by an accountant or a firm of accountants, who have no personal interests, direct or indirect, in the fiscal affairs of the Town government or of any of its officers or employees. Within fourteen (14) days of receipt of the annual audit, the Town Administrator shall submit the Annual Audit to the Board of Selectmen, Finance Committee and School committee for review.

The Town will either re-advertise for auditing services every five to eight years or ensure that there is a regular rotation of audit managers within a particular firm if it elects to stay with a given audit firm. The Town will strive to have the annual audit completed by January 1<sup>st</sup> of the following year

#### **References:**

*Annual Audits*, MA DOR Division of Local Services Best Practice.

## **J-2 Audit Review**

### **Background:**

“An external audit is a practical means for a governing body to provide much needed independent review and oversight of the government’s financial reporting processes, internal controls, and independent auditors. An audit review also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit review helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.” (Government Finance Officers Association)

### **Policy:**

The Board of Selectmen, the Town Administrator and members of the financial team (including the Accountant, Treasurer / Collector, Assessor, and representatives of the School Department) shall annually meet with the independent external auditor to review the findings of the audit report. The Finance Committee shall be invited to participate in the meeting and review the Audit Report. Responsibilities of the Audit Review shall include, but not be limited to, making a recommendation regarding selection of the independent auditor/accounting firm to the Board of Selectmen, monitor independent audit, reviewing results of audit with independent auditor, discussing findings and recommendations monitoring implementation of any corrective actions or improvement.

### **References:**

*Audit Committees*, Government Finance Officers Association Best Practice, October 2008.

## **J-3 Monthly Reporting**

### **Background:**

Monthly reporting helps a community to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or shortfall exists requiring temporary borrowing.

### **Policy:**

The Town Accountant shall produce and distribute monthly budget-to-actual reporting to evaluate the Town’s financial position per Massachusetts state law. These reports shall be submitted to the Finance Committee, among others. This will enable the Town to take prompt management action in the event that fiscal problems are indicated or adjust spending behavior to meet financial challenges. If financial problems are indicated, the Accountant will review with the Town Administrator a monthly report of revenues and expenditures at the line item level and submit the information to the Board of Selectmen and Finance Committee.

### **References:**

*Cash Flow Forecast in Treasury Operations*, Government Finance Officers Association Best Practice, February 2011.

## **J-4 Cash Collections**

### **Background:**

One of a government's functions is to collect taxes and other revenues. The process involves many actors including the Treasurer/Collector's office, accounting office, legal counsel, tax assessor, other departments or agencies, other governments at the state and/or local level, commercial banks, and private collection agencies.

**Policy:**

The Town shall collect all revenue using fair and consistent methods, exercising all powers provided to it under law.

On or before September 1<sup>st</sup>, the Town shall commence tax title proceedings against all properties that owe property taxes to the Town.

The Treasurer/Collector shall establish and maintain reliable record keeping systems and enforce a timely collections process. All amounts committed must be supported with a warrant and a detailed listing of all amounts due. All monies received should be turned over to the Treasurer/Collector's office at least weekly so they may be deposited in the bank in a timely manner.

The Treasurer/Collector shall aggressively pursue the collection of delinquent accounts and with assistance from the Deputy Collector and other Town officials to pursue collection of outstanding real estate taxes, personal property taxes, excise taxes and fines. The execution of a systematic and deliberate program to collect taxes owed is intended not only to capture revenue, but also to establish a clear policy that tax delinquents will be aggressively pursued. The Treasurer/Collector shall execute in a timely manner collection remedies such as issuance of demands immediately after bills become past due and initiate tax taking shortly afterwards to increase the rate of collection of municipal monies, thereby assisting in the financial stability of the Town.

**References:**

*Revenue Collection*, Government Finance Officers Association Best Practice.

**J-5 Reconciling Cash and Receivables**

**Background:**

Two of the largest assets for a community are cash and receivables. Information pertaining to these is kept by the Treasurer/Collector, and the Accountant. A Treasurer is the custodian of the community's revenues, tax titles, and tax possessions, while a Collector keeps listings of outstanding receivables due to the community, and an Accountant is responsible for maintaining the accounting records. Prompt and frequent reconciliations between these offices are essential in order to maintain control and ensure checks and balances are in place.

**Policy:**

Within thirty days after the end of each month, the Treasurer/Collector shall internally reconcile the cashbook to all bank statements, and the Treasurer/Collector shall internally reconcile all receivable balances with the receivable control. The results of these activities shall be forwarded to the Accountant's office and compared to the general ledger records. If differences are determined, the Treasurer/Collector and Accountant shall reconcile the variances (e.g., missing information, errors, and timing differences). The Town Administrator shall ensure compliance with the timeliness and completion of this process.

The Town shall reconcile revenues and expenditures for each fiscal year within one to two months of the end of the fiscal year.



**References:**

*Reconciling Cash and Receivables*, MA DOR Division of Local Services Best Practice.

**J-6 Cash Flow Forecasting and Budgeting**

**Background:**

The purpose of cash flow forecasting is to determine whether sufficient funds are available to cover current obligations, any surplus can be invested, or if any cash shortfall exists which may require temporary borrowing.

The Division of Local Services recommends maintaining a cash flow budget to forecast investment opportunities or borrowing needs. Major revenue sources like property taxes and state aid are generally received in large, lump sums at specific points in the fiscal year and do not necessary coincide with expense patterns, which often results in cash surpluses or shortfall during certain periods of the year.

The Government Finance Officers Association also recommends cash flow forecasting as a best practice. When used as a cash management guide, it can lead to the optimized use of funds as well as insure sufficient liquidity.

**Policy:**

The Accountant and Treasurer/Collector will develop a cash flow forecast for the upcoming fiscal year after approval of the annual budget and before July 1 each year.

**References:**

*Cash Flow Forecast in Treasury Operations*, Government Finance Officers Association Best Practice, February 2011.

**K. PROCUREMENT AND PURCHASING POLICIES**

**K-1 Procurement and Purchasing Policy**

**Background:**

The Commonwealth of Massachusetts establishes municipal purchasing regulations under M.G.L. Chapter 30B, and other related regulations. The State Inspector General’s office has oversight of public purchasing laws and has published a comprehensive guide to Chapter 30B requirements.

The Chief Procurement Officer (CPO), appointed by the Board of Selectmen, pursuant to MGL Ch. 30B and MGL Ch. 41, S 103, implements and administers the purchasing policies and procedures of the Town and ensures that all purchases are made in accordance with Massachusetts State Laws and Town By-laws, that are open, fair and competitive, and that the low cost and high quality standards are met.

**Policy:**

The Town shall follow the guidance contained in the Inspector General’s *“The Chapter 30B Manual: Procuring Supplies, Services and Real Property”* in order to comply with the requirements of M.G.L. Ch. 30B. To supplement

this guidance, the Town Administrator, will develop a concise directive on purchasing procedures for department heads or others involved in Town purchasing or procurement. This will be accomplished during FY2020.

The Town Administrator shall be the awarding authority for purchases in amounts of less than \$25,000 and shall execute said contracts on behalf of the Town. For purchases \$25,000 or greater, the Board of Selectmen shall be the awarding authority and shall execute said contracts.

Articles approved by the Town Meeting shall allow the Town Administrator / Chief Procurement Officer (CPO) to be the awarding authority and execute said contracts.

The School Committee shall be the awarding authority and shall execute said School Department contracts. Per MGL 30B section 19, The Town's Chief Procurement Officer will delegate all procurement powers and duties to the School Business Coordinator.

## **L. INVESTMENT POLICIES**

### **L-1 Investment Policy**

#### **Background:**

A local government's investment policy establishes guidelines and responsibilities in accordance with state law for managing and investing municipal funds.

The Governmental Accounting Standards Board recommends the disclosure of key policies affecting cash deposits and other long-term investments to ensure they are managed prudently or are not subject to extraordinary risks

When assessing municipalities for credit quality, rating agencies look for investment management policies that address 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.

#### **Policy:**

The Treasurer-Collector is responsible for investing Town funds and will make all decisions regarding the management of Town Funds. The Treasurer-Collector shall invest Town funds in a manner that meets daily operating cash flow requirements and conforms to state statutes governing public funds, while adhering to generally accepted diversification, collateralization, and the prudent investment principles of safety, liquidity and yield. The Treasurer-Collector will also regularly monitor statutory changes governing investments and offer any policy amendments. The Treasurer-Collector will submit a report of investments on a regular basis to the Board of Selectmen and the Town Administrator.

#### **References:**

M.G.L. c. 44, §54      M.G.L. c. 44, §55      M.G.L. c. 44, §55A      M.G.L. c. 44, §55B

Deposit and Investment Risk Disclosures, Governmental Accounting Standards Board Statement No. 40, as amended by Statement No. 3, March 2003.

Creating an Investment Policy, Government Finance Officers Association Best Practice, October 2010.

*Financial Management Assessment, Standard and Poor's, June 2006.*

**L-2 Post-Issuance Tax Compliance Procedure for Tax-Exempt Debt Obligations and Other Tax-Benefited Obligations**

**Background:**

Post-issuance compliance procedures are designed to provide for the effective management of a municipality's post bond or note issuance compliance program for tax-exempt and other tax-benefited bonds in a manner consistent with state and federal laws applicable to such obligations.

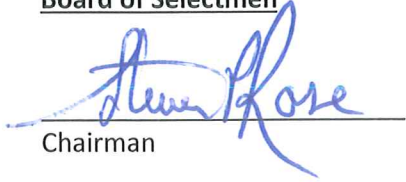
**Policy:**

The Treasurer-Collector shall review post-issuance compliance procedures at least annually and implement revisions or updates as deemed appropriate, in consultation with bond counsel or Financial Advisor.

**AUTHORIZATION**

Town of Avon Financial Policies adopted January 9, 2020

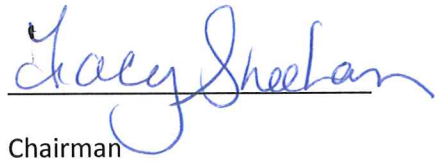
**Board of Selectmen**

  
Chairman

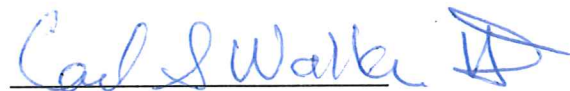
**Finance Committee**

  
Chairman

**School Committee**

  
Chairman

**Capital Committee**

  
Chairman

# Appendix #1

## Town By-Law V-7

### Financial Regulations

Section 1 In General

Financial Affairs – The Town’s affairs shall be governed by the applicable sections of the General Laws and amendments and additions thereto.

Section 2 Loans

- A. Cancelled Bonds and Notes – The Town Treasurer shall file and keep safely all cancelled bonds, notes and script of the Town which have been paid from the Treasury.
- B. Loans – When authorized to execute a loan for sum in excess of ten thousand dollars (\$10,000), the Town Treasurer shall advertise for bids thereon, provided, however, that the loans are in anticipation of taxes need not to be advertised.

Section 3 Fees

- A. Fees to the Town Treasury – Except as otherwise provided by law, all Town offices shall pay into the Town Treasury all fees received by them by virtue of their office.
- B. Setting Fees – Except as otherwise provided by law, each issuing agent for licenses or permits shall annually set the fee, if any, for each license or permit. Each issuing agent shall post a schedule of fees for the ensuing year with the Town Clerk, who shall maintain a posting thereof.

Section 4 Public Procurement Requirements

- A. All Town procurement shall follow the provisions of state law, including but not limited to MGL c30B, c39 and c149.
- B. Emergency Exception – Nothing in the by-law shall prevent the awarding of a contract without advertising or appropriation in cases of emergency declared by the Selectmen and provided by Chapter 44, Section 31, of the General Laws.
- C. Appropriation Limit – No contract for the purpose of equipment, supplies, or materials, or to do any public work, or erect, construct, alter, remodel, demolish or repair any building shall be awarded in excess of the appropriation therefore or in excess of the current funds therefore, in accordance with Chapter 44, Section 31 of the General Laws, except as provided by state law.

Where the contract equals or exceeds four thousand dollars (\$4,000), the Town Accountant must certify that the funds are available in the appropriate account which matches the value of the contract prior to award, and in accordance with Chapter 41, Section 31C of the General Laws.

Section 5 Performance Bonds

Performance bonds shall be provided for contracts as required by applicable state law.

Section 6 Personal Property

- A. Sale of Personal Property – No Personal Property of the Town shall be sold by any officer or board, except that if the book value, resale or trade in value is two hundred dollars (\$200) or less, it may then be sold by authorization of the Selectmen, such authorization shall in each case, )a) be in writing, (b) certify that the proposed selling price is in accordance with the above, (c) be filed with the Town Treasurer and Town Property Officer, if any. All other Personal Property of the Town shall not be sold except by vote of the Town. Revenues from such transactions shall be applied to the General Fund.
- B. Transfer of Personal Property – Any board or commission or officer in charge of a department may affect the transfer of personal Town property assigned to the agency to any other board, or department within the Town with the express permission of the Selectmen and notification to the Town Property Officer, if any. This transfer can only be made effective after the transferring agency has maintained possession of the property for a period of one (1) year. Temporary loans of equipment between governmental agencies of the Town may be executed through notifications to the Town Property Officer, if any. The responsibility for assigned personal property shall remain with the loaning agency.

Section 7

Capital Planning and Outlay Committee

- A. Composition, Appointment, Term of Office – There shall be a Capital Planning and Outlay Committee which shall consist of seven (7) members appointed by the Board of Selectmen for terms of three (3) years each, so arranged that as nearly an equal a number of terms as possible shall expire each year.
- B. Powers and Duties – The Capital Planning and Outlay Committee shall annually prepare a five (5) year capital improvement program and a proposed expenditure plan for the ensuing fiscal year. The report shall include:
  - 1. a clear, concise general summary of its contents;
  - 2. A list of all capital improvements and other capital expenditures proposed to be undertaken or made during the five fiscal years next ensuing, with supporting information as to the need for each capital improvement or other capital acquisition to be made;
  - 3. Cost estimates, methods of financing and recommended time schedules and sequences to be followed;
  - 4. The estimated annual cost of operating and maintaining each facility and item of major equipment involved.

The information contained in the report is to be revised, annually, with regard to each item still pending or in the process of being acquired, improved or constructed.

Every Town agency shall cooperate fully with the Capital Planning and Outlay Committee and shall provide to the committee such information as it may request concerning the anticipated capital requirements of the said Town agency.

Section 8

All Boards and/or committees acting as agents of the Town entering into collective bargaining agreements and/or employment contracts with any Town Employee shall within thirty (30) days of signing such agreement cause to be filed a copy of said document with the Town Clerk. No Town Meeting, Annual or Special shall ratify a town contract or agreement which has not been on file with the Town Clerk at least ten (10) days prior to the vote of Town Meeting.

# *GLOSSARY OF TERMS*

## *COMMONLY USED IN MUNICIPAL FINANCE*

**Abatement:** A complete or partial cancellation of a tax bill imposed by a governmental unit; applicable to tax levies and special assessments.

**Appropriation:** An authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and the time when it can be expended. Any amount that is appropriated may be encumbered.

A warrant article appropriation is carried forward from year to year until spent for the designated purpose or transferred by town meeting vote to another account.

**Assessed Valuation:** The value placed upon a particular property by the local Board of Assessors for the purpose of apportioning the town's tax levy among individual property owners equitably and in accordance with the legal requirement that property be assessed at "full and fair cash value", certified periodically by the Commonwealth's Commissioner of Revenue (no less frequently than once every three years).

**Available Funds:** Balances in the various fund types that represent non-recurring revenue sources. As a matter of sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other onetime costs. Examples of available funds include free cash, stabilization funds and overlay surplus.

**Audit:** Work done by accountants in examining financial reports, reviewing compliance with applicable laws and regulations, reviewing effectiveness in achieving program results. A basic audit examines only the financial reports and legal compliance. An outside Certified Public Accountant (CPA) audit is directed primarily toward the expression of an opinion as to the fairness of the financial statements and submission of a management letter. An auditor must be independent of the executive branch of government. A state auditor, private CPA or public accountant, or elected auditor meets this test.

**Balance Sheet:** A statement that discloses the assets, liabilities, reserves and equities of a fund or government unit at a specified date.

**Bond:** A means to raise money through the issuance of debt. A bond issuer/borrower promises in writing to repay a specified sum of money, alternately referred to as face value, par value or bond principal, to the buyer of the bond on a specified future date (maturity date), together with periodic interest at a specified rate.

**Bond Authorization:** The action of town meeting authorizing the executive branch to raise money through the sale of bonds in a specific amount and for a specific purpose. Once authorized, issuance is by the treasurer upon the signature of the selectmen.

**Bond Issue:** Generally, the sale of a certain number of bonds at one time by a governmental unit.

**Bond Rating (Municipal):** A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poors, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

**Budget:** A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. A budget may be preliminary (the financial plan presented to the town meeting) or final (the plan approved by that body).

**Capital Budget:** A plan of proposed capital outlays and the means of financing them for the current fiscal period. It is usually a part of the current budget.

**Capital Exclusion:** A vote to exclude from the levy limit the cost of a capital project. This exclusion only affects the levy limit for the year in which the project was undertaken.

**Cemetery Land Fund:** A fund established to which revenues are earmarked for the acquisition of land development costs on designated cemetery land purchases.

**Cherry Sheet:** An annual statement received from the Massachusetts Department of Revenue detailing estimated receipts for the next fiscal year for the various state aid accounts and estimated state and county government charges payable by the Town in setting the tax rate. The actual receipts and charges may vary from the estimates.

**Classification:** The division of the real estate tax and personal property voted by the Selectmen. The Selectmen may choose one rate for residences, another rate for business, and another rate for open space.

**Collective Bargaining:** The process of negotiating workers' wages, hours, benefits, working conditions, etc., between an employer and some or all of its employees, who are represented by a recognized labor union. regarding wages, hours and working conditions.

**Community Preservation Act (CPA):** Enacted as MGL Ch. 44B in 2000, CPA permits municipalities accepting its provisions to establish a restricted fund from which monies can be appropriated only for a) the acquisition, creation and preservation of open space; b) the acquisition, preservation, rehabilitation, and restoration of historic resources; and c) the acquisition, creation and preservation of land for recreational use; d) the creation, preservation and support of community housing; and e) the rehabilitation and restoration of open space, land for recreational use and community housing that is acquired or created using monies from the fund. The local program is funded by a local surcharge up to 3 percent on real property tax bills and matching dollars from the state generated from registry of deeds fees.

**Community Preservation Fund:** A special revenue fund established pursuant to MGL Ch. 44B to receive all monies collected to support a community preservation program, including but not limited to, tax surcharge receipts, proceeds from borrowings, funds received from the Commonwealth, and proceeds from the sale of certain real estate.

**Debt Exclusion:** A vote to exclude from the levy limit the costs of debt service for capital projects. This exclusion remains in effect for the life of the debt only.

**Debt Service:** The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.

**Encumbrance:** Obligations such as purchase orders, contracts, salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved.

**Enterprise Fund:** A standalone fund with its own assets, liabilities, fund balance, revenues and expenses in which a municipal service is operated as a business unit. Costs of the service are primarily recovered from user charges and may be supplemented by general revenues.



**Equalized Valuation:** The value of all property as determined by the Commissioner of Revenue biennially, to place all property in the state upon an equal footing, regardless of date of assessment.

**Excess and Deficiency (E&D):** Also called the "surplus revenue" account, this is the amount by which cash, accounts receivable, and other assets exceed a regional school district's liabilities and reserves as certified by the Director of Accounts. The calculation is based on a year-end balance sheet which is submitted to the Department of Revenue by the district's auditor, accountant, or comptroller as of June 30. The regional school committee must apply certified amounts exceeding five percent of the district's prior year operating and capital costs to reduce the assessment on member cities and towns.

**Excess Levy Capacity:** The difference between the levy limit and the amount of real and personal property taxes actually levied in a given year.

**Exemptions:** A discharge, established by statute, from the obligation to pay all or a portion of a property tax. The exemption is available to particular categories of property or persons upon the timely submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and cultural institutions. Persons who may qualify for exemptions include disabled veterans, blind individuals, surviving spouses, and seniors.

**Expenditure:** The spending of money by the town and schools for the programs or projects within the approved budget.

**Finance Team:** Made up of internal personnel. This includes the Town Administrator, Treasurer-Collector, Town Accountant, and, in specific issues, the School Business Manager. On other occasions, the Chief Assessor may also be included. The Board of Selectmen may designate others as necessary.

**FTE:** A full-time equivalent employee based on a 40-hour work week. May be one or more employees, but the total weekly hours equal 40.

**Fiscal Year ("FY"):** A 12-month period, beginning July 1 and ending June 30, to which the annual budget applies and at the end of which a governmental unit determines its financial position and the results of its operations. The designation of the fiscal year is that of the calendar year in which it ends; for example, FY17 or FY 2017 is the fiscal year which begins July 1, 2016 and ends June 30, 2017.

**Free Cash:** Certified as of each July 1 by the State, this is the portion of Undesignated Fund Balance available for appropriation. It is not cash *per se*, rather it is approximately the total of cash and receivables less current liabilities and earmarked reserves, reduced also by reserves for uncollected taxes.

**Fund:** An accounting entity with a self-balancing set of accounts that is segregated for the purpose of carrying on identified activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

**General Fund:** The fund into which the general (non-earmarked) revenues of the town are deposited and from which money is appropriated to pay expenses.

**General Obligation Bonds:** Bonds issued by the Town that are backed by the full faith and credit of its taxing authority.

**Government Finance Officers Association (GFOA):** This organization provides leadership to the government finance profession through education, research and the promotion and recognition of best practices.

**Governmental Accounting Standards Board (GASB):** The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

**Joint Labor Management Negotiation Process:** A negotiation process available to Police and Fire Unions, which utilizes Commonwealth of Massachusetts' mediators and arbitrators. If an arbitration decision is issued, it is binding upon the Executive Branch (The Board of Selectmen and Management Staff). Further, the Executive Branch must fully support such an arbitration decision before Town Meeting, even if they believe such a decision is not in the best interest of the Town.

**Level-Service Budget:** A budget that describes the funding required for maintaining current levels of service or activity, plus cost increases for contractual and mandated obligations. It brings previously-approved programs forward at existing levels of service.

**Levy Ceiling:** A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion. (See Levy Limit)

**Levy Limit:** A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion. (See Levy Ceiling)

**Local Aid:** Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

**M.G.L.:** Massachusetts General Laws.

**New Growth:** The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit.

**Other Post-Employment Benefits (OPEB):** The set of benefits, other than pensions, that government employees earn while actively working, but do not receive until they retire. Typically included is health insurance coverage for retirees, their spouses and in some cases their beneficiaries.

**Operating Budget:** A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

**Overlay:** (Overlay Reserve or Allowance for Abatements and Exemptions) An account established annually to fund anticipated property tax abatements, exemptions and uncollected taxes in that year. The overlay reserve need not be funded by the normal appropriation process, but rather is raised on the tax rate recapitulation sheet, and cannot exceed an amount deemed reasonable by the Commissioner of Revenue.

**Overlay Surplus:** Any balance in the overlay account of a given year in excess of the amount remaining to be collected or abated can be transferred into this account. Within 10 days of a written request by the chief executive officer of a city or town, the assessors must provide a certification of the excess amount of overlay available to transfer. Overlay surplus may be appropriated for any lawful purpose. At the end of each fiscal year, unused overlay surplus is “closed” to surplus revenue, i.e., it becomes a part of free cash.

**Override:** A vote to increase the amount of property tax revenue that may be raised over the levy limit.

**Personnel Services:** The cost of salaries, wages and related employment benefits.

**Purchased Services:** The cost of services that are provided by a vendor.

**Property Tax Bill:** The amount produced by multiplying the assessed valuation of property by the tax rate. The tax rate is expressed per thousand dollars of assessed valuation, for example:

House Value:	\$ 300,000	
Tax rate:	\$ 10	which means \$10 per thousand
Levy:	\$ 10	multiplied by \$300,000 and divided by \$1,000
Result:	\$ 3,000	

**Raise:** A phrase used to identify a funding source for an expenditure which refers to money generated by the tax levy or other local receipt.

**Reserve Fund:** A fund appropriated each year that may be used only by vote of the Finance Committee for “extraordinary or unforeseen expenditures.”

**Revolving Fund:** Those funds that may be used for special uses. For example, Recreation fees may be paid into a revolving fund, and expenditures can be made without appropriation with the approval of the Town Manager. Revolving funds are established by state law or town bylaw. Some revolving funds must be annually reauthorized by Town Meeting.

**Stabilization Fund:** A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Stabilization funds may be established for different purposes, and interest generated by such funds is added to and becomes part of the stabilization fund. A two-thirds vote of town meeting is required to establish, amend the purpose of, or appropriate money into or out of the stabilization fund.

**Tax Levy:** Total amount of dollars assessed in property taxes imposed by the Town each fiscal year.

**Tax Rate:** The amount of property tax stated in terms of a unit of the municipal tax base; for example, \$14.80 per \$1,000 of assessed valuation of taxable real and personal property.

**Tax Rate Recapitulation Sheet (Recap Sheet):** A document submitted by a city or town to the Department of Revenue in order to set a property tax rate. The recap sheet shows all estimated revenues and actual appropriations that affect the property tax rate.

**Tax Title (or Tax Taking):** A collection procedure that secures a city or town's lien on real property and protects the municipality's right to payment of overdue property taxes. Otherwise, the lien expires if five years elapse from the January 1 assessment date and the property has been transferred to another owner. If amounts remain outstanding on the property after issuing a demand for overdue property taxes and after publishing a notice of tax taking, the collector may take the property for the city or town. After properly recording the instrument of taking, the collector transfers responsibility for collecting the overdue amounts to the treasurer. After six months, the treasurer may initiate foreclosure proceedings.

**Tax Title Foreclosure:** The procedure initiated by a city or town treasurer in Land Court or through land of low value to obtain legal title to real property already in tax title and on which property taxes are over due. The treasurer must wait at least six months from the date of a tax taking to initiate Land Court foreclosure proceedings (MGL Ch. 60 §65).

**Triennial Certification:** The Commissioner of Revenue, through the Bureau of Local Assessment, is required to review local assessed values every three years and to certify that they represent full and fair cash value (FFCV). Refer to MGL Ch. 40 §56 and Ch. 59 §2A(c).

**Trust Fund:** In general, a fund for money donated or transferred to a municipality with specific instructions on its use. As custodian of trust funds, the treasurer invests and expends such funds as stipulated by trust agreements, as directed by the commissioners of trust funds or by town meeting. Both principal and interest may be used if the trust is established as an expendable trust. For nonexpendable trust funds, only interest (not principal) may be expended as directed.

**Turn Back:** Unexpended funds of a prior fiscal year operating budget are returned to the Town, which ultimately revert to Free Cash.

**Underride:** A vote by a community to permanently decrease the tax levy limit. As such, it is the opposite of an override. (See Override)

**Unreserved Fund Balance or Surplus Revenue Account:** The amount by which cash, accounts receivable and other assets exceed liabilities and restricted reserves. It is akin to the stockholders equity account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as "accounts receivable" may be taxes receivable and uncollected. (See Free Cash)

**Warrant:** An authorization for an action. For example, a town meeting warrant establishes the matters that may be acted on by that town meeting. A treasury warrant authorizes the treasurer to pay specific bills. The assessors' warrant authorizes the tax collector to collect taxes in the amount and from the persons listed, respectively.