September 30, 2026

NEW HAMPSHIRE MUNICIPAL ASSOCIATION

Finance 101

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Government Finance Specialist

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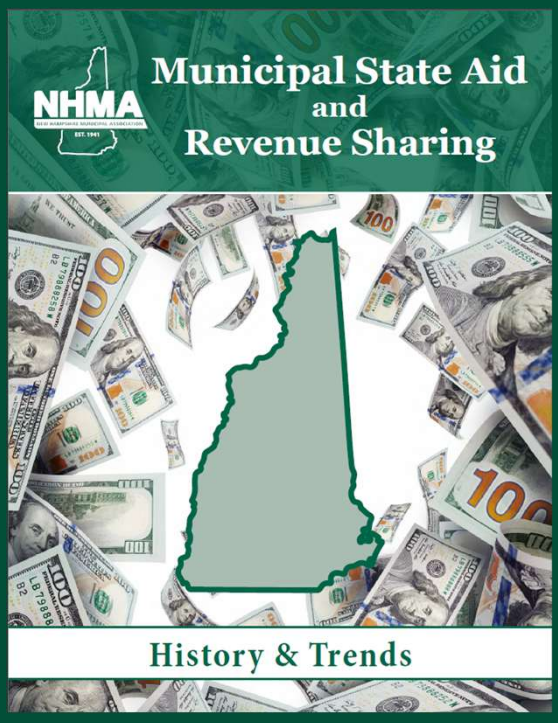
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AGENDA

- Definitions
- What and Why of Finances
- Internal Controls
- Segregation of Duties
- Fraud Risk – External & Internal
- Fund Balance
- Property Taxes
- Treasurer Duties
- Audits
- Miscellaneous

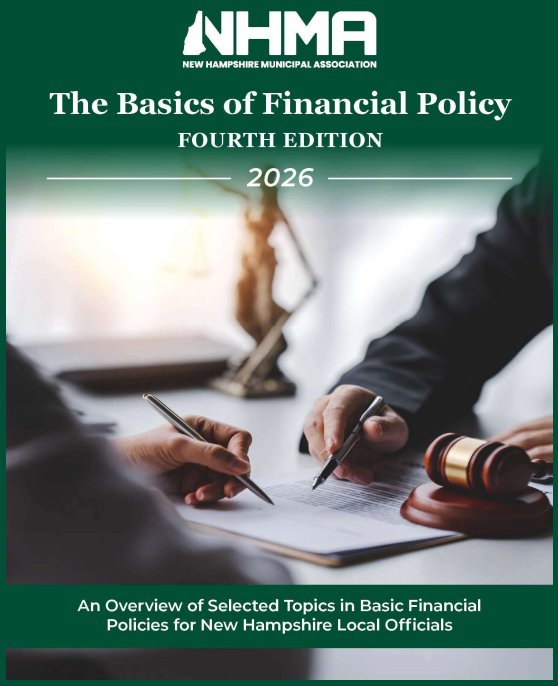
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State Aid to Municipalities

- Publication is updated every two years on the even year
- 2024 is the current edition, but 2026 will be released before year end
- Reviews the main sources of revenue for municipalities with a focus on the history and trends of the state funded revenue sources

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The Basics of Financial Policy

- Discusses multiple recommended financial policies
- There is a workshop series held, typically, in the spring to review recommended policies and why they are needed
- The latest publication was released in August 2026

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Definitions

Move over Merriam brothers & Noah Webster, here we come

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Definitions

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- **Legislative body**: town meeting, school or village district meeting, city council, board of mayor and aldermen or, when used to refer to unincorporated towns and / or places, the county convention. RSA 21:47
- **Governing body**: board of selectmen, school board, district commissioners, city council, board of aldermen, town or city council, or, when used to refer to unincorporated towns and / or places, the county commissioners. RSA 21:48
- **County**: RSA Chapter 22 defines the territory of each of the 10 counties

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TL1

Definitions

❖**Political subdivision**: means any city, town, county, school district, chartered public school, village district, school administrative unit, or any district or entity created for a special purpose administered or funded by any of the above-named governmental units.

❖**Town**: typically refers to the legislative body

❖**Village District / Precinct**: A separate government which is a subset of a town(s) created for any of the purpose(s) defined in RSA 52:1. Common purposes include extinguishment of fires; supply of water; and construction, operation and maintenance of sewage and waste treatment plants

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Definitions

❖**School District**: Each town shall constitute a single district for school purposes; provided that districts organized under special acts of the legislature may retain their present organization, and the word "town," wherever used in the statutes in connection with the government, administration, support, or improvement of the public schools, shall mean district.

❖**Charter**: The word "charter" may include the articles of agreement by which a corporation is formed under the general laws.

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Slide 9

TL1 Add school and county and city
Tammy Letson, 2026-04-15T13:39:01.040

TL1 0 Add charter
Tammy Letson, 2026-04-15T13:41:47.901

Definitions

- **RSA:** Revised Statutes Annotated is the codified collection of all current state laws, organized and annotated for reference
- **May**: indicates that something is permitted or possible but not necessarily required.
- **Shall**: establishes a legal obligation or duty that must be followed

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Definitions

- **Raise:** to collect or procure a supply of money for use. *Childs v. Company*, 70 N.H. 318, 324 (1900)
- **Appropriate**: to set apart from the public revenue a certain sum for a certain purpose. *Frost v Hoar*, 85 N.H. 442 (1932)
- **Anticipated**: Regarded as probable or expected
- **Unanticipated**: not expected or predicted; from an unexpected source

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Definitions

- **Tax Rate**: The amount applied to every $1,000 of assessed valuation to calculate individual tax amounts owed.
- **Tax Effort**: The total amount of money needed to be raised in taxes for a specific year.
- **Assessed Value**: The value of a property as calculated by local assessors.
- **Equalized Value**: The value of a property after the equalized ratio has been applied bringing the property closer to market value.

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Definitions

Per DRA:

- **Modified Accrual**: The basis of accounting under which:
  - Revenues are recognized in the accounting period in which they become available and measurable; and
  - Expenditures, rather than expenses, are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt.
- **Expenditures:** means:
  - The cost of goods delivered or services rendered, whether paid or unpaid;
  - Expenses, except depreciation;
  - Provision for debt retirement not reported as a liability of the fund from which retired; and
  - Capital Outlays
- **Expenses**: Charges incurred, whether paid or unpaid, for operations, maintenance, interest and other charges, including depreciation, presumed to benefit the current fiscal period.

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Definitions

Per DRA:

- **Revenue**: income related to primary operations
- **Fund**: A fiscal and accounting entity with a self-balancing set of accounts which:
  - Is used to record cash and other financial resources, with all related liabilities and residual equities or balances, and changes therein; and
  - Is segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with applicable restrictions or limitations as provided by statute and related administrative rules.

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Definitions

- **Contingency Funds**: Used by the governing body during the year to meet the cost of **unanticipated** expenses that may arise during that year. May **not** exceed one percent of the amount appropriated by the town during the preceding year, excluding capital expenditures and debt service. RSA 31:98-a; RSA 32:11, V.
- **Tax/Spending Caps**: A limitation on the amount of tax effort that can be raised.
- **Budget CAP**: A limitation on the amount raised and appropriated for the fiscal year.

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Definitions

❖**Accountant:** A person who does precision guesswork based on unreliable data provided by those with questionable knowledge.

❖See also: wizard, sorcerer

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Are we a Home Rule State?

- ***All*** power comes from legislature
- A law **MUST** allow action, either expressly or implied
- Cannot say "no law says we can't, so that means we can"
  - *Girard V. Allenstown, 121 N.H. 268 (1981)*
- Power of a municipality to act in a particular area implies the power to spend in that area as well. RSA 31:4



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What and Why of Finances

I don't have to be sarcastic, but people give me so much material to work with, I'd hate to disappoint them

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What are Finances?

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Merriam-Webster says the term can describe the liquid resources available to an individual or group, the system of banking and credit, or the science of managing funds.

Investopedia notes it covers core activities like budgeting, borrowing, saving, and investing.

Truism: The science of wondering where your money had gone before it even hits your bank account.

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Who Came Up With This Stuff Anyway?

The Financial Accounting Standards Board (FASB) created and maintains the Generally Accepted Accounting Principles (GAAP) for public and private companies. Prior to 1989 all entities, including local governments, followed these practices.

In 1989 the Financial Accounting Foundation (FAF) created the Governmental Accounting Standards Board (GASB) to create standards for state and local governments. GASB has issued:

- 105 statements, 22 of which have been superseded;
- 7 Concept statements;
- 6 Interpretations;
- 15 Technical Bulletins, 9 of which have been superseded;
- 14 Implementation guides; and
- 1 Suggested Guidelines

The American Institute of Certified Public Accountants (AICPA) designed the financial reporting standards recognized at the federal level.

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NH DRA Rev Rule 1700

The NH Department of Revenue Administration (DRA) has revenue rules under Chapter Rev 1700. https://gc.nh.gov/rules/state_agencies/rev1700.html

This chapter offers

- 1700 - Definitions,
- 1702 – Method and basis of accounting,
- 1703 – Classification of funds and account groups,
- 1704 – Classification of revenue sources,
- 1705 – Classification of expenditure and expense functions and programs,
- 1706 – Classification of balance sheet accounts
- 1707 – Forms and reports required

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Account Types

In GAAP there are five basic account types:

- Assets
- Liabilities
- Equity / Net Position / Fund Balance
- Revenue
- Expenditures

GASB Statement 63 introduced two additional account types for local governments:

- Deferred Inflows
- Deferred Outflows

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Assets



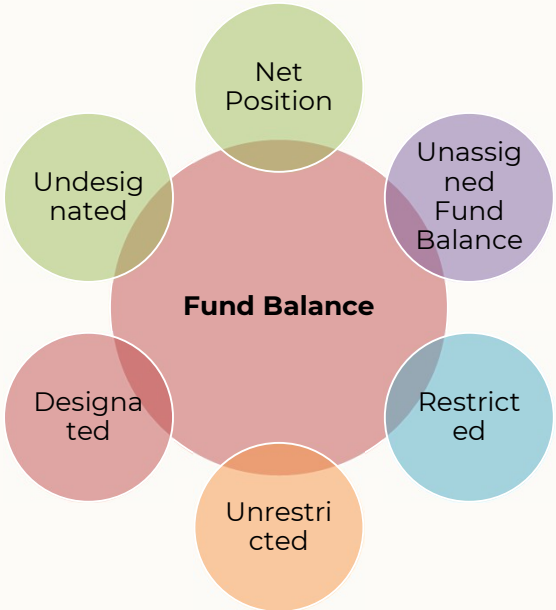
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Liabilities



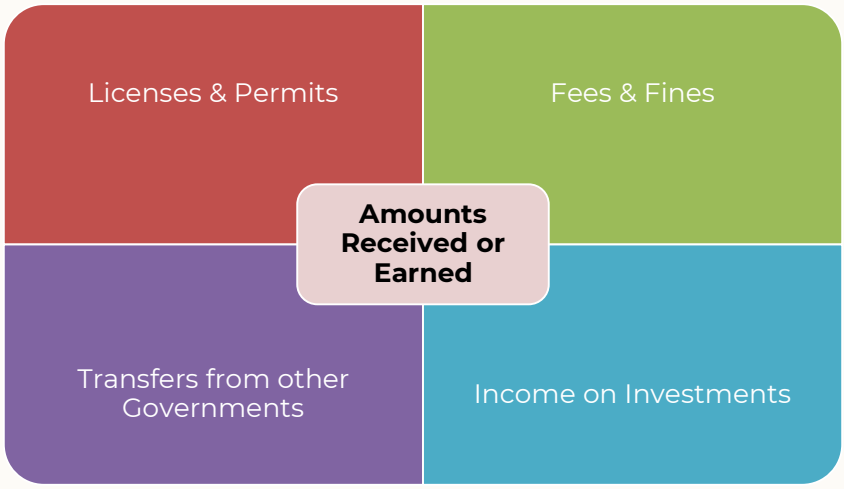
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Equity



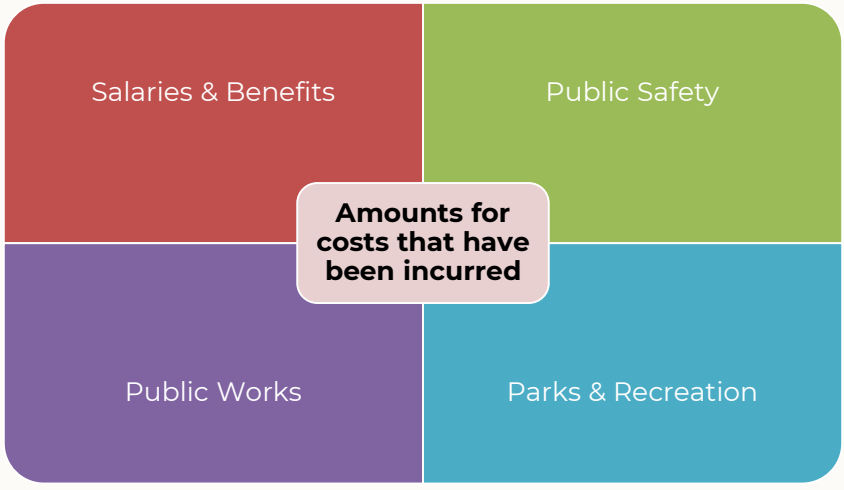
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Revenues



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Expenses



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Deferred Inflows & Outflows

GASB Statement 63 introduced two additional account types for local governments:

- Deferred Inflows
  - An acquisition of net position that applies to a future period and is therefore not an inflow of resources or a revenue
  - An example is the first issue property taxes for a fiscal government.

- Deferred Outflows
  - A consumption of net position that applies to a future period and is therefore not an outflow of resources or an expense
  - Most common examples are related to pensions and OPEB

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Modified Accrual Basis

Modified accrual basis of accounting, which is the required method for governmental funds, is a hybrid accounting method that blends cash-basis and accrual-basis concepts.

It allows for easier tracking of short-term financial resources and legal budget compliance.

Items that make it different from for-profit accounting:

- Measurement focus concentrates on current financial resources, not long-term capital asset or debt.
  - Capital Assets are expensed, not recorded as an asset. This means there is no depreciation.
  - Debt receipt is a revenue and not recorded as a liability. Therefore, the repayment, including principal is an expense.

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RSA 41:9

RSA 41:9, the Financial Duties of Selectmen, lists eight duties:

I. Give all monies and supporting documentation received to the town treasurer immediately after receipt;
II. Pay all bills;
III. Keep a fair and correct accounting records
IV. Publish the balance sheet in the annual town report
V. In the case of a fund balance deficit, have a warrant article at the next town meeting raising, if appropriate, raising money to reduce that deficit
VI. Establish and maintain internal controls
VII. Annual review and adopt an investment policy
VIII. Establish procedures that all funds paid from any department shall be remitted to the treasurer weekly or when such funds **total** $3,500 or more.

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Internal Controls

An organization without internal controls is just a suggestion box for fraud

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What are Internal Controls?

Internal controls are:

- Anything that helps safeguard assets
  - An alarm system on municipal buildings
  - Passwords on computers
  - Collateralizing bank accounts
  - Employee panic room
- Anything that makes more effective and efficient use of those assets
  - Town Clerk and Tax Collector software
  - Segregation of duties
  - Investment of cash not needed in the next 60 days

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Examples

Personal Life	Lock your home and your vehicle
	Keep your Debit Card separate from your PIN
	Check your bills and credit card statements before paying
	Don't leave large quantities of cash laying around
	Expect our children to ask permission to do certain things
	Expect our spouse to discuss prior to purchasing large ticket items

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Examples

Work Life	Lock your offices and vehicles
	Keep your passwords hidden / locked up
	Get approval on invoices before you pay them
	Don't leave large quantities of cash laying around
	Expect our employees to ask permission to do certain things
	Expect dept heads to discuss prior to purchasing large ticket items

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What are Internal Controls?

Internal controls are:

- Policies
  - Financial policies are the framework for developing long term, strategic approach to financial management.
  - Policies should be developed broadly enough to outlive their creators, but with enough information and detail to accomplish the overall purpose.

- Procedures
  - Procedures are the established, written steps needed to accomplish doing what the policies determine.

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What they are *NOT*

- Internal Controls, Policy and Procedures are ***not*** simply "Accounting Functions"
- They are ***not*** designed or intended to be "more red tape"
- They are ***not*** the responsibility of the outside auditor or banking institution

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Why do we need them?

They are meant to:

1. Promote operational effectiveness and efficiency
2. Protect assets from waste and abuse
3. Ensure accurate, reliable records
4. Encourage adherence to policies, rules, regulations and laws.

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Why are they important?

Prevent	· **P**revent loss of funds or other resources
Reduce	· **R**educe fraud opportunities
Ensure	· **E**nsure objectives are accomplished
Preserve	· **P**reserve integrity
Assure	· **A**ssure compliance with laws, regulations, policies and procedures
Reassure	· **R**eassure the public their trust and monies are safe
Establish	· **E**stablish standards of performance
Diminish	· **D**iminish adverse publicity

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COSO

The Committee Of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

COSO is comprised of five major professional accounting and finance organizations:

- AAA
- AICPA
- FEI
- IIA
- IMA

Source: https://www.coso.org/

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COSO – Why?

In the 1970s and 1980s there were fraudulent financial reporting scandals such as:

- Equity Funding Corporation – Sold over $2 billion of fake insurance policies leading to the arrest of its founder, Stanley Goldblum, and others involved in the fraud.
- Investors Overseas Service Ltd – Robert Vesco, a criminal financier, was accused of looting hundreds of millions of dollars through securities fraud.

James Treadway, Jr, a former Commissioner of the US Securities and Exchange Commission led the National Commission on Fraudulent Financial Reporting. This commission created COSO and in 1992 published Internal Control – Integrated Framework. The framework was revised in 2013, but the basic principles still apply.

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Self Assessment

NHMA adapted an internal control questionnaire from the Vermont State Auditors Office for NH municipality's needs. This questionnaire can be found in an appendix of The Basics of Financial Policy publication.

It is a handy self assessment to determine where individual municipalities may have weaknesses within their financial policies.

GENERAL			Comments:
1. Is governing body aware that establishing and maintaining appropriate internal controls is their responsibility under RSA 41:9, VI?	Y	N	
2. Does municipality management show commitment to establishing and maintaining controls?	Y	N	
3. Do municipality offices have an organizational chart defining the activities and person responsible for them?	Y	N	

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Are Your Internal Controls Appropriate For You?



- Make sure your internal controls meet the needs of your government.
- Not all governments are the same.
  - Asking for copies of someone else's policies still requires review and adjusting for your needs.
  - Just because a municipality claims their policy meets the requirements of certain grants, does not mean it does.
- Balance generalness with specificity. Vagueness in your policy with the hope it will cover more situations may result in too much leeway.

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Segregation of Duties

I'm not bossy, I just know exactly what you should be doing.

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Incompatibility of Offices

RSA 669:7 I lists positions in which a single person cannot hold more than one position. Examples of this include:

- Selectman and collector of taxes
- Treasurer and clerk

Paragraph I-a limits a candidate from filing for two or more incompatible offices.

Paragraph II specifies a person can transfer from one to another position, as long as they do not hold two or more incompatible ones.

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Controls

Separation of duties protects the organization and the individual by ensuring that no one person has the ability to control all of the steps involved in handling and accounting for money received by the local government.

Custody	Record Keeping
Authorization	Reconciliation

The ideal is that any one person performs no more than two functions; at least three people are ideal for the four functions.

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Controls

Segregate	Segregate incompatible duties – duties where someone can both commit an irregularity and then conceal it:	Authorize a transaction
		Record the transaction
		Maintain custody of the asset resulting from the transaction
Provide	Provide compensating controls when segregation not possible – vacation, periodic rotation of duties, have someone else do the job and see if there is any noticeable change.	
Appoint	Appoint a Deputy	
	Cross train an alternate	

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When it is Not Possible

If one person performs two or more of the functions:

- Risk exists that presents the opportunity for something to go wrong
- A compensating control is needed to reduce the risk
- The compensating control might be an extra layer of review

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Compensating Controls

Examples of compensating controls may include:

- A manager/dept head may perform a high level of review of detailed transaction reports
- A manager may periodically sample transactions and request supporting documentation to ensure the transactions are complete, appropriate, and accurate.
- Someone from another area may perform an external review of a reconciliation.
  - For instance, two departments within a municipality may share responsibility to review each others' reconciliations.
- Some local governments have a centralized collections and/or financial services department

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Fraud Risk

People are always calling me skeptical. I'm not sure if I believe that.

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Why should you care?

- **It's taxpayer's dollars!**
- It impacts the ability to provide programs and services.
- It impacts state agency operations.
- It tarnishes reputation of the fraudster, the agency, and the government.
- It creates work to investigate the scope of the fraud.
- It creates new work to implement preventative or corrective internal controls.

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What is fraud?

The definition of fraud is the intentional use of deception, trickery, or dishonest methods to gain an unfair advantage, typically by depriving another person or organization of money, property, or legal rights. It involves false representations or concealment of facts to induce someone to act to their detriment.

It is:

- A deliberate act
- Something someone does knowing it is not truthful
- Can involve more than one person
- **Mistakes are NOT fraud!**

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Two Categories

External	Internal
• Bad actors • Customers • Vendors / Contractors	• Employees • Public Officials

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Types of Fraud

External Attack	Internal Attack
• Hacking • Spoofing • Phishing	• Theft • Curiosity • Retribution

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External Fraud

Cybersecurity is like deodorant – it is only noticed when it is missing.

CAPS LOCK: Preventing Logins Since 1980

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External Fraud

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Types of external fraud may include:

- Vendor fraud:
  - Sending invoices for goods or services not received or even ordered by the municipal entity
  - Overbilling
  - Substandard goods
- Customer fraud
  - Knowingly writing a check with insufficient funds
  - Paying electronically then refuting the payment
- Cyber fraud…

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Cyber Fraud

- Ransomware – A threat actor encrypts critical data and demands payment to release it.
- Data breaches & theft – Personal information such as SSN, addresses, etc. are received by threat actors
- Distributed Denial of Services – websites and other online services are forced offline by a flood of invalid traffic, false requests, attacks, etc.
- Spoofing – when a threat actor requests invalid changes in financial information through such means as emails and false websites
- Phishing – A thread actor send a phishing email containing a link to false sites gathering your information or installing malware while they do so

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How to Reduce the Threat

- Vendor Fraud –
  - Have department heads approve their invoices
  - Call companies from phone numbers YOU have, not the ones provided in an email, to verify the requested changes
  - Have employees fill out forms in person for changes to direct deposit accounts
- Customer deposits
  - Have policy on how to handle returned payments
  - Be sure the procedure is TIMELY
  - Do not allow check payments from repeat offenders
  - Work with your police department – returned payments is a crime
- Cyber
  - Work with your Managed Service Provider (MSP) to be sure your anti-virus is up to date
  - Control passwords
  - Implement Multi-Factor Authentication (MFA)

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Password Strength

- How long will it take to hack your password if it is on a Post-It under your keyboard?
- How long will it take to hack your password if it is in a notebook in your desk drawer?
- How long will it take to hack your password if it is the same one you use for everything?
- How long will it take to hack your password if it has already been hacked from another site?

Little to no time!

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Internal Fraud

Embezzlement is like an unauthorized, interest-free, long-term loan with zero repayment terms.

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Occupational Fraud

The Association of Certified Fraud Examiners (ACFE) defines Occupational Fraud as:

The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

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Municipal Fraud Cases

The largest municipal fraud in US history was perpetrated by Rita Crundwell in Dixon, IL.

She stole more than $53 million from city funds over two decades.

There is a documentary on this called All the Queen's Horses.



Rita Crundwell and the Dixon Embezzlement

THE $53 MILLION BAMBOOZLE: How the trusted comptroller of a small Illinois town became the biggest municipal embezzler in U.S. history, according to the feds—and no one noticed

BY BRYAN SMITH

PUBLISHED SEPT. 24, 2012

18 COMMENTS

LAUNCH GALLERY

Rita Crundwell leaves a Rockford, Illinois, courthouse after a hearing on her embezzlement case in August 2012. PHOTO: RAY WHITEHOUSE

UPDATE (11.14.12): Rita Crundwell pleaded guilty to fraud on November 14 in federal court in Rockford.

MARKETPLACE

Source: https://www.chicagomag.com/chicago-magazine/december-2012/rita-crundwell-and-the-dixon-embezzlement/

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NH Municipal Headlines

- Ex-school official to plead guilty
- Ex-town official says she stole $1M
- Ex-town clerk to admit theft
- Fire secretary charged with padding pay
- Former NH tax collector sentenced for embezzlement
- Ex-treasurer indicted for embezzlement
- Longtime NH town clerk charged with embezzlement

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Main Fraud Categories

Asset Misappropriation	Corruption	Financial Statement Fraud

• Cash
  • Theft of cash on hand
  • Theft of cash receipts
  • Fraud disbursements
• Inventory and all other assets
	• Conflicts of Interest – purchasing schemes
	• Bribery – invoice kickbacks; bid rigging
	• Illegal gratuities
	• Economic extortion
		• Net worth / Net income over or under statements by misrepresenting:
		  • Revenues
		  • Expenses
		  • Assets
		  • Liabilities
		• Improper Disclosures
		• Timing differences

Source: https://www.acfe.com/-/media/files/acfe/pdfs/rttn/2026/2026-report-to-the-nations.pdf

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Common Fraud Themes

Smaller Organization typically have **fewer anti-fraud controls** which increase the risk of fraud.

Median **duration** of a fraud scheme is **16 months.**

Internal Control weaknesses were responsible for over 50% of Fraud!

Only **4% of fraudsters** had a prior conviction, **6%** were charged but not convicted and 2% had something different. **88%** of fraudster were **never** previously charged or convicted

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Fraud Triangle

- Unable to pay personal bills
- Desires larger than income
- Envy of other's lifestyles



- I will pay it back and no one will notice
- No one will get hurt
- The government can afford it more than I can
- I'm an underpaid and unappreciated. I deserve more and better

- Weak internal controls – Signs checks, records all transactions, and reconciles the bank statements.

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Opportunity

An opportunity is an open door for solving a non-shareable problem in secret by violating a trust.

- Weak internal controls
- Circumvention of internal controls
- The greater the position, the greater the trust and exposure to unprotected assets
- Low chance of getting caught
- Lack of management oversight
- Perception of management bending or ignoring the rules

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Opportunity

Opportunity is the ONLY element over which a government has significant control

Opportunity is generally provided through weaknesses in the internal controls

- Supervision and review
  - Inadequate oversite
  - Inadequate recordkeeping
- Poor segregation of duties
- Management approval
- System controls
  - Cash transactions

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Elements of Fraud

- Corruption
  - Free permits
  - PR benefits to non-employees
  - Unauthorized use of government vehicles, equipment or employee labor for personal reasons
  - Use of a vendor for personal use of employee discounts
- Fraudulent Financial Reporting
  - Make it appear expenses are not over budget
  - Meet revenue estimates
  - Conceal misappropriation of assets
- Misappropriation of Assets . . .

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Misappropriation of Assets

Through Theft of Receipts

- Embezzlement of cash receipts:
- Motor vehicle registrations (both state and town portions)
- Various other permits and fees
- Tax payments
- Developer deposits and fees
- Ambulance and police charges and fees
- Transfer station collections
- Food service programs
- Student activity accounts

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Misappropriation of Assets

Through Fraudulent Disbursements

- Payment for goods and services not received
- Payments to fictitious vendors
- Overpayments to vendors for goods or services received
- Payments for unauthorized wages and benefits

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Misappropriation of Assets

How is it done?

- Falsification, alteration, or other manipulation of accounting records or source documents, such as invoices, purchase orders and checks
- Circumventing controls
- Committed by:
  - Management
  - Employees
  - Third Parties

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Fund Balance

They say good things take time...
That is why I am always late.

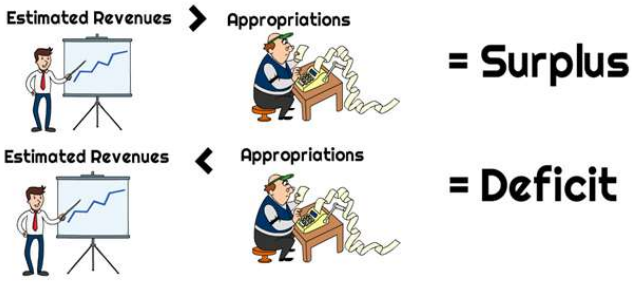
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What is Fund Balance

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Fund Balance is the total accumulation of operating surpluses and deficits since the beginning of a local government's existence.



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Fund Balance "Reserves" vs. Reserve Funds

Fund Balance Reserves

- **GAAP accounting and reporting entities**, fund balance describes the net position of local government funds.

Reserve Funds

- Future outlays for capital projects/equipment
- Capital Reserve Funds
- Expendable Trusts

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Purposes For Fund Balance Reserves

Cash flow
Avoid short-term borrowing
Operating cycle - i.e., taxes collected in July/December
Reserve for emergencies, unforeseen events, unexpected opportunities
Increased investment income
Helps protect credit rating & obtain lower interest rates on borrowings
May help avoid tax increases or service reductions

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Fund Balance Formulas

Balance sheet

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

Operating surplus / Deficit

- The difference between a fund's revenues and expenditures for a fiscal year

Revenues
– Expenditures
Operating Surplus / (Deficit)

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Fund Balance in the Budget

- How do I put fund balance usage in the budget?



You Don't!

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Why Not?

- The use of fund balance, no matter how used, is the expectation of a loss.



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GASB 54 Categories

- Nonspendable
- Restricted
- Committed
- Assigned
- Unassigned

80

Nonspendable

Includes the amounts that are **not** in a spendable form or are required to be maintained intact.

- Not in spendable form
  - Inventories
  - Prepaid Expenses
  - Tax Deeded Property
- Legally/contractually required to remain intact
  - Principal portion of a Permanent Fund

81

Restricted

Includes amounts that can only be spent for the specific purposes stipulated by external resource providers (such as grantors) or the enabling legislation (federal or state law). Restrictions may be changed or lifted only with the consent of the resource providers or the enabling legislation.

- Income portion of a Permanent Fund
- Prepaid grant funds
- Prepaid Bond Funds

82

Committed

Includes amounts that can be used only for specific purposes determined by a formal action of the Town's highest level of decision-making authority (Legislative Body). Commitments may be changed or lifted through legislative body action taking the same formal action that imposed the constraint originally.

- Fund balance usage voted on at the current year annual meeting being recorded on the prior year's books
- Capital Reserve Funds
- Expendable Trust Funds
- Non-lapsing appropriations
- Possibly:
  - Library
  - Town Forest
  - Conservation Commission

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Assigned

Includes amounts the Town intends to use for a specific purpose. Imposed by the Governing Body.

For all governmental funds other than the General Fund, any remaining positive balances are to be classified as "assigned".

- Encumbrances
- Contractual commitments
- Possibly:
  - Library

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Unassigned

Includes amounts that are not obligated or specifically designated and is available for any purpose. The residual classification of any General Fund balance is to be reported here.

Any deficit fund balance of another fund is also classified as Unassigned.

- Residual classification for the General Fund
- Fund balance that has not been assigned to other funds
- Fund balance that has not been restricted, committed, or assigned for particular purposes in the General Fund

85

Uses of Fund Balance

Legislative Body	Emergency Spending	Governing Body
• Through the town meeting process the legislative body can use fund balance to offset appropriations	• Through the emergency spending process the town can ask DRA to approve emergency spending out of fund balance	• The governing body can use fund balance to offset the tax effort during the tax rate setting process

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Property Taxes

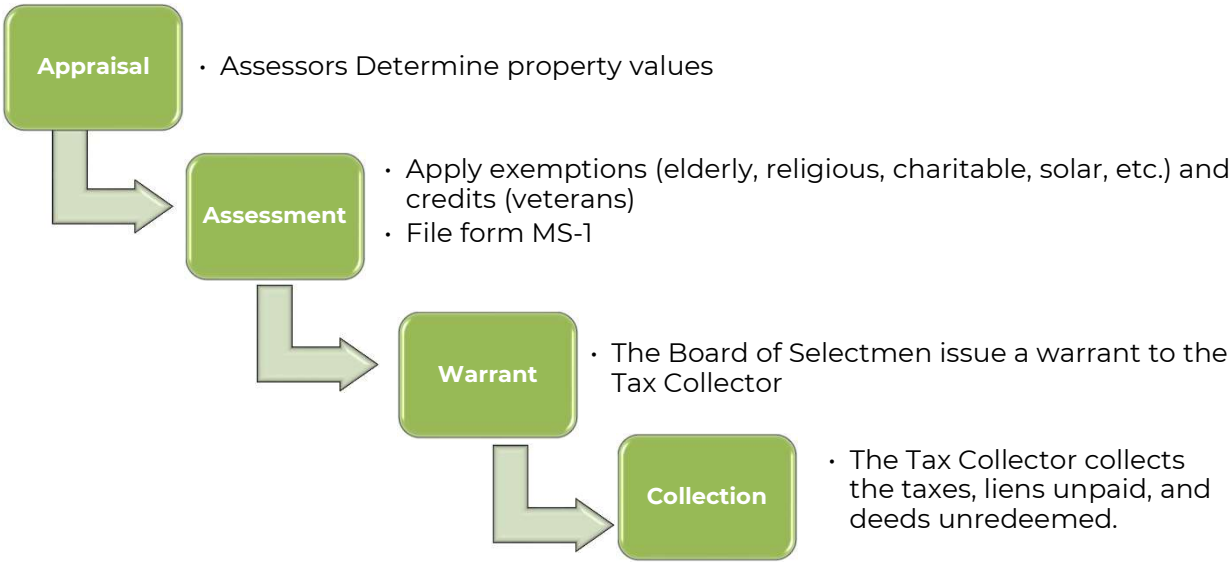
The fact that there's a highway to Hades and only a stairway to Heaven says a lot about the anticipated traffic numbers.

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Property Tax Process

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Property Tax Calculation

	Tax Rate Calculation	Example	
	MS-232-R Gross Appropriation	$21,645,008	
−	MS-434-R Revenues	7,768,984	−
−	Fund Balance Use	1,119,393	−
+	Overlay (5% Max)	30,871	+
+	Veterans Credits	308,625	+
=	Net Municipal Tax Effort	13,096,127	=
÷	MS-1 Assessed Property Valuation	3,911,869,779	÷
×	1,000	1,000	×
=	Tax Rate per $1,000 Valuation	$ 3.35	=



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Tax Bill Calculation



- $500,000 assessed value
- Divide it by $1,000 and multiply by the tax rate (per 1,000 valuation) of $3.35
- Town taxes owed = $1,675

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Three-Finger Rule



- **Local Assessed Value = $3,911,869,779**

Appropriations	Tax Rate Impact
$3,911,869	$1.00
$391,187	$0.10
$39,119	$0.01

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Estimated Impact on the Tax Rate

Divide the appropriation by the assessed value of the town X $1,000 for rate per $1,000 of valuation

$750,000 Fire Truck / $3,911,869,779
X $1,000 = $0.19



$1,000,000 Collective Bargaining Agreement (CBA) Cost Item
$1,000,000 CBA / $3,911,869,779
X $1,000 = $0.26



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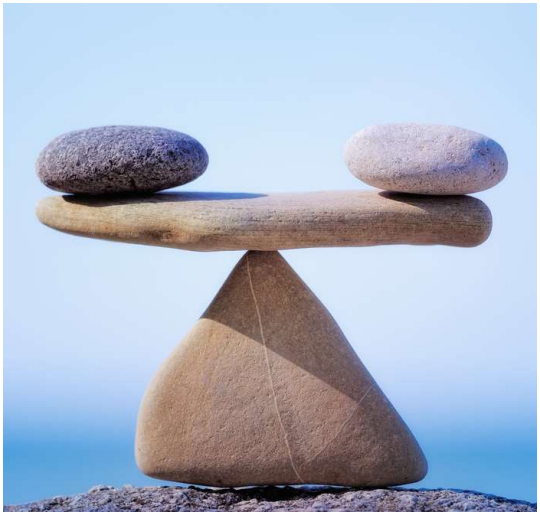
Estimated Impact on the Tax Rate

The following calculates the tax rate at each step of the process.

	Appropriations	Offsetting Revenues	Use of Fund Balance	Net to be raised by taxes	Estimated Impact on Tax Rate
Operating budget	17,545,008	7,268,984	-	10,276,024	2.63
Funds to Capital Reserves	2,500,000	-	400,000	2,100,000	0.54
Charitable Organizations	350,000	-	-	350,000	0.09
Purchase Fire Truck	1,250,000	500,000	-	750,000	0.19
Totals	**21,645,008**	**7,768,984**	**400,000**	**13,476,024**	**3.44**
Use of fund balance to offset taxes				(719,393)	(0.18)
Overlay raised				30,871	0.01
Veterans Credits				308,625	0.08
Net Municipal Tax Effort / Rate				**13,096,127**	**3.35**

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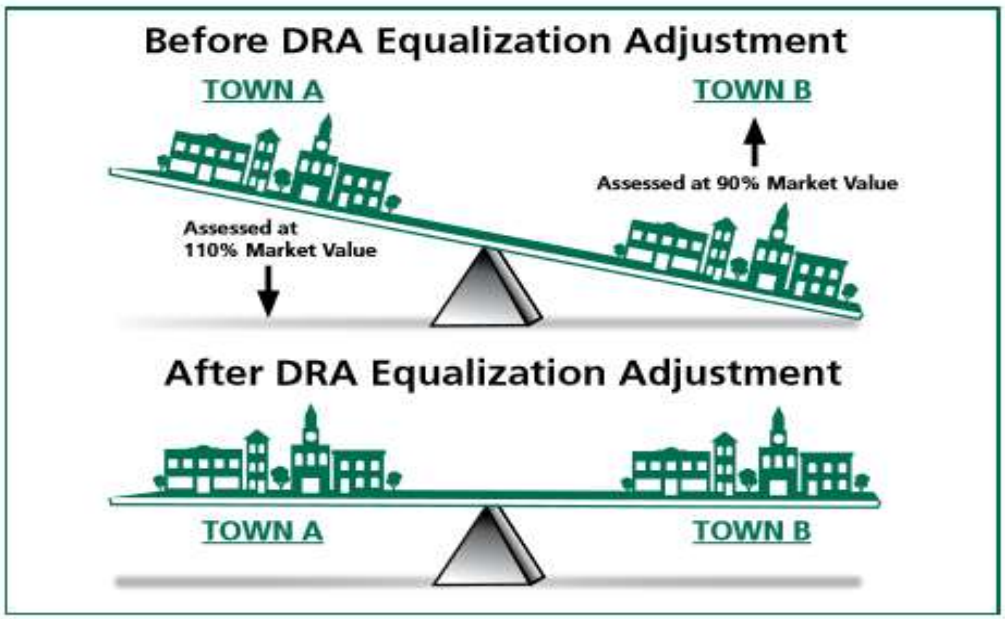
Equalization Process



- Equalization necessary for calculating shared taxes
- County, Co-op Schools, Multi-town precinct
- DRA adjustment reflects proportionality to other municipalities

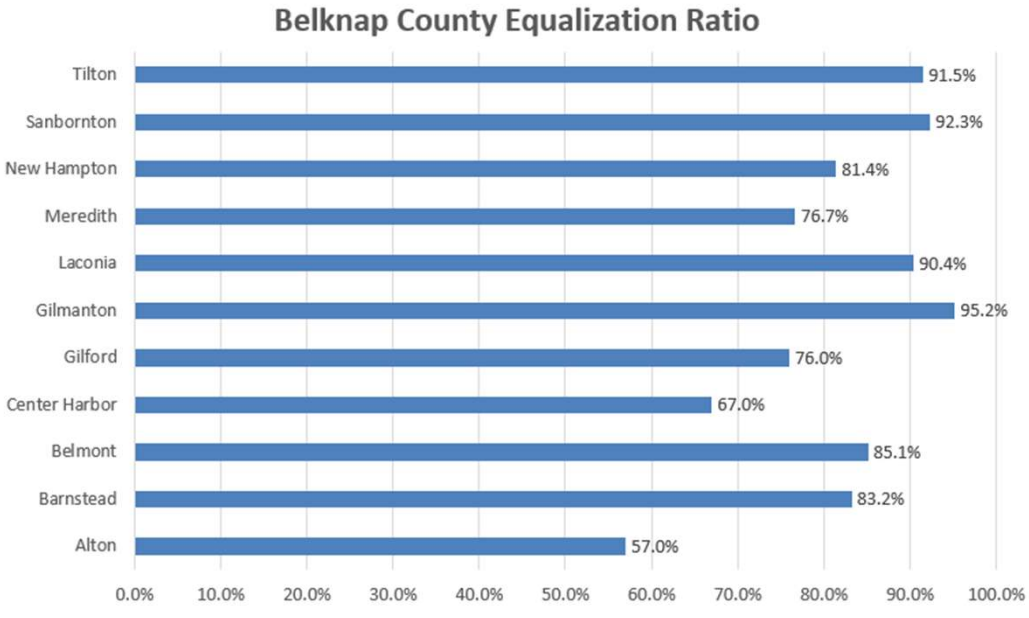
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Equalized Property Values



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Equalized Property Values



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Treasurer Duties

One day you're the best thing since sliced bread. The next, you're toast.

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Town Treasurer
NH RSA 41:29 I

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- **Duties of Elected and Appointed Town Treasurers**

The town treasurer shall have custody of **all** moneys belonging to the town, and shall pay out the same only as follows:

a) Upon orders of the selectmen in a public meeting or by a noncontemporaneously signed manifest signed by a majority of the board; or,

b) In the case of a conservation fund established pursuant to RSA 36-A:5, upon the order of the conservation commission; or

c) In the case of a heritage fund established pursuant to RSA 674:44-d upon the order of the heritage commission; or

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Town Treasurer
NH RSA 41:29 I

d) In the case of fees held pursuant to RSA 673:16, II, upon the order of the local land use board or its designated agent; or

e) In the case of a recreation revolving fund established pursuant to RSA 35-B:2, upon the order of the recreation or park commission; or

f) In the case of fees deposited by the town clerk pursuant to RSA 41:25, upon the invoice of the town clerk, or other board or body designated by the town to expend such a fund.

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Town Treasurer
NH RSA 41:29 II

The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to RSA 6:45 or in federally insured banks chartered under the laws of New Hampshire or the federal government with a branch within the state, except that funds may be deposited in federally insured banks outside the state if such banks pledge and deliver to a third party custodial bank or the federal reserve bank collateral security for such deposits of the following types:

a) United States government obligations;

b) United States government agency obligations; or

c) Obligations of the state of New Hampshire in value at least equal to the amount of the deposit in each case.

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Town Treasurer
NH RSA 41:29 III

The town treasurer **shall** keep in suitable books provided for the purpose a fair and correct account of all sums received into and paid from town treasury, and of all notes given by the town, with the particulars thereof. At the close of each fiscal year, the treasurer **shall** make a report to the town and to the department of revenue administration, giving a particular account of all his or her financial transactions during the year and account balances at year end. The treasurer **shall** furnish to the selectmen statements from the treasurer's books, and submit the books and vouchers to them and to the town auditors for examination, whenever so requested.

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Town Treasurer
NH RSA 41:29 IV

Whenever the town treasurer has in custody an excess of funds which are not immediately needed for the purpose of expenditure, the town treasurer **shall** invest the same in accordance with the investment policy adopted by the selectmen under RSA 41:9, VII. The treasurer may invest in the public deposit investment pool established pursuant to RSA 6:45, or in deposits, including money market accounts, or certificates of deposit, or repurchase agreements, and all other types of interest bearing accounts, of federally insured banks authorized to accept deposits under RSA 6:8, I and I-a, or in obligations fully guaranteed as to principal and interest by the United States government. The obligations may be held directly or in the form of securities of or other interests in any open-end or closed-end management-type investment company or investment trust registered under 15 U.S.C. section 80a-1 et seq., if the portfolio of the investment company or investment trust is limited to such obligations and repurchase agreements fully collateralized by such obligations.

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Town Treasurer
NH RSA 41:29 V

a) The treasurer shall insure that prior to acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the town. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 383-B:3-301(e) shall be eligible to be pledged as collateral.

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Town Treasurer
NH RSA 41:29 V

b) As an alternative to the option of collateralization for excess funds provided in subparagraph (a), the town treasurer may also invest public funds in interest-bearing deposits which meet all of the following conditions:

1) The funds are initially invested through a federally insured bank authorized to accept deposits under RSA 6:8, I and I-a, selected by the treasurer.
2) The selected bank arranges for the redeposit of funds which exceed the federal deposit insurance limitation of the selected bank in deposits in one or more federally insured financial institutions located in the United States, for the account of the treasurer.
3) The full amount of principal and any accrued interest of each such deposit is covered by federal deposit insurance.
4) The selected bank acts as custodian with respect to each such deposit for the account of the treasurer.
5) On the same date that the funds are redeposited by the selected bank, the selected bank receives an amount of deposits from customers of other federally insured financial institutions equal to or greater than the amount of the funds initially invested through the selected bank by the treasurer.

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Town Treasurer
NH RSA 41:29 VI

The treasurer may **delegate** deposit, investment, recordkeeping, or reconciliation functions to other town officials or employees provided such delegation is in writing and includes written procedures acceptable to the selectmen, or in the case of a town operating under RSA 37, to the town manager, and is agreeable to all parties involved. However any such delegation **shall only** be made to a town official or employee bonded in accordance with RSA 41:6 and rules adopted by the commissioner of revenue administration under RSA 541-A. Such delegation shall **not** eliminate the responsibility of the treasurer to comply with all statutory duties required by law.

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Town Treasurer
NH RSA 41:29 VII

The treasurer **shall** ensure that all moneys remitted shall be deposited **at least** on a weekly basis, or **daily** whenever funds remitted from all departments collectively totals **$3,500** or more. Such deposit function **may** be delegated pursuant to paragraph VI. However, failure to ensure that funds are being deposited on a timely basis as required by this paragraph shall be cause for immediate removal from office pursuant to RSA 41:26-d.

In any municipality where there is either **no bank** or other depository institution within the municipality the treasurer shall make deposits consisting of funds remitted from all departments and collectively totaling $3,500 or more on a **weekly** basis or more frequently as directed by the board of selectpersons in the investment policy adopted pursuant to RSA 41:9, VII.

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Delegation of Authority

Town Treasurer – RSA 41:29, VI

- May delegate deposit, investment, recordkeeping or reconciliation functions to other town officials or employees provided the delegation is:
  - In writing
  - Includes written procedures acceptable to the Board of Selectmen and others involved
  - Bonded employee
- A delegation **does not** eliminate the Treasurer's responsibility to comply with all statutory duties!

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Audits

Sometimes it takes me all day to get nothing done.

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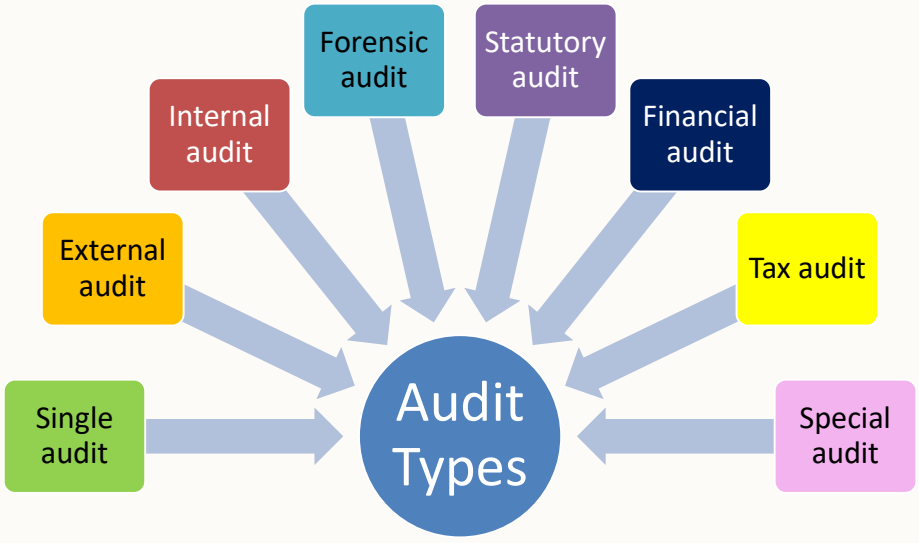
Required by RSA

NH RSAs 41:31-a through –d allows for three options for audits

- Option 1:
  - File Form MS-60-W to request an audit waiver in accordance with RSA 41:31-c, II
    - Must receive DRA's agreement of Form MS-60-W
  - Only available for local governments with a population of fewer than 750
- Option 2:
  - Elect a local auditor, who then completes Form MS-60, Report of Locally Elected Auditors, annually
- Option 3:
  - Hire an independent auditor to conduct a financial statement audit

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Types of Audits



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What Does and Audit Do?

It is **NOT** the job of the audit to guarantee that the books are perfect and that there is no wrongdoing.

It **IS** the job of an audit to:

- Provide opinions on if the financial statements are in accordance with accounting standards such as GAAP and GASB
- Give reasonable assurance the statements are presented fairly

Most financial statement audits also include an audit of the local government's internal controls over financial reporting.

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Who might ask for it?

- Grantors
  - An independent single audit is required if more than $1,000,000 of federally reimbursable expenses are incurred in a fiscal year.
- Lenders
  - USDA requires an independent financial statement audit if the balance of your loan is at least $500,000.
  - NH Municipal Bond Bank (NHMBB) requires an independent financial statement audit if you have a loan balance
- State Agencies
  - NH DES
  - NH DOS
  - NH DOT
  - NH Homeland Security

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Actuarial Valuations

GASB requires actuarial valuations to record within the financial statements the accounting related to various activities. These include:

- ❑ GASB Statement 68 accounts for municipal pension plans and the impact those plans may have on the current and future municipal books.
- ❑ GASB Statement 73 accounts for pensions not within Statement 68 and how they might impact current and future municipal books.
- ❑ GASB Statement 74 and 75 account for Other Post Employment Benefits (OPEB) and how they might impact current and future municipal books.

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Timelines

The timeline of an audit differs greatly depending on various components:

- The complexity of the books being audited
- The cleanliness of the books being audited
- The timeliness of providing requested documents

Ideally, the auditors will take 3-5 days of on-site or dedicated virtual time to review documents and processes, they will then need to take time to review workpapers, draft the financial statements, review the financial statements, get opinions from banks and / or legal.

A fast turn around might be as quick as 6 weeks. A more complex audit might be a few month turn around.

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Miscellaneous

Have you ever listened to someone for awhile and wondered who ties their shoelaces for them?

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Lapse of Appropriations RSA 32:7

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All appropriations shall lapse at the end of the fiscal year, and any unexpended portion thereof shall not be expended without further appropriation, unless:

I. Prior to year end the amount is encumbered by a legally enforceable obligation – purchase order, contract, etc.

II. The amount is legally placed in any non-lapsing fund such as CRF or ETF

III. The amount is to be raised in part or in whole by the issuance of bonds

IV. The amount is to be raised by grants

V. The appropriation is from a special warrant article AND the governing body voted PRIOR to the end of the budget year to encumber the funds

VI. The warrant article appropriating the funds stated it was non-lapsing

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Encumbering Funds

Encumbering funds does two things.

1. Carries the authorization to spend into a subsequent year
2. Shifts the amount out of unassigned fund balance and into another fund balance category.

Things to keep in mind:

- Expenses are to be recorded in the year in which they happen – NOT in the year in which the appropriation was approved
- It is okay to have an expense account within any department called Encumbered From Prior Year
  - It is okay to put a budget amount on this line indicating the amount encumbered from a prior year
- A list of encumbrances should be kept and given to the auditors to substantiate the amount reserved
- Once expended, do not forget to move the reserved amount out of the other fund balance category and back into unassigned fund balance.

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Unanticipated Revenue

Presuming your local government has been allowed to accept them, RSA 31:95-b allows municipalities to accept unanticipated revenue. Things to remember:

- This RSA is for an Appropriation for Funds Made Available During Year
- If the amount is $10,000 or more, you must have a public hearing
- If the amount is less than $10,000, you can accept the funds at a regular selectboard meeting in public session
  - This item shall be on the agenda and in the minutes
- RSA 32:7 states all appropriations **shall** lapse at the end of the year unless . . . (see lapse of appropriations slide)

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Expendable Trust Funds RSA 31:19

Presuming your local government has been allowed to accept them, RSA 31:19 allows municipalities to accept trust funds. Things to remember:

- Money comes from an outside source – gifts, legacies & devices
- Money MUST be for the benefit of the government entity
- Money shall be in the custody of the trustee of trust funds right from the acceptance of the funds
- Withdrawals do not have to be approved at town meeting unless the authorizing documentation states otherwise
- Taxes CANNOT be added to this fund

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Approving Manifests

The selectboard or town manager needs to approve vouchers. If the board is approving, it can be done:

1. At a public meeting where the public can watch or
2. Noncontemporaneously (Individually / separately) outside of a meeting

Things to keep in mind:

- Invoices can be approved individually or in full through the manifest.
  - Check with your auditor before just signing off on the manifest. Some feel it is necessary for at least two people to sign or initial each invoice.
- The invoices or manifest should be approved prior to payment being released. The exception to this rule would be payroll as federal law defining when to pay overrides local authorization. But all measures should be taken to receive authorization first.
- The board signing the manifest is an indication that they have reviewed the invoices and approve the payment of said invoices.

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Adjusting Journal Entries

Mistakes happen and corrections need to be made. Adjusting journal entries are allowed.

Things to keep in mind:

- Too many adjusting journal entries may be an indication that:
  - The current staff may need additional training
  - Coding of invoices may need to be reviewed
  - The government may need to assess risk in this area
- All adjusting journal entries should have supporting documentation including back up of the incorrect posting and a short narrative on why the change is necessary.
- The person making the entry should sign off on the entry.
- The entry should be reviewed and signed off on by another person

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Tax Deeded Property

Once a Tax Collector takes a property by tax deed, it becomes the responsibility of administration. Administration is responsible for securing the property, evicting, if necessary, any current residents, preparing all correspondence.

Administration needs to record an accounting entry to remove the property from the receivables and account for it as an asset, if reselling the property, or as an expense, if retaining the property.

When the property is sold, the asset needs to be removed before any funds received can be applied towards revenue.

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Tax Deeded Property

Polonsky v. Town of Bedford resulted in municipalities no longer being able to make a profit on the sale of tax deeded property, regardless of how long the town keeps the property. But the town can be reimbursed for documented expenses and missed tax billings incurred while owning the property.

- ✓ Recording fees
- ✓ Legal fees
- ✓ Taxes not billed as the town is exempt from property taxes
- ✓ Interest on taxes
- ✓ Principal and interest on water and / or sewer bills.
- ✓ Eviction costs
- ✓ Costs, including employee time, for securing the property with lock changes, etc.
- ✓ Costs associated with police checks verifying the property is secure
- ✓ Costs associated with public works plowing the driveway for public safety access

Any remaining funds received must be given back through an interpleader process.

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Sale of Town Owned Property

Towns have the right and often the responsibility to sell town owned property. This includes land, buildings, vehicles, equipment, etc.

How this transaction is recorded on town books depends on if it is owned by a governmental fund or an enterprise fund. If it is owned by an enterprise fund, how it is recorded depends on if you treat your books as a business-type activity or on a budget basis.

No matter how it is recorded, the disposal must be recorded on a gross basis. This means that if equipment is traded in, the transaction records the gross cost of the equipment as an expense and the trade in value of the asset as a revenue (typically).

Do not forget to record the disposal of the asset from your capital asset report even if there were no costs involved.

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Abatements

Abatements are granted only at the municipal level even though the tax bill covers school, county and possibly precinct/village district portions. This means that when the town raises overlay through the tax rate setting process, the overlay needs to include enough to cover the entire bill.

Abatements are a reduction of the originally billed amount. As such, issuing an abatement reduces the tax income. This can be a reduction directly against the abated tax line or it can be against an overlay line.

If interest is granted on the abatement, that interest is typically recorded as an expense against your budget.

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Leases Outside of Town Meeting RSA 33:7-e

The governing body has the right to enter into a lease of equipment using RSA 33:7-e provided there is an escape / non-appropriation clause. If that lease agreement requires a payment upon entering into the lease, that lease amount must be found within your budget or come from another appropriate fund if agents to expend agree to the payment.

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THANK YOU!

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Our Vision

NHMA is known as the premier source of information and support needed for town and city officials to effectively serve the public.

Our Mission

NHMA supports effective municipal government by leveraging the collaborative strengths of New Hampshire cities and towns through education, training, advocacy, and legal services.

Our History

The New Hampshire Municipal Association, Inc. (NHMA) is a nonprofit, non-partisan membership organization of municipalities. Founded in 1941 for the purpose of exchanging information to facilitate more efficient and effective local government, NHMA was reorganized in July 2003 under the umbrella of the New Hampshire Local Government Center (LGC). At that time all services provided to municipalities by NHMA were assumed by LGC except legislative advocacy, which remained in NHMA LLC, a separate subsidiary of LGC. In the fall of 2012 all "traditional municipal league services" including legislative advocacy, legal advisory services, training programs, and educational publications, were consolidated under NHMA with oversight by the NHMA Board of Directors. Currently, NHMA, Inc. operates as a totally separate, independent organization from the former LGC risk pools (HealthTrust, Inc. and Property Liability Trust, Inc.) with a board comprising only elected and appointed municipal officials elected by NHMA members.

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TAMMY LETSON

Government Finance Specialist

CONTACT US

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Email: financeinquiries@nhmunicipal.org
Address: 25 Triangle Park Drive,
Concord, New Hampshire 03301

NHMA's government finance specialist has extensive experience in municipal government and finance. She is available to assist NHMA members with government-finance inquiries and provides educational programming. The available services are described below, and members can contact her at financeinquiries@nhmunicipal.org or by calling 603.224.7447 and choosing option 1.

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MEMBER FEEDBACK

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