

# LOCAL FINANCE NOTICE

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## Adoption of New Division Rules

The Local Finance Board recently amended and adopted new rules in N.J.A.C. 5:30 that affect all municipalities and counties (local units).

Key elements of the new rule are the codification of fixed asset accounting and the requirement to maintain a general ledger accounting system; two of the Technical Accounting Directives (TAD) that were issued in 1986. A third TAD on encumbrance accounting was adopted several years ago and was amended in this adoption. The Division is simultaneously issuing a separate Local Finance Notice detailing the requirements of maintaining a general ledger accounting system.

The substantive changes to N.J.A.C. 5:30 are in the following sections:

5:30-2.2	Waives Local Finance Board appearance for certain applications
5:30-4.4	Revises forms for Capital Budget amendments
5:30-5.2	Requires encumbrance accounting for all funds
5:30-5.6	Codifies TAD for Fixed Asset Accounting
5:30-5.7	Codifies TAD for General Ledger
5:30-7.5	Expands criteria for municipal local budget examination
5:30-8.5	Removes requirement to refusing property tax overpayments

This Notice reviews these changes. Municipal Clerks and Chief Financial Officers should share this Notice with other officials as appropriate.

### Elimination of LFB Appearance for Waiver of Downpayment

[\(N.J.A.C. 5:30-2.2\)](#)

N.J.A.C. 5:30-2.2 adds to an existing list of State loan programs where applications for the waiver of a downpayment do not require an appearance before the Local Finance Board. The applications where an appearance is waived but a full application is required includes (new items in italics):

- Green Acres
- *New Jersey Historic Trust Revolving Loan Fund*
- Transportation Trust Fund Authority Act
- *Unsafe Buildings Demolition Loan Fund*

## **Revised Forms for Capital Budget Amendments**

[\(N.J.A.C. 5:30-4.4\)](#)

Rules controlling the filings for Capital Budget amendments have been amended to reflect practices that the Division and local units have adopted over the years. The new rule eliminated the requirements to use Forms CB-1 and CB-2 when amending capital budgets.

Instead, capital budgets are amended by a resolution approving the changes passed by the governing body. The rule also requires that the ordinance authorizing the improvement contain specific language:

“The capital budget is hereby amended to conform with the provisions of this ordinance to the extent of an inconsistency therewith and the resolutions promulgated by the Local Finance Board showing full detail of the amended capital budget and capital program as approved by the Director, Division of Local Government Services as on file with the (municipal clerk) (Clerk to the Board of Chosen Freeholders) and is available for public inspection.”

## **Encumbrance Accounting Required for All Funds**

[\(N.J.A.C. 5:30-5.2\)](#)

When the Board adopted procurement rules several years ago, it codified the TAD requirement for an encumbrance control system for the current fund. With the widespread use of encumbrance controls now in place, the Board expanded the requirement for encumbrance accounting controls to apply to all funds. Local units should plan to issue purchase orders using encumbrance controls starting January 1, 2004.

## **Codifies Fixed Asset Accounting TAD**

[\(N.J.A.C. 5:30-5.6\)](#)

Technical Accounting Directive #86-2 took effect in 1986. This TAD required local units to create and maintain a fixed asset accounting system for their physical assets. The requirement has now been codified as N.J.A.C. 5:30-5.6. The codification updates the definition of a fixed asset to refer to the 1997 edition of the [U.S. Office of Management and Budget Circular A-87, Cost Principals for State, Local and Indian Governments](#). The regulation continues the requirement of the local units to:

1. Place a value of all fixed assets put into service
2. Have a subsidiary ledger of detailed records of fixed assets
3. Provide property management standards to control fixed assets
4. Provide a statement of fixed assets in the annual audit.

## **Codifies General Ledger TAD**

[\(N.J.A.C. 5:30-5.7\)](#)

The third Technical Accounting Directive in 1986 required local units to maintain a general ledger for at least the current fund. That requirement is now codified in the rule. The rule also incorporates the general requirements of the general ledger. Local Finance Notice CFO 2003-14 updates specific practices and internal control policies that reflect proper use of the ledger.

**Expanded Criteria for Municipal Local Budget Examination**  
([N.J.A.C. 5:30-7.5](#))

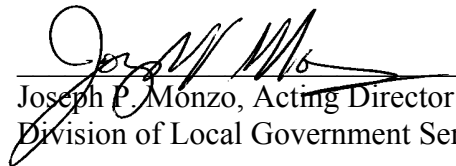
The Board has expanded the list of conditions that must exist for a municipality to participate in the local budget examination process. The new conditions that permit a local examination require that:

1. The municipality did not conduct an accelerated tax sale for less than 3 consecutive years.
2. The municipality did not conduct a tax levy sale the previous fiscal year and does not plan to conduct one in the current year.
3. The current year budget does not contain a budget cap waiver, per N.J.S.A. 40A:4-45.3(ee); and
4. The municipality will not apply for Extraordinary Municipal Aid (N.J.S.A. 52:27D-118.35) in the current year.

**Removes Requirement to Refusing Property Tax Overpayments**  
([N.J.A.C. 5:30-8.5](#))

This long established rule previously prohibited an official from accepting a payment that was more than the amount of the outstanding obligation. Intended to prevent illegal skimming of funds, its application in current practice complicated tax payments by mortgage servicers, as well as conflicting with a statute that permits prepayment of property taxes. The change eliminated taxes from the prohibition of accepting more than the amount due.

Local units should carefully review these changes and assess how they affect their organization. Questions on the application of the rules can be forwarded to the Bureau of Financial Regulation and Assistance at (609) 292-4806 or by e-mail at [dlgs@dca.state.nj.us](mailto:dlgs@dca.state.nj.us).

  
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Division of Local Government Services

Enclosure

Distribution: Municipal Clerks and Chief Financial Officers via GovConnect; Registered Municipal Accountants