

TOWN OF HOWLAND
UNDESIGNATED FUND BALANCE POLICY

1 PURPOSE

- 1.1 This policy establishes guidelines for preserving an adequate Undesignated Fund Balance in order to sustain financial stability for the Town and to provide for prudent management of the Town's financial reserves. The Town's Undesignated Fund Balance is a surplus of funds which have accrued from any unexpended operating budgets and any unanticipated excess revenues.
- 1.2 The Undesignated Fund Balance provides the Town with a "rainy day" fund for use in unforeseen, unbudgeted emergency situations, such as rapidly declining real estate values and tax collection rates; the loss of a major taxpayer; sudden changes in revenues or spending requirements imposed by the state or federal government; natural disasters or emergency infrastructure failures; or unplanned litigation. The Undesignated Fund Balance also provides proof of financial stability to bond holders and credit rating agencies, which offers the potential for lower interest costs on long-term financing.
- 1.3 The Town of Howland therefore recognizes the importance of maintaining an appropriate level of Undesignated Fund Balance. After evaluating the Town's operating characteristics, diversity of tax base, reliability of non-property tax sources, working capital needs, impact on bond rating, State and local economic outlooks, emergency and disaster risk and other contingent issues, the Town establishes the following goals regarding the Undesignated Fund Balance for the Town of Howland, Maine:
 - 1.3.1 The level of fund balance that the Town strives to maintain as undesignated is an amount equal to twenty-four point seventy five percent (24.75%) of the Town's General Fund Budget, i.e., an amount equal to three (3) months operating expenditures from the current operating budget. The calculation will be based on the Undesignated Fund Balance number as reported in the Town's audited June 30 fiscal year-end financial report.
 - 1.3.2 Once the Town achieves its goal of an appropriate level of Undesignated Fund Balance, any excess funds may be utilized for other municipal fiscal purposes, including, without limitation, additional capital improvement needs or debt reduction purposes.
 - 1.3.3 In accordance with prudent budgeting practices, the Undesignated Fund Balance will specifically not be used on a routine or one-time basis to lower taxes or to offset normal operating expenditures.

1.4 This policy has been adopted by the Town's Board of Selectmen to recognize the financial importance of a stable and sufficient level of Undesignated Fund Balance. However, the Town reserves the right to appropriate funds from the Undesignated Fund Balance for emergencies and other requirements the Board of Selectmen believes to be in the best interest of the Town.

This Undesignated Fund Balance Policy adopted this 24 day of APRIL, 2017 by the Howland Board of Selectmen.

Michael O Harris

Ben Z Brown

Andrew Colla

Board of Selectmen

**TOWN OF HOWLAND
CAPITAL & RESERVE FUND POLICY**

1 PURPOSE

- 1.1 This policy establishes guidelines for preserving an adequate Capital and Reserve Designated Fund Balance in order to sustain a comprehensive capital and infrastructural plan for the Town and to provide for prudent management of the Town's financial reserves. The Town's Capital & Reserve Designated Fund Balance is a collection of funds which have accrued from taxation budgeted for the purpose, unexpended operating budgets and unanticipated excess revenues. Full funding of the undesignated fund balance takes precedence over funding the capital and reserve designated fund balance.
- 1.2 The Capital & Reserve Designated Fund Balance provides the Town with a managed fund for the purpose of purchasing of capital equipment, infrastructure improvements and unforeseen, unbudgeted emergency situations. The Capital & Reserve Designated Fund Balance also provides proof of financial stability to bond holders and credit rating agencies, which offers the potential for lower interest costs on long-term financing.
- 1.3 The Town of Howland therefore recognizes the importance of maintaining an appropriate level of Capital and Reserve Designated Funds. After evaluating the Town's operating characteristics, diversity of tax base, reliability of non-property tax sources, working capital needs, impact on bond rating, State and local economic outlooks, emergency and disaster risk and other contingent issues, the Town establishes the following goals regarding the Capital and Designated Fund for the Town of Howland, Maine:
 - 1.3.1 The level of funding the Town strives to provide from taxation annually as capital and reserve funds, and the amount it will cap at, is an amount equal to six-point-four percent (6.4%) of the Town's previous year's total General Fund Budget.
 - 1.3.2 In accordance with prudent budgeting practices, the Capital and Reserve Designated Funds will not be used on a routine or one-time basis to lower taxes or to offset normal operating expenditures, unless (1) the amount of Capital and Reserve funds to be deposited in the 'Comprehensive Capital Account' (defined below) exceeds 6.4% of the Town's previous year's General Fund Budget, and (2) only after the Undesignated Fund Balance threshold has been met.

- 1.4 This policy has been adopted by the Town to recognize the financial importance of a stable and sufficient level of Capital and Reserved Designated Funds. However, the Town reserves the right to appropriate funds from the Capital and Reserve Designated Fund Balance for emergencies and other requirements the Board of Selectmen believes to be in the best interests of the Town.

ASSET CAPITALIZATION POLICY

2 SCOPE OF POLICY

- 2.1 This Asset Capitalization Policy applies to the capitalization of capital assets in all funds of the Town, specifically the "Comprehensive Capital & Reserve Account."

3 GENERAL OBJECTIVES

- 3.1 This Asset Capitalization policy establishes guidelines for determining;
 - 3.1.1 Which expenditures should be capitalized as a capital asset and which expenditures should be expensed.
 - 3.1.2 How to value capital assets that are reported.
 - 3.1.3 The estimated useful lives of capital assets.

4 CAPITAL ASSET TYPES

- 4.1 Capital assets are divided between assets that are not subject to depreciation and assets that are subject to depreciation.
- 4.2 Assets that are not subject to depreciation include:
 - 4.2.1 Land
 - 4.2.2.1 The amount that should be capitalized for land should include the cost of the land itself; professional fees used to acquire the land (legal, engineering, appraisal, survey fees); costs for excavation, fill, grading, or drainage; demolition of any existing buildings or other improvements; and any other costs that are incurred to acquire the land and make the land suitable for use by the Town. Land is characterized as having an unlimited life and is therefore not depreciated.

4.2.3 Construction in progress

4.2.3.1 The costs of assets that the Town is constructing, where expenses are incurred over more than one fiscal year, are accumulated as construction in progress until the asset is placed in service. At that time, the total costs are then transferred to the appropriate asset type and depreciated.

4.3 Assets that are subject to depreciation include:

4.3.2 Land improvements

4.3.2.1 Land improvements are those improvements, other than ordinary and regular site preparation, which ready the land for its intended use. Such improvements can include parking lots, athletic fields, fencing, paths and trails, and landscaping.

4.3.3 Buildings and Building Improvements

4.3.3.1 Buildings are permanent structures that are intended for shelter of persons, materials or equipment. Building improvements are capital events that extend the useful life of a building or increase the value of a building, or both. Repairs that simply maintain the existing life or restore a building to its original condition do not constitute an improvement.

4.3.4 Equipment

4.3.4.1 Equipment is an item of tangible, nonexpendable personal property with a useful life of more than one year, and includes machinery and vehicles.

4.3.5 Infrastructure

4.3.5.1 Infrastructure assets are long-lived capital assets that are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Such assets can include streets and roadways, bridges, sidewalks, water mains and distribution lines, sewer mains and collection lines, and treatment plants.

4.4 Collections (works of art or historical artifacts) meet the definition of capital assets and ordinarily would be reported in the financial statements. However, the requirement for capitalization of these assets is waived if the collection is held for reasons other than financial gain; the collection is protected, kept unencumbered, cared for, and preserved; and the collection is subject to a policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

5 EXPENDITURE TYPES

- 5.2 Repairs are the costs necessary for the upkeep of the property that neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition. These costs should not be capitalized.

6 CAPITAL ASSET VALUATION

- 6.2 Capital assets should be reported at their historical cost. In the absence of historical cost information, the assets estimated historical cost may be used. Assets donated by parties outside of Howland should be reported at their fair value on the date the donation is made. If capital assets are moved from one fund or activity to another, the recipient fund or activity should continue to report those assets at their historical cost as of the date they were originally acquired.
- 6.3 The historical cost of a capital asset should include ancillary charges necessary to place the asset in its intended location (freight charges, for example); ancillary charges necessary to place the asset in its intended condition for use (installation or site preparation charges, for example); and capitalized interest (only for those assets that are utilized in enterprise funds and internal service funds that are reported as a part of business-type activities).
- 6.4 Estimating the historical cost of capital assets for which invoices or similar documentation of historical cost are not available can use either standard costing or normal costing. Standard costing involves using historical sources, such as old vendor catalogs, to establish the average cost of obtaining the same or a similar asset at the time of acquisition. Normal costing involves establishing the current cost of the same or similar asset and deflating that cost using an appropriate price index.

7 CAPITALIZATION THRESHOLDS

- 7.2 By definition, any asset that benefits more than one fiscal period potentially could be classified as a capital asset. As a practical matter, however, governments capitalize only their higher cost assets. Capitalization thresholds are established to determine which assets are capitalized and which assets are expensed when purchased.
- 7.3 The Town must maintain adequate control over all assets, including lower-cost capital assets. Capitalization is designed to focus on the Town's financial reporting needs, and is not designed for or particularly suited for the purposes of ensuring control over lower-cost assets. Capitalizing numerous small cost items will actually overburden the overall capital asset management system. Capitalization thresholds are established based on financial reporting needs, and other policies will determine how the Town controls lower-cost assets.

7.4 Funds within the "Comprehensive Capital and Reserve Account" shall be divided among the capital asset types by percentage subject to adjustment based on the particular needs of the Town. Unless of an emergency situation, each asset shall be allocated within the Account. The Town establishes that once the Undesignated Fund Balance threshold has been met each fiscal year the surplus, if any, which will cap at 6.4% of the Town's previous year's total General Fund Budget shall be allocated to the Comprehensive Capital and Reserve Account. The total balance within the Account shall then be allocated by percentage to the following asset groups:

7.4.1	Land and land improvements	10%
	Buildings and building improvements	10%
	Equipment and vehicles	35%
	Infrastructure	45%

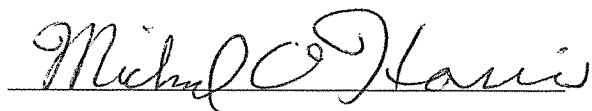
8. DEPRECIATION

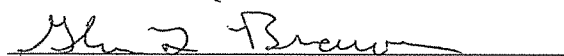
8.1 Assets that are capitalized will be depreciated over their estimated useful lives. Depreciation will be calculated on the straight-line basis, using estimated useful lives as follows:

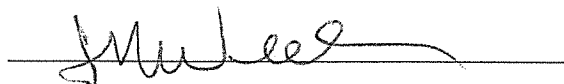
8.1.1	Land improvements	10 - 50 years
	Buildings and building improvements	10 - 75 years
	Equipment and vehicles	3 - 25 years
	Infrastructure	20 - 75 years

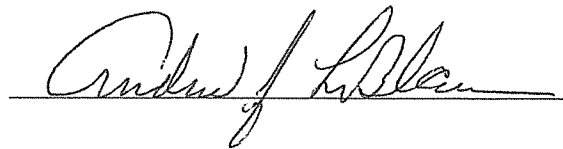
8.2 Because depreciation is intended to allocate the cost of a capital asset over its entire useful life, it normally is not appropriate to report assets still in service as fully depreciated. Instead, the annual amounts of depreciation expense should be reduced prospectively as soon as it becomes clear that an asset's useful life will be longer than originally estimated.

This Capital and Reserve Fund and Asset Capitalization Policy adopted this 24 day of APRIL, 2017 by the Howland Board of Selectmen.









Board of Selectmen