

Financial Policies

Fund Balance Reserves

In order to enhance the usefulness of fund balance information and in compliance with Statement No. 54 of the Governmental Accounting Standards Board, the Borough uses the following definitions to identify the components of Fund Balance to designate the level of constraints placed upon reserve funds:

- **Nonspendable** – This category represents funds that are not in spendable form and includes such items as prepaid expenditures and inventory.
- **Restricted** – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending that are legally enforceable by outside parties.
- **Committed** – This category represents funds that are limited in use due to constraints on purpose and circumstances of spending imposed by Borough Council via adoption of a written Resolution at a lawful, public Regular Meeting, and removal of this commitment requires the same.
- **Assigned** – This category represents intentions of the Borough to use the funds for specific purposes. The authority to make assignments of fund balance is by the Borough Manager and remains in place until released. The assignment cannot exceed the available spendable unassigned fund balance in any particular fund. The authority granted to the Borough Manager to make assignments became effective upon adoption of this policy in 2011 by Borough Council and remains in effect until rescinded by resolution of Borough Council.
- **Unassigned** – This category includes the residual classification for the Borough's General Fund and includes all spendable amounts not contained in other classifications.

The Borough's policy is to use funds in the order of the most restricted to the least restrictive.

Sufficient fund balances are a critical component of the Borough's financial management policies. Fund balance reserves provide sufficient funds for unexpected decreases in revenues and/or increases in service needs. Reserves are limited funds used to smooth fluctuations in revenues and expenditures caused by changes in internal and/or external conditions. The financial policies that the Borough preserves in this budget, related to financial reserves, are the following:

- The maintenance of an adequate fund balance for the General Fund to ensure sufficient resources for cash flow and to mitigate revenue shortages or emergencies shall be a priority. Prudent use of reserve funds enables the Borough to defray future costs, take advantage of matching grant funds and exercise flexible financial planning in developing future capital projects.
- The Borough will maintain Undesignated Reserves to ensure service levels, guarantee stability and protect against economic downturns and emergencies. On an annual basis, the Borough will budget reserves in the General Fund in an amount of 12% of projected expenditures.
- The Borough will maintain a Risk Management Insurance Reserve. The purposes of the Risk Management Insurance Reserve include providing flexibility in risk management insurance strategies which would allow self-insuring some of the Borough's risk in the changing insurance market place; providing adequate funds to pay for any deductibles associated with liability claims; providing funds from which unemployment compensation claims can be paid; maintaining adequate reserves for excess claims; and providing funds to pay for any early termination fees should the Borough decide to withdrawal from its participation in workers'

compensation and liability trusts due to excessive premium increases. The amount of this reserve is determined and assigned by the Borough Manager on an annual basis in conjunction with the budget adoption process.

- The Borough will maintain a Health Care Insurance Reserve. The purpose of this reserve is to smooth future health care cost increases in excess of ten percent, based on the Consolidated Omnibus Budget Reconciliation Act (COBRA) rate determination provided by the Borough's Health Insurance Administrator. The source of these reserves will consist of the current reserves plus the refunds of prior year actual experience from the self-insured risk pool. Annual refunds amounts may also be used for wellness, health reimbursement account, health savings account, other health related programs expenses, or and other purpose authorized by Council in this Budget. The amount of this reserve is determined and assigned by the Borough Manager on an annual basis in conjunction with the budget adoption process.
- Replacement reserves based on historical value will be established for equipment and vehicles. An amount equal to the depreciation will be included in the service charges paid by Borough departments to the Asset Replacement Fund. This will permit the accumulation of cash to replace these assets cost-effectively and smooth out future budgetary impacts. The Borough will also maintain a fixed asset system that will identify all Borough assets and assess their condition. The fixed asset system will be updated regularly and no less than annually.

Debt Management

The Borough's objective is to manage its annual debt service requirements while maintaining the capacity to meet current and future financial challenges in the operating and capital budgets. The costs associated with capital and infrastructure projects undertaken, locally or regionally, may be met with the issuance of debt, usually in the form of general obligation

bonds or a general obligation bank note. In order to maintain relatively stable Earned Income and Net Profits Tax and Real Estate Tax rates, the Borough will undertake analyses of existing debt, current and projected cash flows and proposed future debt before making a decision to issue a new debt obligation or participate in a regional project where the Borough assumes an obligation for the payment of debt service.

The purpose of this policy is to articulate the philosophy of the Borough regarding debt and establish a framework to guide decisions regarding the use and management of debt for capital and infrastructure projects undertaken locally or regionally.

The objectives of this policy are to:

- Strategically use the Borough's credit to fund projects to meet the highest-priority capital needs for the community, properly maintain infrastructure assets and provide a platform for economic redevelopment and growth; and
- Manage the Borough's credit to maintain the highest possible credit rating, thereby enabling the issuance of debt at the most favorable rates and terms; and
- Maintain an appropriate balance between debt service requirements and their impact on the operating and capital budgets.

The following criteria shall govern the issuance of debt by the Borough:

- Debt shall not be used to finance on-going operational costs;
- Long-term general obligation debt may be incurred, when necessary, to fund the Capital Improvement Plan (CIP) or other capital and infrastructure projects undertaken locally or regionally:
 - Prior to incurring debt, the Borough shall explore all alternative funding sources for the defined project(s) in order to minimize the overall level of debt incurred;
 - Debt funding shall be limited to those capital and infrastructure projects undertaken locally or regionally for which there is no alternative funding source and where there is a clearly demonstrated current or near-term need for the project(s); and
 - The proposed debt service structure shall be analyzed to determine its impact on the operating and capital budgets.
- The maturity date of any debt issued to finance the defined project(s) shall not exceed the reasonable expected useful life of the project(s);
- The Borough shall abide by the requirements of the Local Government Unit Debt Act of the Commonwealth of Pennsylvania, as well as all other applicable Federal and Pennsylvania statutes;
- The Borough may engage an independent financial advisor and bond counsel to analyze its current and future debt structure, prepare debt service schedules and related documents, solicit and evaluate financing proposals and meet all legal requirements with respect to the borrowing; and
- If general obligation debt is issued to finance proprietary fund projects supported by revenue producing facilities, the Borough shall apply to the Pennsylvania Department of Community and Economic Development (DCED) for approval to exclude the self-liquidating portion of the debt allocable to the proprietary fund project(s) from the Borough's debt limit under the Local Government Unit Debt Act.

The Borough shall encourage and maintain good relations with financial institutions, bond rating agencies and bond insurers. The Borough shall follow a policy of full and open disclosure in all financial reports and borrowing documents.

Generally, the Borough's debt instruments shall be of the fixed rate type. Variable rate debt shall be used only as a source of short-term interim financing.

The Borough may consider using Tax and Revenue Anticipation Notes as short-term debt instruments to manage cash flow needs or meet emergency situations.

When issuing debt, the Borough shall generally seek competitive proposals or conduct a competitive sale via a recognized internet municipal securities auction site. The Borough may negotiate for the issuance of debt when it is deemed to be in the best interest of the municipality.

Outstanding debt may be refinanced if it is determined that the Borough will achieve a net present value savings of 3% or more over the life of the respective issue. The following limitations shall apply to the Borough's General Fund indebtedness:

- Annual General Fund debt service shall not exceed 10% of annual General Fund revenues for debt issued directly by the Borough; and further, the Borough shall also consider regional debt for which it has an obligation for the payment of debt service. The combined (i.e. Local and Regional) annual, General Fund debt service shall not exceed 12% of annual General Fund revenues.

Structurally Balanced Budget

In order to achieve long-term financial stability, it is important for local municipalities to achieve and maintain a Structurally Balanced Budget. A Structurally Balanced Budget is one in which recurring revenues meet or exceed current expenditures. Use of reserves and non-recurring revenues should be the exception and should be used only in special circumstances. Recurring revenues are defined as those revenue sources for which the municipality can reasonably expect to continue from year-to-year with some degree of predictability. Non-recurring revenues are those that are one-time in nature or are subject to moderate to substantial swings from year-to-year. Reserves are the portion of fund balance that is set aside as hedge against risk and cash flow fluctuations. The Borough adopted a policy in which it maintains a minimum reserve of 12% of current year General Fund expenditures.

The Government Finance Officers' Association recommends that governments develop and adopt a Structurally Balanced Budget policy as a best practice.

It is the policy of the State College Borough to adopt a Structurally Balanced Budget in which recurring revenues equal or exceed recurring expenditures. Use of non-recurring revenues to balance the General Fund will be considered the exception, rather than a normal occurrence.

Purchasing

State College Borough's Purchasing/Contract/Property Disposition Control policy can be found in the Borough Codification of Ordinances under Chapter 1, Part N, which is reproduced below. This policy governs the purchase of products, goods and services, the making of contracts and the sale or lease of personal or real property of the Municipality. The purpose of this policy is to ensure the Borough complies with all Commonwealth and Federal laws and guarantee Borough purchases are made in a transparent, fiscally responsible and consistent manner.

PART N

Purchasing/Contract/Property Disposition Control

Section 1401. Purpose and Function.

- a. **Purpose.** The purpose of this Ordinance shall be to establish procedures for the purchase of products, goods and services, the making of contracts and the sale or lease of personal or real property of the Municipality. Procedures shall include negotiated contracts, competitive bidding, controls on aggregate spending and safeguards against special interests.
- b. **Functions.** The purchasing functions shall include the:
 - (1) Procurement of the highest quality in supplies, materials, equipment and contractual services meeting specifications at the least expense to the Municipality.
 - (2) Encouragement of open, competitive pricing.
 - (3) Encouragement of savings or cost avoidance through bulk or quantity purchasing.
 - (4) Maintenance of lists of vendors and contractors.
 - (5) Assurance of vendor and contractor compliance with Municipal specifications and contract terms and provisions.
 - (6) Administration of a system of stocking or warehousing of materials and supplies for day-to-day use.

Section 1402. Definitions.

As used in this Ordinance, these words and terms shall have the following meanings:

Council. The State College Borough Council, as provided for in the Home Rule Charter of the Municipality.

Home Rule Charter. The Charter of the Municipality, as approved by electors of State College, 1973, with amendments, if any, thereafter lawfully adopted and approved.

Manager. The municipal Manager, as provided for in the Home Rule Charter of the Municipality.

Municipality. The Borough of State College, Pennsylvania.

Person. Any natural person, partnership, association, firm, corporation, governmental body or agency or other entity.

Purchasing Authority. The State College Borough Manager or his designee.

Responsible Bidder. Any bidder not disqualified by the Purchasing Authority for:

...an apparent lack of capacity to perform the contract;

...an unsatisfactory record of performance (either with the Municipality or other agencies) in prior contracts; and/or

...failing to promptly supply information, bonds and documentation requested by the Municipality.

Section 1403. Competitive Bidding.

Competitive bidding shall be required on all contracts for equipment, services and construction with an estimated value in excess of \$25,000, except as indicated in Sections 1404 and 1405 of this Chapter. The following provisions shall apply to competitive bidding:

- a. **Notice to Prospective Bidders.** Notice of the desire of the Municipality to receive bids from contractors or vendors shall be given as follows:
 - (1) By advertisement, at least two times at intervals of not less than three days in at least one newspaper of general circulation in the Municipality. The first

advertisement shall be published not more than 45 days and the second advertisement not less than ten days prior to the date filed for the opening of bids. This advertisement shall include a general description of the supplies, materials, equipment and contractual services to be purchased, a statement as to where bid forms and specifications may be secured and the time and place for the opening of bids.

- (2) At the discretion of the Purchasing Authority, additional notice may be given in any publication or journal devoted to the dissemination of information about construction, materials and supplies.
- (3) The Purchasing Authority may also solicit bids from prospective vendors and contractors by mailing copies of the specifications and forms and/or any other information, which will acquaint them with the proposed purchase or contract.
- (4) By posting the advertisement in a conspicuous place within the municipal offices.

- b. **Specifications for Bidders.** When bids are sought for the erection, construction or alteration of any public building or facility, the Purchasing Authority may have separate specifications prepared for any one or more of the phases, parts, sections or internal or external systems of the work, and when this is done, separate bids may be required for each of those parts of the work. The contract may be awarded to the lowest responsible bidder for each of those branches or parts or on the basis of the lowest total price.
- c. **Bid Security.** When it shall be deemed necessary to protect the interests of the Municipality, bid security shall be required. The amount of security required shall be set forth in the bid specifications. Bid security may be in the form of a certified

check, cashier's check or bid bond. If a bid bond is submitted, it must be in a form approved by the Purchasing Authority.

d. **Submission, Acceptance and Opening of Bids.** Bids shall be sealed, shall be identified as bids on the envelope, shall be submitted at the place of opening no later than the time stated in the public notice inviting bids and shall be opened by the Purchasing Authority at a public meeting at the time and place stated in the public notice. Bids received after the stated time shall not be accepted.

(1) In certain instances, when specified in the invitation to bid, the Borough will permit the electronic submission of bids. The Borough will maintain the confidentiality of these bids until the date and time of the bid opening. The Borough must receive all bids submitted electronically by the date and time and at the email address specified in the public notice. Electronic bids received after the stated time shall not be accepted.

e. **Award of Contracts.** Contract awards by Council shall be made at an advertised public meeting. The following shall apply to Council awards:

- (1) Awards shall normally be made to the lowest responsible bidder. However, Council, upon recommendation of the Purchasing Authority, shall have the right to take into consideration such other factors as delivery date, quality of service, length of warranty, etc.
- (2) Council shall have the authority to waive minor irregularities and defects when the best interests of the Borough would be served.
- (3) Council shall have the authority to accept or reject any and/or all bids or to hold all bids for 45 days or until the next regular Council meeting.

(4) If two or more of the lowest bids received are for the same total amount or unit prices and the quality, delivery date and service capability are equal, the contract may be awarded to the bidder with business offices in the Borough or as an alternative, the Purchasing Authority may break ties by requesting each of the equal low bidders to submit, in writing, their lowest and final bid. Said bids shall be opened in public and each of the bidders shall be informed of the time and place of said opening.

(5) A tabulation of bids shall be made available for public inspection.

f. **Exceptions.** Contracts or purchases made by the Municipality involving an expenditure of more than \$25,000 to which this Ordinance shall not apply, unless the Council shall otherwise direct in a specific instance, shall include:

- (1) Those for maintenance, repair or replacement of the public works of the Municipality, provided they do not constitute new additions, extensions or enlargements of existing facilities and equipment.
- (2) Those made for improvements, repairs and maintenance of any kind made or provided by the Municipality through its employees, except that all materials used for street construction, maintenance or improvement in excess of \$25,000 shall be subject to the provisions of this Ordinance.
- (3) Those where particular types, models or pieces of new equipment, articles, apparatus, vehicles or parts which are patented, manufactured or copyrighted, cannot reasonably be acquired from more than one vendor.
- (4) Those involving any purchase of insurance or surety bond; those made for public utility service under tariffs

on file with the Pennsylvania Public Utility Commission; those made with the federal government, the Commonwealth of Pennsylvania or any subdivision thereof, including the sale, lease or loan of any supplies, materials, equipment or services by the Commonwealth, the federal government or their subdivisions. The price charged to the Municipality shall not be in excess of that fixed by the Commonwealth, the federal government or their subdivisions.

- (5) Those involving personal or professional services.
- (6) Those made for improvements, repairs and maintenance of any kind of property of the Municipality for labor, materials or profits and overhead, entered into with any organization which is engaged in rehabilitative or job training programs and such organization receives state or federal funding for such purposes.
- (7) Those cases, with Council approval, where the Purchasing Authority deems it is in the best interest of the Municipality to purchase without competitive bidding.
- (8) Those involving the purchase of equipment and services related to computer software, technology, and information systems. The purchase of equipment and services related to computer software, technology and information systems shall be made on the basis of best value procurement. Contracts under best value procurement shall be made only after the Borough has solicited proposals based on performance and outcome specifications developed by the Borough and describing, at minimum, the objectives to be met by the system, the tasks to be performed by the system, the users of

the system, system security issues, the time frame for system implementation, potential operating technologies, compatibility with existing systems, training and maintenance, and shall indicate the process by which the contract shall be awarded. Best value procurement shall not require a sealed bid process and shall permit the Borough to negotiate the terms of the agreement with any responsive and responsible vendor. Any contract for the procurement of equipment and services related to computer software, technology or information systems in excess of \$25,000 shall be awarded by Borough Council at a public meeting.

- g. Disposition of Bid Deposits.
 - (1) The Municipality shall return to the unsuccessful bidders the bid deposits submitted by them.
 - (2) A successful bidder shall forfeit any deposit made by him, upon failure on his part to enter into a contract with the Municipality within 20 calendar days after award, unless an extended time is authorized in writing by the Purchasing Authority.
- h. **Piecemeal Contracts and Purchases Restricted**. It shall be prohibited for any officer or employee of the Municipality to purposely evade use of the procedures for competitive bidding by making a series of purchases or contracts, each under the minimum set out in Section 3 of this Ordinance, or by making several simultaneous purchases or contracts, each below that minimum amount.
- i. **Contract Extensions**. The Purchasing Authority may authorize change orders and extend a contract if it is deemed in the best interest of the Municipality. Such change orders or extensions shall be in writing and shall not individually or jointly exceed 15

percent of the original contract award. The Purchasing Authority may make purchases from any contract awarded under Section 3 of this Ordinance within eight months of the award.

- j. **Performance Bonds.** To protect the interests of the Municipality, a 100 percent performance bond shall be required from the successful bidder before entering into a construction contract.

The Purchasing Authority shall establish the percent of the contract price required in the performance bond for purchase of materials, supplies and equipment.

If the performance bond is not furnished within 20 days after the award of the contract, the award shall be void. Deliveries, accomplishments and guarantees may be required in all cases of expenditure.

- k. **Bonds for the Protection of Labor and Materials.** Any person entering into a contract with the Municipality for the construction, erection, installation, completion, alteration or repair of or alteration to any public work or improvement whatsoever shall, before commencing work under the contract, execute and deliver to the Municipality, in addition to the performance bond, an additional bond, in a sum not less than 50 percent and not more than 100 percent, as the Purchasing Authority may prescribe, conditioned for the prompt payment of all material furnished and labor supplied or performed in the prosecution of the work, whether or not the material or labor entered into becomes component parts of the work or improvement contemplated. This additional bond shall be deposited with and held by the Municipality for the use of any interested party. This bond shall provide that every person who, whether as subcontractor or otherwise, has furnished

material or supplied or performed labor in the prosecution of the work, and who has not been paid for it, may sue in assumpsit on this additional bond, for his use, and prosecute the suit to final judgment for whatever sum may be justly due him, and have execution thereof. The Municipality shall not be liable for the payment of any costs or expenses of any suit.

- l. **Workers' Compensation.** Every contract entered into by the Municipality, which involves the construction or doing of any work involving the employment of labor, shall contain a provision that the contractor shall accept, insofar as the work covered by that contract is concerned, the provisions of the Workers Compensation Act of 1915 and its supplements and amendments, and that the contractor will insure his liability under that Act or file, with the Municipality, a certificate of exemption from insurance from the Bureau of Workers Compensation of the Pennsylvania Department of Labor and Industry. Any contract executed in violation of this Section shall be null and void.
- m. **Discrimination Prohibited.** Any contract entered into by the Municipality for the construction, alteration or repair of any public building or public work may contain provisions by which the contractor agrees that, in the hiring of employees for the performance of work under the contract or any subcontract under it, no contractor or subcontractor and no person acting on behalf of the contractor or subcontractor shall, by reason of race, creed, sex or color, discriminate against any person who is qualified and available to perform the work to which the employment relates. Violations of this provision by the contractor will constitute grounds for terminating the contract.
- n. Competitive Electronic Auction Bidding
 - (1) **Conditions of use.** Notwithstanding any other provision of this ordinance concerning the requirements for competitive bidding for purchases and contracts, if the

Borough determines that use of competitive electronic auction bidding is in the Borough's best interest, a contract for supplies and services, but not for construction or design professional services, may be entered into by competitive electronic auction bidding.

- (2) Invitation for bids. An invitation for bids shall be issued and shall include a procurement description and all contractual terms, whenever practical and conditions applicable to the procurement, including a notice that bids will be received in an electronic auction manner.
- (3) Public Notice. Public notice and advertisement of the invitation for bids shall be given in the same manner as provided in Section 3 of this ordinance.
- (4) Auctions. Bids shall be accepted electronically at the time and in the manner designated in the invitation for bids. During the auction, bidders shall have the capability to view their bid rank or the low bid price. Bidders may reduce their bid prices during the auction. At the conclusion of the auction, the record of the bid prices received and the name of each bidder shall be open to public inspection.
- (5) Award of Contracts. Contract awards by Council shall be made at an advertised public meeting. The following applies to Council awards:
 - (a) Awards shall normally be made to the lowest responsible bidder. However, Council, upon the recommendation of the Purchasing Authority, may have the right to take into consideration such other factors as delivery date, quality of service, the length of warranty, etc.
 - (b) Council shall have the authority to waive minor irregularities and defects when the best

interests of the Borough would be served. Council shall have the authority to accept or reject any and/or all bids or to hold all bids for 45 days or until the next regular Council meeting.

- (c) A tabulation of bids shall be made available for public inspection.

Section 1404. Open Market Purchases.

- a. All purchases of supplies, materials, equipment and contractual services not made under the provisions of Section 3 of this Ordinance shall be made, when feasible and when in the best interests of the Municipality, in the open market without newspaper advertisement and without observing the procedures prescribed for the receipt of formal sealed bids and the award of contracts on those bids, in one of the following manners: by written inquiry, telephone solicitation or competitive electronic auction bidding.
- b. Open market purchasing, wherever possible, shall be based on two or more quotations and shall be awarded based on the lowest quotation and most favorable delivery. In determining "lowest quotation," the Purchasing Authority shall do so on the basis of the lowest quotation meeting the specification or the description or the sample as set forth in the price quotation request.
- c. The Purchasing Authority shall keep a record of all open market orders and the quotations submitted in competition thereon for a minimum of three years. Those records shall be open to public inspection during normal business hours.

Section 1405. Emergency Purchases.

In case of actual emergency and with the approval of the Purchasing Authority, the head of any Department or using agency may purchase directly any supplies, materials and/or equipment, the immediate

procurement of which is essential to prevent delays in the work of the Department or using agency which might vitally affect the life, health, safety and/or welfare of citizens.

The head of the Department or using agency, after having made any emergency purchase, as authorized by this Section, shall submit to the Purchasing Authority, a record of the emergency purchase together with a report of the circumstances of the emergency. (Ordinance 1184, September 10, 1987, Section 5.)

Section 1406. Inspection and Testing.

The ordering department shall, through inspection, testing or other means, certify to the Purchasing Authority the conformance of all purchased goods, equipment, supplies and services with Borough specifications and contract provisions with the specifications set forth in the order of contract. (Ordinance 1184, September 10, 1987, Section 6.)

Section 1407. Cooperative Purchasing.

The Purchasing Authority shall have the authority to join with other units of government in cooperative purchasing plans when the best interests of the Municipality would be served. (Ordinance 1184, September 10, 1987, Section 7.)

Section 1408. Disposition of Municipally Owned Real Estate.

Council may authorize the disposition of real estate owned by the Municipality in any of the following ways:

- a. The property may be sold to the highest bidder after notice in at least one newspaper of general circulation in the Municipality, the advertisement to give notice of the property to be disposed of, the requirement for sealed bids and the time and place where the bids are to be received and opened.
- b. The property may be sold to the highest bidder at public auction, of which notice shall be given at least 30 days in

advance of the auction sale, in at least one newspaper of general circulation in the Municipality.

- c. In the case of property needed by another unit of government, a municipal authority, a council of governments or a similar agency, that property may be disposed of upon recommendation of the Purchasing Authority, on terms mutually agreeable to the Municipality and to the other unit of government concerned. Sale of real property shall be announced at a regular Council meeting.

Section 1409. Disposition of Surplus Personal Property.

- a. All using agencies shall submit to the Purchasing Authority, at those times and in whatever form prescribed, reports showing stocks of all supplies, materials and equipment that are no longer used or that have become obsolete, worn-out or scrapped.
- b. The Purchasing Authority may transfer surplus supplies, materials and equipment to other using agencies, may exchange such personal property for new supplies, materials and equipment, or may sell, on behalf of the Municipality, personal property, which has become unsuitable for public use. The sale of personal property shall be by written contract to the highest responsible bidder in the manner specified in Section 8 of this Ordinance; by public auction as specified in Section 8 of this Ordinance; by open market sale in the manner specified in Section 4 of this Ordinance; or by competitive electronic auction bidding as specified in Section 3 of this Ordinance, except without newspaper advertisement and without observing the procedures prescribed for the receipt of formal sealed bids and the award of contracts on those bids for the disposition of personal property with a value of \$25,000 or less.

Investments

This policy governs the investment of operating and capital funds of State College Borough. The purpose of this policy is to ensure the Borough's funds are invested in legal and prudent instruments, consistent with the provisions herein. A separate policy governs the investment management of the Borough's Pension Plans.

The objectives, in priority order, of the Borough's investment activities shall be:

- **Safety** – Safety of principal shall be the foremost objective of this policy. All investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the investment portfolio by mitigating credit or interest rate risk.
- **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that can be reasonably foreseen. The portfolio shall be structured so that investments mature concurrently with the Borough's anticipated cash needs.
- **Yield** – Return on investments is of least importance compared to the safety and liquidity objectives described. The investment portfolio shall be designed with the objective of attaining a market average rate of return throughout budgetary and economic cycles, consistent with investment risk constraints and liquidity needs.

Standards of Care

Investments shall be made with due care, skill, diligence and prudence. The standard to be used in managing the Borough's investment portfolio shall be the "prudent person" standard, which means that all investments shall be made with the judgment that persons of discretion and intelligence would exercise in the management of their own affairs, not for speculation but for investment, considering the safety of their capital, as well as the return to be derived.

The Public Trust

The Borough's investment program is subject to public review and shall be managed with professionalism worthy of the public's trust. All employees involved in the investment process shall refrain from personal business activities or interests that could conflict with the proper execution and management of the Borough's investment program or that could impair their ability to make impartial decisions.

All employees involved in the investment process shall disclose, in writing, material interests in entities with which they conduct business and they shall further disclose personal investment positions that could be related to the performance of the Borough's investment portfolio. Employees shall, at all times, subordinate their personal investment activities to those of the Borough.

Investment Authority

Authority to manage the investment program is granted to the Borough Manager or his/her designee. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall carry out the program in accordance with the provisions of this policy. The Finance Director shall be responsible for all transactions undertaken and shall regulate the activities of subordinate employees. No employee may engage in an investment transaction except as provided in the provisions of this policy.

Authorized Financial Institutions and Broker/Dealers

The Finance Director shall maintain a list of financial institutions and registered broker/dealers authorized to furnish investment services to the Borough. All financial institutions and broker/dealers who desire to offer investment services must furnish the following documentation, as appropriate:

- Audited annual financial statements
- Description of the capitalization and creditworthiness of the entity

- Proof of National Association of Securities Dealers (NASD) certification
- Proof of Pennsylvania registration
- Certification of having read and agreeing to comply with the provisions of this policy

Authorized Investment Pools

The Finance Director shall maintain a list of entities authorized to furnish pooled investment services to the Borough in accordance with the provisions of the Act of the Pennsylvania General Assembly of July 12, 1972 (P.L. 762, No. 180).

Entities that desire to offer pooled investment services must furnish a prospectus, along with the following additional documentation, as appropriate:

- Audited annual financial statements
- Description of the organization, management, operation and creditworthiness of the pool
- Statement of investment policies and objectives
- Statement of operating policies and regulations affecting participants
- Statement of applicable fees and service charges
- Methodology for calculating and distributing interest
- Certification of having read and agreeing to comply with the provisions of this policy

Authorized Investment Types

Consistent with the Borough Codification of Ordinances and applicable Pennsylvania statutes, the following types of investments are permitted by this policy:

- Insured or collateralized savings accounts or time deposits
- Insured or collateralized certificates of deposit
- United States Treasury bills

- Obligations of the United States Government or its agencies or instrumentalities
- Obligations of the Commonwealth of Pennsylvania or its agencies or instrumentalities
- Obligations of the political subdivisions of the Commonwealth of Pennsylvania or their agencies or instrumentalities
- Pooled investments in accordance with the provisions of the Act of the Pennsylvania General Assembly of July 12, 1972 (P.L. 762, No. 180)

Competitive Placement of Certain Investment Types

Prior to the placement of a fixed-term investment, the Finance Director shall obtain a minimum of two base rate quotations from entities authorized to furnish such investment services to the Borough. Notwithstanding any other provision of this policy, the investment shall be placed with the entity quoting the highest net rate of return for the term of the investment.

Internal Controls

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure the funds of the Borough are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of “reasonable assurance” recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of these costs and benefits requires estimates and judgments by management. The internal controls shall address the following issues:

- Control of collusion
- Separation of transaction authority from accounting and record-keeping responsibilities
- Custodial safekeeping of investments and collateral
- Written confirmation of telecommunicated investment transactions

The Borough's Auditor shall annually conduct an independent review to assure the internal control structure adequately and appropriately addresses these and other relevant issues.

Title to Investments and Collateral

All investments shall be titled and/or registered in the name of the Borough of State College. Collateral pledged to secure the investments shall be held in the Borough's name.

Collateralization, Safekeeping and Custody

Collateralization of all Borough investments and the safekeeping and custody of assets pledged to secure the investments, shall be required and maintained in accordance with the provisions of the Act of the Pennsylvania General Assembly of August 6, 1971 (P.L. 281, No. 72).

Diversification

The Borough's investment portfolio shall be diversified in order to minimize risk and provide sufficient liquidity to meet obligations as they become due, as well as to be consistent with the safety of principal and the goal of achieving a market average rate of return.

Maximum Maturities

Investments shall be matched with the Borough's anticipated cash requirements. Unless matched to a specific cash flow, investment in instruments maturing more than three years from the date of purchase is prohibited.

Performance Standards

The Borough's investment portfolio shall be managed in accordance with the provisions of this investment policy. The portfolio should obtain a market average rate of return during an economic environment of stable interest rates.

Reporting

The Finance Director shall prepare a quarterly report that provides a succinct summary of the Borough's investment portfolio by investment type, principal amount, interest rate, maturity date and current market value. The report shall be prepared in a manner that will allow the reader to readily ascertain whether the investments conform to the provisions of this policy. The report shall be submitted to the Mayor, Borough Council and the Borough Manager within 30 days following the end of the reporting period and is a matter of public record.

Capitalization and Depreciation

Background

Generally Accepted Accounting Principles (GAAP) require the reporting of capital assets in the Borough's financial statements. Capital assets are land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, infrastructure and all other assets that are used in operations and have an initial useful life extending beyond a single reporting period.

Authoritative literature, such as Government Accounting Standards Board (GASB) statements and Government Finance Officers Association (GFOA) recommended practices, exist to provide guidance in determining capitalization thresholds and estimated useful lives. Whenever practical to do so, this policy utilizes the guidance provided.

Purpose

This policy is intended to assist management in complying with capital asset financial reporting required by GAAP and to outline essential criteria to be utilized when determining replacement of equipment and vehicles owned, operated and/or leased by the Borough.

Specifically, it establishes the dollar values (capitalization threshold) at which assets that are used in operations and have an estimated useful life in

excess of two years are capitalized. Capital assets that are not capitalized are expended in the year of acquisition. The policy also provides specific guidance for determining the estimated useful life of an asset that, together with the value of the capital asset and its salvage value (if any), provides the basis for the calculation and recording of depreciation expenses.

Definition of Capital Projects

The five-year Capital Improvement Plan (CIP) is a compilation of projects that meet the threshold of cost and scope established for the Borough's capital budget. The CIP includes only those items having a value of **\$100,000** or higher and an estimated life of six years or longer. Eligible items include:

- Acquisition of property
- Purchase of new equipment (not covered by depreciation previously set aside and funded by the Asset Replacement Fund)
- Major rehabilitation or replacement of existing facilities or new construction

Capital Asset Summary

The following table provides classifications for capital assets and their corresponding capitalization threshold, estimated useful life and depreciation method.

Capital Asset Summary

Capital Asset Classes	Capitalization Threshold	Estimated Useful Life	Depreciation Method
Land	\$1	Capitalize only	
Computers and Equipment	\$5,000	3-7 years	Straight-line
Vehicles	\$5,000	3-12 years	Straight-line
Machinery/Equipment	\$5,000	5-10 years	Straight-line
Furniture and Fixtures	\$5,000	10 years	Straight-line
Land Improvements	\$5,000	20 years	Straight-line
Buildings	\$5,000	20-50 years	Straight-line
Building Improvements	\$5,000	20-50 years	Straight-line
Public Domain Infrastructure	\$25,000	25-40 years	Straight-line
System Infrastructure	\$25,000	25-50 years	Straight-line

Capital Asset Classes

Each individual capital asset shall be classified as land, land improvement, building, building improvement, vehicle, machinery, equipment, furniture/fixtures or infrastructure for the purpose of determining whether the asset is to be reported as capitalized or expensed.

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 other capital assets. Examples of infrastructure assets include roads, drainage systems, traffic signals, alleys, street lighting, sidewalks and curbs.

In deciding whether a capital asset should be classified as a land improvement or infrastructure, the location of the asset should be taken into consideration. For example, the street lighting of a parking lot adjacent to the Municipal Building would be classified as a land improvement, whereas street lighting along a Borough road would be classified as infrastructure.

Capitalization Threshold

Whenever the value of an individual asset, as determined by the application of GAAP, is equal to or greater than the capitalization threshold, the asset is capitalized.

Capital assets may be purchased, acquired through donation or self-constructed. The cost of donated assets is the fair market value at the time of donation. The cost of assets that have been purchased will be the initial acquisition price plus the trade-in value of any asset given up, plus all costs related to placing the asset into operation. The cost of self-constructed assets includes all costs of construction. The value of an individual capital asset includes the cost of any subsequent addition or improvement but excludes the cost of repairs. An addition or improvement, unlike a repair, either enhances a capital asset's functionality (effectiveness or efficiency) or it extends a capital asset's useful life.

Additions or improvements that significantly extend the useful life of an asset will be capitalized as follows:

- **Vehicles, Machinery and Equipment** – The cost of the addition or improvement must exceed the greater of \$5,000 or 50% of the historical cost of the asset.
- **Buildings and Building Improvements** – The cost of the addition or improvement must exceed 10% of the historical cost of the asset.

Estimated Useful Life

Estimated useful life means the estimated number of months or years that an asset will be able to be used for the purpose for which it was purchased. In determining the estimated useful life to assign a given asset from the range of years provided, the following elements should be taken into consideration: general guidelines from professional organizations, information about comparable assets from other governments, engineering data, personal experience, internal information, quality, intended use,

environment, maintenance policy and how long it is expected to meet service demands.

Depreciation Method

Capital assets will be depreciated using the straight-line method. Under this method, the depreciable cost of the capital asset is written off evenly over the useful life of the asset. The depreciable cost of a capital asset is its historical cost/acquisition value reduced by the estimated salvage value. Salvage value is the value it is expected to have when it is no longer useful for its intended purpose. Generally, the Borough uses its assets until all value is exhausted. Fixed assets acquired between January 1 and June 30 of the fiscal year will be depreciated at the annual rate in the first year. Fixed assets acquired between July 1 and December 31 of the fiscal year will be depreciated at 50% of the annual rate in the first year.

Accountability

All capital assets that have a historical cost greater than \$5,000 will be assigned to a department and recorded in a perpetual inventory system for control purposes. Assets that have been capitalized (historical cost exceeds the capitalization threshold) shall be identified with capital asset tags issued by the Purchasing and Risk Management Director.

A physical inventory will be conducted annually between October 1 and December 15. Using a list provided by the Purchasing and Risk Management Director, each Department Director will be responsible for conducting the inventory of the capital assets that have been assigned to their department. All discrepancies must be reported to the Purchasing and Risk Management Director at the conclusion of the inventory.

Depreciation Expenses

Each department budgets and pays into the Asset Replacement Fund the total estimated replacement value of their computer, equipment and vehicle assets over their estimated useful/economic life. For a newly purchased vehicle with an initial cost of \$20,000 and an estimated useful life of four years, an amount of \$5,000 is expensed as depreciation and deposited into the Asset Replacement Fund each year over the useful life of the asset. Departments use a 948xx series account number in budgeting for depreciation of assets. The following table shows the 948xx series account numbers that are designed for annual depreciation costs.

Account Numbers for Annual Depreciation Expenses

Account Number	Description
94800	Land Improvements
94820	Buildings and Improvements
94840	Computer Equipment
94850	Vehicles
94860	Machinery/Equipment
94870	Furniture/Fixtures
94880	Infrastructure

Budgeting for New Assets

Departments use a 937xx series account number in budgeting for the acquisition and depreciation of fixed assets. Non-capitalized assets should be budgeted for in other operating accounts. The following table shows the 937xx series account numbers that are designed for capital assets.

Account Numbers for Capital Assets

Account Number	Description
93710	Capital Purchases – Land
93720	Capital Purchases – Improvements
93724	Capital Infrastructure
93730	Capital Purchases – Buildings
93740	Capital Purchases – Computer/Production Equipment
93750	Capital Purchases – Specialized Equipment
93760	Capital Purchases – Furniture/Appliances
93775	Capital Purchases – Major Equipment
93780	Capital Purchases – Vehicles

Determining Replacement

All vehicles and equipment have a broad range of useful life expectancy. Life expectancy is typically determined by age, condition, annual hours used, annual miles driven and annual maintenance costs. As with other aspects of fleet management, replacing a vehicle too soon or too late wastes money. The primary consideration for determining when a vehicle should be replaced is identifying the point at which, on average, a vehicle is reasonably depreciated but not yet incurring significant maintenance costs. By replacing vehicles at this point, the Borough can avoid escalating maintenance costs and optimize vehicle resale value. Catastrophic failures also need to be considered. For example, the residual value of a vehicle, versus the repair costs of major components, such as an engine and/or transmission, needs to be taken into consideration when replacing any vehicle and/or equipment. The condition of a specific vehicle also needs to be taken into consideration as vital replacement criteria. For example, dump trucks fitted with salt spreaders and snowplows are subject to more stress, strain and adverse weather conditions than a dump truck without those attachments.

Depreciation Schedule

Department	Years Depreciated	Minimum Mileage/Hours at Replacement
<u>Police</u>		
Frontline Police Interceptors	3	120,000 mi.
Police Administration Sedans	8	65,000 mi.
Police CI Sedans	8	75,000 mi.
Police K-9 Interceptor	6	120,000 mi.
<u>Public Works</u>		
Administration Sedans	8	65,000 mi.
Dump Trucks	12	65,000 mi.
Pickup Trucks	8	65,000 mi.
Loaders/Attachments	15	10,000 hrs.
Street Sweepers	10	8,000 hrs.
Skid Steer Loaders	8	8,000 hrs.
Backhoe	6	5,000 hrs.
Aerial Boom Trucks	8	5,000 hrs.
Brush Chippers	10	5,000 hrs.
<u>Refuse</u>		
Commercial Collection Trucks	8	13,000 hrs.
Residential/Rear Load Collection Trucks	8	13,000 hrs.
Bulk Collection Trucks	8	13,000 hrs.
Leaf Trucks	15	10,000 hrs.
<u>Compost Equipment</u>		
All Off-Road Equipment	15	10,000 hrs.
<u>Parking Enforcement</u>		
Jeep	8	100,000 mi.

