FINANCE POLICIES

UPDATED 12-16-2016

VILLAGE OF ITASCA
550 W. IRVING PARK ROAD, ITASCA, IL

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BUDGET MANAGEMENT POLICY

Village Board Consideration:
Effective Date:

Background
Each year, the village board approves an annual budget granting spending authority to village staff. Great care is taken by staff and board members to anticipate the necessary expenditures for the upcoming fiscal year, with priority given to the protection of human health, the preservation of private and public assets and enhancing the quality of life within the community. The intent of this policy is to provide direction to staff on how to best manage the approved budget while incurring the necessary expenses to provide quality services.

Legal Level of Budgetary Control
Department level, or where no departmental segregation of a fund exists, the fund level.

Expenditures Within Budget
Certain expenditures are essential to providing public services such as salaries, commodities and capital outlay. These expenditures have been budgeted based on the best information available during the budget process. Staff prepares a detailed budget document listing each expected item for the fiscal year. Once approved by the village board, staff is charged with managing the expenditures of their departments as close to the approved budget as possible. Staff is responsible for ensuring all expenditures are considered necessary, competitive whenever possible and procured through the purchasing policy of the village.

In the event a budgeted item is no longer necessary, staff may substitute alternate purchases as long as the expenditure is again necessary as well as appropriate. However, when possible staff is strongly encouraged to allow any surplus for the year to accrue as maintaining the fiscal health of the village funds is vital to financial stability. The purchase of any non-necessary items will not be approved with the sole justification of having budget funds available.

Expenditures Outside of Budget
The actual costs of providing village services will on occasion vary from the approved village budget due to extraordinary circumstances, acts of nature, unforeseen changes to the market and various other causes. When staff encounters situations requiring expenditures either in excess of the approved amount or unbudgeted altogether, staff will evaluate options for remedying the over-budget situation in the following order:

1. Determine if other items budgeted within the same account will not be necessary during the fiscal year sufficient to cover the unplanned item(s). If so, no other action necessary at this point.

2. Identify any possible budget transfer as allowed by the Budget Act. Budget transfers will be submitted first to the department director responsible for the account(s) in question and then to the Finance Department for review, approval and application. Allowable budget transfers will meet all of the following criteria:
   a) Within the same fund
   b) Within the same department
   c) Within the same object class (i.e. commodity to commodity, capital to capital, etc.)
   d) Sufficient funds exist in the account being transferred from in order to cover not only the transfer, but also any item(s) to be purchased from that account during the remainder of the fiscal year.

3. For over-budget situations that will be significant, a formal amendment will need village board approval. These amendments will be brought to the board on a semi-annual basis, or sooner if deemed necessary by the Village Administrator or designee. Any budget amendments that increase the total budgeted expenditures in a fund must be approved by a majority vote of a quorum of the village board. To be considered, amendments will need to be submitted with all required details as follows:
   a) Department director approval (or designee)
   b) Finance Director approval (or designee)
   c) Village Administrator approval (or designee)

4. For over-budget situations that will be minor compared to the total budget of the account, the account will be allowed to go over budget for the fiscal year with the requirement that sufficient budget funds exist within that fund AND department to absorb the deficit for the fiscal year. The Finance Director, and the Village Administrator if necessary, will determine if the amount of deficit is minor or material.

Review and Reporting

Department directors will be responsible for managing their approved budgets at the department level. They will be held accountable for all items charged to their accounts. Department directors will need to monitor their accounts, and any discrepancies from what is expected should be reported to Finance for further analysis.

Finance department staff will review the expense report closely each month to identify any material variances from budget. Department directors will be required to provide sufficient explanation as requested as to the cause of the material variances. The Finance Department will produce a monthly department report which will not only discuss important items of note but also provide useful and concise financial information for village board review. This report will be distributed to the Board no more than forty-five (45) days after each month end. Reports will be issued sooner where possible, allowing time for bank reconciliations and end-of-month accounting entries as well as report preparation and review.

FISCAL POLICIES

Village Board Consideration:
Effective Date:

A. ***General***

The Village of Itasca has an important responsibility to carefully account for public funds, to manage municipal finances wisely, and to plan and provide for the adequate funding of services desired by the public and as required by laws, rules, or regulations, including the provision and maintenance of public facilities and improvements. The financial goals and policies set forth in this document are intended to establish guidelines for the continued financial strength and stability of the Village of Itasca.

B. ***Financial Goals***

Financial goals are broad, fairly timeless statements of the financial position the Village seeks to attain. The financial goals for the Village of Itasca are:

- To provide full value for each tax dollar by delivering quality services efficiently and on a cost-effective basis.
- To preserve our quality of life by providing and maintaining adequate financial resources necessary to sustain a sufficient level of municipal services, and to respond to changes in the economy, the priorities of governmental and non-governmental organizations, and other changes that may affect our financial well-being.
- To maintain a strong credit rating in the financial community.

C. ***Financial Policies***

Financial policies support the financial goals. They are general statements that guide decision making in specific situations, to ensure that a decision will contribute to the attainment of the financial goals. Federal and state laws, rules, and regulations, our Village Code of Ordinances, the Government Finance Officers Association of the United States and Canada ("GFOA") and the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB") govern our financial policies and processes.

D. *Budget Policies*

Sound financial practice, public policy, and the desire to maintain a strong credit rating dictate that our budgets be balanced, constantly monitored, and responsive to changes in service demands. With these concepts in mind, the Village of Itasca has adopted the following budget policy statements:

- The Village will adopt and maintain a balanced budget in which expenditures will not be allowed to exceed reasonably estimated revenues and other available funds at the same time maintaining recommended fund balances.

- Fund balance should not be considered a source of funds for operating expenditures. Excess unreserved and undesignated fund balance may be appropriated as part of the adopted budget to fund capital, emergency expenditures or one-time large purchase(s) of a good or service per Village Board approval.

- As part of the long-term financial plan, the Village will project fund revenues and expenditures for a **minimum of two years** beyond the budget year and compare the projected balances to the fund balance policy. This will allow the Village to identify potential problems early enough to correct them. Any future projections which do not align with the fund balance policy, will require a plan to be developed by staff and adopted by the Village Board to bring future fund balance projections back in alignment with the fund balance policy for the effected fund.

- The Village will maintain a budgetary control system to ensure adherence to the budget and finance staff will prepare monthly reports comparing actual revenues and expenditures to budgeted amounts.

- Quarterly, or at a minimum the second and fourth quarter, the Finance Director will provide the Village Board with trend analysis/projections of revenues and expenditures.

E. *Revenue Policies*

Revenues determine the capacity of a local government to provide services. Under ideal conditions, revenues would grow at a rate equal to or greater than expenditures. To ensure that our revenues are balanced and capable of supporting our desired levels of services, the Village of Itasca has adopted the following revenue policy statements.

- The Village endeavors to develop and maintain a diversified and stable revenue base to shelter it from short-term fluctuations in any one-revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effect of an economic downturn.

- The Village will estimate annual revenues on an objective, reasonable, and conservative basis. Most revenues will be estimated based on a historical trend analysis, IML estimates, or knowledge of expected changes. Major revenues will receive a more in-depth analysis.

- Through the Village's economic development program, the Village will strive to strengthen and further diversify its revenue base.

- The Village will project and monitor key revenues on an ongoing basis and will update these projections annually. Each existing and potential revenue source will be reexamined annually or more often if needed.

- Each year and whenever appropriate, existing revenues will be re-examined and possible new sources of revenues will be explored to ensure that we are able to responsibly and prudently provide services to our residents and business community without interruption.

- The Village will maintain a revenue monitoring system to assist in trend analysis and revenue forecasting.

- The Village will oppose State and/or Federal legislation that will mandate costs to units of local government without providing a new or increasing an existing revenue source to pay those costs.

- The Village will aim to keep its property tax rate as low as possible and must adhere to the Property Tax Extension Limitation Law (PTELL). The following components should be followed in priority order when establishing each year's levy:

    - Levy for general obligation bond principal and interest (this does not include alternate revenue bonds);
    - Levy for Police Pensions per actuary calculations;
    - Levy for IMRF, FICA and Medicare costs (when fund balance reserves are ultimately diminished);

- Levy for supplementary Village services including the Library and the Library Operations and Maintenance Fund.
- Levy to support General Fund operations including Police, Public Works, Community Development, Finance and Administration.

- The Village follows a "cost of service" approach which results in user fees, rates and customer charges being sufficient to cover the cost of providing the service. Each year the Village will establish user fees, rates and charges at a level related to the cost of providing the service and to adjust for the effects of inflation.

- The Village will set fees and user charges for each enterprise fund, such as Water and Sewer, at a level that fully supports the total direct and indirect cost of the activity. Indirect costs include the cost of annual depreciation of capital assets.

- The Village will not use one-time revenue for continuing expenses. All new and continuing expenses will be based on known and conservatively projected revenue sources. The identification of new, but one-time revenue opportunities (i.e. state and federal grants) will be used to fund one-time expenses such as capital equipment purchases and capital projects not involving on-going operating expenses.

- The operating reserve may be used to supplement the budget during a financial downturn. The use of the reserves must be authorized by the Village Board and a plan to replenish the reserves to the required level should accompany the request to use the funds.

- The Village will strive to be informed and aware of all grants and other aid that may be available to us. All potential grants and other aid shall be carefully examined for matching requirements (both dollar and level-of-effort) and restrictive covenants, to ensure that our participation in such grants will be beneficial and cost-effective.

- All charges for services, fees, licenses, permits, etc. will be reviewed regularly to insure that rates are maintained at a level that is related to the cost of providing the services and are comparable with others providing similar services in the area.

F. *Expenditure Policies*

Expenditures are a rough measure of a local government's service output. While many expenses can be easily controlled, emergencies, unfunded mandates, and unanticipated service demands may strain our ability to maintain a balanced budget. To ensure the proper control of expenditures and provide for a quick and effective response to adverse financial situations, the Village of Itasca has adopted the following expenditure statements:

- The Village will maintain a level of expenditures which will provide for the public well-being and safety of the residents and businesses of the community.

- The Village will pay all current operating expenditures with current operating revenues.

- Expenditures and purchase commitments will follow the Village's approved Purchasing Policy.

- Expenditures will be within the confines of generated revenue. The operating reserve may be used to supplement the budget during a financial downturn. In the event of a major financial downturn that results in the operating reserves falling below the stated reserve policy for that fund, a plan is to be developed and approved by the Village Board to bring the reserves back into compliance with the reserve policy.

- The Village will maintain expenditure categories according to state statute and administrative regulation.

- Services will parallel and adjust to the Village's inelastic revenue sources in order to maintain the highest level of service. During periods of economic upturn, long-term expansion of core services will be limited to the anticipated increase of those sources.

- The Annual Operating Budget and Capital Improvement Program should provide for adequate design, construction, maintenance, and replacement of the Village's capital, buildings, facilities, and equipment.

- A performance based employee compensation package will be maintained to coincide with the financial policies of the Village of Itasca. The Village aims to recruit and retain qualified employees.

G. *Debt Policies*

Debt is an effective way to finance capital improvements or to even out short-term revenue flows. Properly managed debt preserves the Village's credit rating, provides flexibility in current and future operating budgets, and supports long-term assets that maintain or improve our quality of life. To provide for the appropriate issuance and responsible use of debt, the Village of Itasca has adopted the following debt management policy statements:

- Debt or bond financing will not be used to finance current operating expenditures or expenses.
- Pay-as-you-go financing is the preferred method of paying for capital assets.
- The Village will confine long-term borrowing to capital improvements or onetime obligations that cannot be financed from current revenues or reserves.
- Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the improvement.
- The Village will attempt to keep the average maturity of General Obligation Bonds at or below 20 years.
- The total general obligation and alternate revenue bond debt of the Village will not exceed the statutory amount allowed to non-home rule municipalities under Illinois Revised Statutes.
- The Village will maintain good communications with bond rating agencies about its financial condition. The Village will follow a policy of full disclosure on every financial report and bond prospectus.
- The annual operating budgets of all funds will be maintained so as to ensure the full and timely repayment of debt principal and interest due that year.
- The Village's annual audit and official statements will reflect the Village's commitment to full and open disclosure concerning our debt.

H. *Capital Improvement Policies*

- The Village shall maintain a Five Year Capital Improvement Program and capital improvements will be made in accordance with that plan. The program shall be updated annually.

- The corresponding year of the Capital Improvement Program will be incorporated into the annual operating budget as the Capital Budget.

- As part of the development of the Capital Improvement Program, the condition of Village infrastructure will be evaluated to appropriately prioritize and schedule maintenance and replacement.

- Each capital project will be evaluated for its impact on current and future operating budgets.

I. *Fund Balance and Reserve*

Fund balances and cash reserves are established to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

In addition, in accordance with GASB Statement 54, the Village must establish fund balance classifications that inform the financial statement user as to the extent to which the Village must observe constraints imposed upon use of the resources that are reported by the governmental funds. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources for various governmental purposes.

The fund balance will be composed of five categories: 1) Nonspendable, 2) Restricted, 3) Committed, 4) Assigned, or 5) Unassigned.

Definitions

***Nonspendable Fund Balance*:** Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

***Restricted Fund Balance*:** Amounts that can be spent only for specific purposes because of Village, State, or Federal laws, or externally imposed conditions by grantors or creditors.

***Committed Fund Balance*:** Amounts that can be used only for specific purposes determined with formal action by Village Board ordinance. These amounts cannot be used for any other purpose unless the Village Board takes the same action to remove or change the restraint.

***Assigned Fund Balance*:** Amounts the Village intends to use for a specific purpose. These amounts are assigned by management.

***Unassigned Fund Balance*:** Amounts not included in other spendable classifications.

Fund Balance Policies

- The Village will spend the most restricted dollars before less restricted, in the following order:
  - Nonspendable (if funds become spendable)
  - Restricted
  - Committed
  - Assigned
  - Unassigned
- The Finance Director will determine if a portion of fund balance should be assigned, consistent with intentions of the Village Board.
- Operating reserves will be established based on annual "net budgeted expenditures" of the fund, which shall be defined as total budgeted expenditures minus capital expenditures and transfers out.
- The Village Board may, from time to time, establish "special operating reserves", which may be maintained in addition to standard operating reserve balances. Generally, these may be established to support special programs or projects as approved by the Village Board. These special operating reserves may be established as a percentage of net budgeted expenditures or as a fixed dollar amount which is reduced as qualified expenditures are incurred.

General Corporate Fund

The General Corporate Fund will strive to maintain the unreserved, undesignated fund balance in the General Fund at a level at least equal to minimum of six (6) months or 50.00% of annual net budgeted expenditures, but shall be no more than eight (8) or 66.67% of net budgeted expenditures.

In the event unreserved fund balances exceed 66.67% of net operating expenditures, the excess amount over the 66.67% maximum may be:

1. Retained in the General Fund upon direction of the Village Board.
2. Transferred to a Capital Projects Fund as the primary funding support for ongoing Village infrastructure improvements.
3. Used for any other purpose as the Village Board may direct and approve.

Transfers or other disposition of balances in excess of the policy maximum need not take place more frequently than once annually and should generally be directed on or near the time of the adoption of the annual budget, or as soon as is practical thereafter.

Special Revenue Funds
Special revenue funds are used to account for resources that are legally restricted for specific purposes (e.g. grants, MFT). Since the purpose of a special revenue fund is to demonstrate that restricted resources have been spent for their intended purpose, there is normally no need to maintain a budgetary cushion.

Debt Service Funds
Debt service funds normally do not report the debt that their resources will be used to repay, making any analysis of fund balance problematic. As a result, defining a target level would lose much of its meaning.

Capital Funds
Capital Funds with designated revenue sources are required to maintain reserves to spend the resources on its legally intended purposes (e.g. grants). All other fund reserve balances shall be designated as “capital reserve”. Balances will be used to support the construction, repair, rehabilitation or replacement of capital assets serving the Village residents and businesses.

Enterprise Fund (Water and Sewer)
The Village will strive to maintain working capital (current assets less current liabilities) of the Enterprise Fund (Water and Sewer) at a level at least equal to 45 days of the total Water and Sewer Fund annual net budgeted expenditures.

If the Enterprise Fund balances fall below the minimum, rates may be adjusted so as to gradually return to the minimum within a reasonable period of time. If the balances exceed the minimum, the overage may be used to keep future rate increases lower, or transferred to the Village's Water & Sewer Capital Replacement Fund, or a combination of thereof.

J. ***Cash Management Policies***

- An investment policy has been adopted by the Village Board. The investment policy provides guidelines for the prudent investment of the temporary idle cash and outlines the policies for maximizing the efficiency of the cash management system. The ultimate goal is to enhance the economic status of the Village while protecting its pooled cash.

- The cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Village to invest funds to the fullest extent possible. The Village attempts to match funds to projected disbursements.

- Except for cash in certain restricted and special funds, the Village of Itasca will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

- Criteria for selecting investments and the order of priority are:

  - Legal. The investment program must be in conformance with federal laws, state statutes, local ordinances, and internal policies and procedures. State statutes govern the investment of public funds and provide the general framework for investment activity and fiduciary responsibilities.

  - Safety. The primary objective is the preservation of capital in the overall portfolio and safeguarding of public funds by mitigating credit and interest rate risk.
    a) Credit Risk. The Village will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer.
    b) Interest Rate Risk. The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates.

- Liquidity. This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal and interest. Liquidity is an important investment quality especially when the need for unexpected funds occur occasionally.

- Yield. Yield is the potential dollar earnings an investment can provide, and sometimes is described as the rate of return.

K. ***Capital Asset Policies***

A capital asset policy is for the purpose of ensuring compliance with accounting and financial reporting standards including Generally Accepted Accounting Principles, Government Accounting, Auditing and Financial Reporting Practices and the Government Accounting Standards Board's standards and to provide reasonable assurance as to the safeguarding of Village Assets.

Capital assets include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, construction in progress and all other tangible and intangible assets that are used in operations and have initial useful lives extending beyond a single reporting period AND that have a minimum unit cost at the time of acquisition of $5,000 or greater. (Please refer to the table on page 13.)

Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, drainage systems, water and sewer systems.

Land and land improvements are inexhaustible capital assets and will not be depreciated. Construction in progress will not be depreciated until construction is complete. All other capital assets will be depreciated over their estimated useful lives, using the straight-line method of depreciation. In no event shall the useful life of an asset be less than the period of probable usefulness established for debt purposes as outlined by GASB34.

A capitalization threshold is the cost established by the Finance Director that must be met or exceeded if an asset is to be recorded and depreciated as a capital asset. The capitalization threshold is based on the cost of a single asset and not to a group of assets. A capital asset does not include expenses for repairs or renovations. The Finance Director shall have discretion to expense items as exception to this policy subject to review and professional judgement. Assets that do not meet the capitalization threshold will be recorded as expenditures or expenses. For purposes of property control (insurance, security, etc.), the Finance Director and/or department heads may develop and maintain the appropriate record keeping system(s) to account for assets which do not meet the capitalization threshold.

Capital assets that meet the minimum capitalization threshold will be recorded at historical cost. The cost of a capital asset includes capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets will be recorded at their estimated fair value at the time of acquisition, including any ancillary charges. Estimated historical cost may be used in those cases where the actual historical cost is not readily available. Estimated historical cost will be calculated using the current replacement cost of a similar asset and deflating this cost to the acquisition year (or estimated acquisition year) using a price-level index approved by the Finance Director.

Capital assets associated with the operation of enterprise funds will be recorded in those funds. Capital assets associated with general government operations, with the exception of infrastructure assets, will be recorded in the appropriate internal service fund(s). Infrastructure assets will not be recorded in a governmental or proprietary fund, but a record keeping system necessary to allow for the accounting, auditing, and reporting of such assets, including depreciation will be maintained.

Estimated useful life means the estimated number of years that an asset will be able capitalize all assets that have a useful life greater than one year and meet the following dollar thresholds:

Asset Category	Threshold	Est. Useful Life
Land & Improvements	Any	Inexhaustible
Building & Improvements	$20,000	10 – 50
Machinery & Equipment	$5,000	4 – 20
Infrastructure	$50,000	20 – 50
Water and Sewer System	$50,000	20 – 75
Books and audio - visual materials	$5,000	5 – 7

With respect to asset improvements (such as street resurfacing, roof replacement, etc), costs over the appropriate asset category threshold will be capitalized if:

- The estimated life of the asset is extended by more than 25%, or
- The cost results in an increase in the capacity of the asset, or
- Significantly changes the asset, or
- In the case of streets and road - if the work impacts the "base" structure

The Finance Director is responsible for ensuring that accounting for capital assets is being exercised by establishing a capital asset inventory sufficient in detail to physically identify each recorded asset. Said inventory shall record all capital assets belonging to and owned by the Village that meet the criteria set forth herein and will be updated and maintained on a regular basis but not less often than annually to reflect additions, retirements, transfers and all other activity impacting capital assets. All capital assets recorded in the inventory will have an inventory tag affixed, except such items as infrastructure, buildings, building improvements, vehicles and similar major pieces of machinery and equipment where other identification means is more practical.

Capital assets acquired during the current fiscal year shall be recorded as an expenditure/expense against the appropriate capital expenditure/expense line item or other line item deemed appropriate by the Finance Director. Each Department Head is responsible to report to the Finance Director, on a regular basis but not less often than annually, the disposal of or relocation of a capital asset that was previously recorded or assigned to said Department Head’s jurisdiction. The disposal of a capital asset accounted for and reported pursuant to this policy shall be with the approval of the Village Board. Any proceeds from a disposal shall be identified with said asset so as to effect the retirement of the asset and the recognition of any gain or loss.

Day-to-day stewardship, care, custody, and control of all Village property and assets, without regard to historical unit cost, resides with the Village Administrator who may delegate such responsibility to respective Department Heads. Assets having a historical unity cost below the Village’s capitalization threshold, which in the opinion of the Village Administrator may be sensitive in nature and warrant further control, shall be inventoried and controlled at the department level by a means or suitable system sufficient to maintain control. Each department will maintain an appropriate list sufficient in detail to physically identify said assets. The Department Head will determine the appropriate means or suitable system to be used to effect this responsibility. Department Head's are not precluded from inventorying and controlling assets under their jurisdiction without regard to unit cost or a specific directive to do so.

Disposal

It is to the Village's benefit to dispose of unused or obsolete property to avoid pilferage and to retain storage capacity.

A. Asset Categories

Excess or surplus items are still useful, but no longer needed by the Department. Obsolete property is no longer useful due to technological obsolescence, wear and tear, or damage. All assets no longer needed or useful must be identified by authorized individuals in each department. Those assets generally fall in the following categories:

1) Heavy Equipment, Trucks, Vehicles
2) General Fixed Assets: office equipment, furniture, file cabinets, benches, chairs, shelves, other stationary equipment
3) Materials: fuels, waste oils, fluids, tires, pipe sections/fittings, scrap metals, telephone equipment, paper, tools
4) Computer Equipment
5) Infrastructure: streets, sidewalks, bridges, water and sewer systems

B. Asset Disposal Requisition Form

Once Departments have identified excess or obsolete assets, it is the duty of those Departments to notify the Finance Department by submitting a completed Asset Disposal Requisition form. Details should include:

1) Description of Item(s)
2) Fixed asset number
3) Serial number or Control number
4) Quantity
5) Original Purchase Date
6) Original Purchase Price
7) Original Estimated Life
8) Estimated Recovery Value
9) Method of Disposition

Items whose aggregate recovery value is under $5,000 may be listed in the aggregate as a group. Estimated historical information for the group of items is sufficient. Items whose estimated values are $5,000 or greater must be listed individually.

It is the department's responsibility to obtain reasonable, reliable estimated information if exact historical information is unavailable.

C. Authorization

The Asset Disposal Requisition form must be signed by the Department Head or designee from the using or owning department and forwarded to the Finance Director. A Request for Board Action and Ordinance is required to obtain Board approval of the disposition.

D. Method of Disposition

1) Re-use

The using or owning department should first consider, as in the case of furniture and office equipment, if items can be reconditioned for use within the department or elsewhere in the Village. For re-used items, a Disposal form is not necessary since the asset remains useful under Village ownership. However, the item must be transferred to the new department in the Fixed Asset System. The disposing Department must notify the Finance Department of the asset transfer via the Asset Disposal Requisition form.

2) Trade-In

Trading in the old asset as part of the purchase of its replacement is an expedient method of disposition. If the department decides to utilize a "trade in", the Invitation for Bid on the replacement item should include bid prices with and without trade-in. A Disposal form is required for each item.

3) Sale

a. Trucks, Vehicles, Heavy Equipment, Computer Equipment, and Materials

The State of Illinois, DuPage Mayors and Managers Conference (DMMC), DuPage County, and certain local municipalities periodically hold public auctions, which are publicly advertised and competitively bid. Information on items for sale include condition, mileage, known defects, and expected recovery values. Identifying and preparing disposable equipment and vehicles are handled by the Public Works division at least twice a year. Computer equipment may be sold to another governmental agency or through an established secondary market for used computer equipment.

Surplus or excess materials may be salvaged and sold for scrap in the commercial market. Competitive pricing must be solicited from dealers and documented on the Disposal form. In such instances, the buyer/dealer shall issue a credit memo if practical. If not, the buyer/dealer shall issue a check payable to the Village of Itasca. Any such check shall be forwarded directly to the attention of the Finance Director. In no instance shall cash be accepted in exchange for scrap material.

b. General Fixed Assets

For those surplus or obsolete items which cannot be re-used or competitively sold, participation in periodic public sales, such as the DuPage Mayors and Managers Conference auction or EBAY, is encouraged to dispose of those assets. A Request for Board Action declaring these assets as surplus should be prepared by the disposing department for Board approval.

c. Conditions of Sale

The Village should clearly state in writing that it takes no responsibility and makes no guarantees on items sold. Known defects must be listed as part of general sales information to buyers. It is the buyer's responsibility to remove the asset from the auction location within a stipulated time. Sale of assets exceeding $5,000 requires a Bill of Sale and a Hold Harmless Agreement.

d. Proceeds of Sale

The preferred method of payment is a check payable to the Village of Itasca. No cash will be accepted. The check should be forwarded to the Finance Department with all necessary documents. The proceeds will be credited to the "Sale of Assets" revenue account in the fund which the Department's assets reside.

e. Sale to Village Employee

The Village prohibits the direct sale of surplus assets to any employee. Village employees may purchase assets at public auctions on an "arm's length" basis. If an asset such as a phone is declared by the Village Board as surplus property and was used by an employee to perform Village business during tenure, the Village Board may by roll call vote approve the sale of the Village asset to the employee.

4) For assets that are not re-usable or saleable, arrangements should be made to donate them to an organization(s) or taxing body, dispose of them through recycling

events, or have item picked up by the trash collector. A Request for Board Action declaring these assets as surplus should be prepared by the disposing department for Village Board approval prior to disposal, in accordance with procedures previously outlined in this manual.

L. ***Accounting, Auditing and Financial Reporting Policies***

- The Village will establish and maintain a high standard of accounting practices in conformance with Generally Accepted Accounting Principals (GAAP) for governmental entities as promulgated by the Governmental Accounting Standards Board (GASB).

- The accounting system will maintain records on a basis consistent with accepted standards for local government accounting (according to GASB).

- Where possible, the reporting system will also provide monthly information on the total cost of specific services by type of expenditure and, if necessary, by Fund.

- An independent firm of certified public accountants will perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS) and will publicly issue an opinion which will be incorporated in the Audit.

- The Village will consider seeking the GFOA Certificate of Achievement for Excellence in Financial Reporting Program.

- The Village will use the modified accrual basis of accounting for its governmental funds (general, special revenue, capital projects and debt service funds). Revenues are recognized in the accounting period which they become available and measurable. Expenditures are recognized in the accounting period in which the liability is incurred.

- The Village will use accrual basis accounting for its proprietary funds (enterprise and internal service funds). Revenues are recognized in the accounting period they are earned and become measurable. Expenses are recognized in the accounting period in which the liability is incurred.

- The Village will promote full disclosures in its annual financial statements and its bond presentations.

- Interfund Loans (Due To/From's) Policy: The Village recognizes the occasional need for the use of internal loans. For amounts less than $50,000, staff can initiate the transfer/loan. For amounts greater than $50,000 or when the total amount of the loan exceeds $50,000, Village Board approval is required. Approval can be in the form of a motion based on a recommendation and explanation from staff.

  Interfund loans (Due To/From's) should be considered an interim loan and paid back as soon as possible.

  A schedule of all Interfund loans (Due To/From's) as of the end of each month should be included as part of the quarterly Treasurer's Report that is submitted to the Board.

M. <u>Village Services Policies</u>

- Provide essential traditional government services efficiently and well.
- Submit an annual Village Budget that is within the Village's ability to pay.
- Provide for the adequate maintenance of capital assets. Consider developing a formal savings strategy utilizing Capital Equipment Replacement Funds.
- Emphasis should be on preventive measures and practices rather than cures.
- Encourage innovative organizational, administrative, and operational practices and procedures.
- Encourage the use of automation in all areas where it is appropriate and practical.
- Maintain a balance between services provided by Village employees and those provided by private sector, utilizing cost effectiveness and quality measures as determinants.
- When practical, no new Village service shall be created without establishment of a specific identifiable revenue source to fund it.
- The Village will seek cost saving measures and/or grants to implement unfunded mandates. Any unfunded mandates that pose an unsustainable financial burden

on the Village, will require that the department responsible offer solutions to fund the unfunded mandate, subject to board approval if applicable.

- Personnel and other resource levels are adjusted to provide present programs and levels of service as defined in keeping with the principles of the plan established by the Village Board. If necessary and feasible, staff may be added to maintain the current service levels or subtracted if service levels are reduced or outsourced.

- Prepare an annual budget that provides meaningful and readily understandable information to interested citizens as well as the Village Board and Staff.

These policies should be reviewed and modified if needed, on an annual basis.

INVESTMENT POLICY

Revised : 12/27/99
Updated: 12/6/2016, pending board approval

This investment policy applies to all financial assets of the Village. These funds are accounted for in the Village's annual financial report and include the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds, Trust and Agency Funds and any other funds that may be created from time to time. All transactions involving the financial assets and related activity of the foregoing funds shall be administered in accordance with the provisions of this policy. Specifically kept separate from this policy are the Itasca Community Library and the Police Pension Fund Investment Policies. These entities are component units of the Village for reporting purposes but are governed by their own Boards.

OBJECTIVES

1. **Safety of Capital-** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective diversification is required so that potential losses on individual securities and/or financial institutions do not exceed the income generated from the remainder of the portfolio.
2. **Liquidity** -The Village's investment portfolio shall remain sufficiently liquid to enable the Village to meet all operating requirements which may be reasonably anticipated in any Village fund.
3. **Return on investments -**The investment portfolio of the Village shall be designed to attain a market average rate of return throughout budgetary and economic cycles, taking into account the Village's risk constraints, the cash flow characteristics of the portfolio and legal restrictions for return on investments.
4. **Maintaining the Public's Trust** -All participants in the investment process shall seek to act responsibly as custodians of the public trust and shall avoid any transaction ,that might impair public confidence in the Village.
5. **Prudence** - Investment shall be made with judgment and care under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be sued by investment officials shall be the "prudent person" and shall be applied in the contest of managing an overall portfolio.
6. **Local Consideration** -The Village seeks to promote economic development in Itasca. Under the Village's competitive certificate of deposit purchase program, in the event an Itasca financial institution bids within an amount to be determined by the Village's Investment Committee of an out-of Itasca financial institution the Itasca institution shall be awarded the funds. Due to federally imposed legal restrictions, this does not apply to investments not permitted by federal law for bond related investment activity such as Certificates of Deposit of the Acquisition and Development Series 1987 Fund, the Debt

Service of Land Acquisition and Development 1987, and the Debt Service of Refunding 1987.

INVESTMENT INSTRUMENTS

The Village may invest in any type of security allowed by Illinois law, notably 30 Illinois Compiled Statutes 235/2~~.5~~. A summary of the allowable instruments are:

1. Passbook savings account
2. Now, Super Now and Money Market Accounts
3. Commercial Paper - issuer must be a U.S. Corporation with more than $500~~.~~ million in assets, rating must be within three (3) highest classifications by two standards rating services, must mature within ~~180~~ 270 days of purchase, and such purchase cannot exceed 10% of the corporations' outstanding obligations.
4. State Treasurer's Investment Pool
5. Money Market Mutual ~~Funds -~~ Funds - registered under the ~~investment~~ Investment Company Act of 1940, provided the portfolio is limited to bonds, notes, certificates, treasury bills, or other securities which are guaranteed by the federal government as to principal and interest.
6. Repurchase Agreements - collateralized by full faith and credit ~~U.S .~~ U.S. Treasury securities.
7. Certificates of Deposit and Time Deposits
8. Constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the FDIC.
9. Shares or other forms of securities legally~~Legally~~ issuable by savings and loan associations incorporated under the laws of the State of Illinois or any other state or under the laws of the United States and only in those savings and loan associations insured by SAIF.
10. Bonds, notes, certificates of indebtedness, Treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest.
11. Obligations of U.S. Government agencies or instrumentalities.~~which are guaranteed by the full faith and credit or the United States Government.~~
12. Short term discounts, obligations of the Federal National Mortgage Association.
13. Insured accounts of credit unions whose principal office is in Illinois.
14. ~~Various tax-exempt securities~~. Municipal bonds issued by the county, park district, sanitary district, or other municipal corporation, or bonds and other interest bearing obligations of the State of Illinois, or of any other state or of any political subdivision or agency of the State of Illinois or of any other state, whether the interest earned thereon is taxable or tax-exempt under federal law.
15. Illinois Metropolitan Investment Fund.

Exclusions

The Village will not invest in repurchase agreements or invest in any Commercial Paper rated below A1/P1, at the time of investment. ~~The Village currently desires not to use Repurchase Agreements for risk, Accounts of Credit Unions, and various tax-exempt securities due to rate considerations . It is also intended not to use the lowest classification of ratings for Commercial Paper (A3, P3).~~

Diversification

It is the policy of the Village to diversify its investment portfolio. Investments shall be diversified to eliminate the risk of loss resulting in over concentration in a specific maturity, issuer, or class of securities. Concentration in short term corporation obligations will not exceed 90% of the limit contained in Illinois law. Diversification strategies shall be determined and revised periodically (no less than once a year) by the Finance Committee with advice from the Investment Committee an9 then approved by the Village Board. This diversification shall take into account of cash flow projections.

Collateralization

1. It is the policy of the Village to require that time deposits in excess of FDIC or SAIF insurable limits be secured by some form of collateral to protect public deposits in a single financial institution if it were to default due to poor management or economic factors.
2. Eligible collateral instruments and collateral rations (market value divided by deposit) are as follows :
   a) U.S. Government Securities = ~~110~~102%
   b) Obligations of Federal Agencies = ~~110~~102%
   c) Obligations of Federal Instrumentalities = ~~110~~102%
   d) Municipal Obligations ~~of the State of Illinois~~ = ~~110~~102%
   e) FDIC Insured Certificates of Deposits ~~C.D.'s~~ = ~~100~~102%
   ~~e)~~f) FHLB Letter of Credit = 100%

   The ratio of fair market value of collateral to the amount of funds secured shall be reviewed quarterly and additional collateral will be requested when the ratio declines below the level required.

3. Safekeeping of Collateral
   a. Third party safekeeping is required for all pledged securities collateral. To accomplish this, the securities can be held at the following locations:
      i) Federal Reserve Bank or its branch office.

ii) Another custodial facility - generally in a trust department of a bank through book-entry at the Federal Reserve, unless physical securities are involved.

iii) By an escrow agent of the pledging institution.

b. Safekeeping will be documented by an approved written agreement. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

c. Substitution or exchange of securities held in safekeeping for collateral can be done without prior written notice of the Village provided the market value of the replacement securities are equal or greater than the market value of the securities being replaced. The Village will be notified by phone and then in writing of all substitutions.

Maximum Maturities

Maturities of investment of all funds except as noted below shall not exceed five years, unless a temporary extension of maturities is approved by the Village Board. Maturities of investment of Capital Project Funds shall be matched to the specific cash needs of the particular funds. With determined minimum fund balance requirements, specific funds may be invested in longer term securities to earn the higher interest rates.

Safekeeping of Securities

a) Third party safekeeping is required for all securities. To accomplish this; the securities can be held at the following locations:

   a) A Federal Reserve Bank or its branch office
   b) At another custodial facility - generally in a trust department through book-entry at the Federal Reserve, unless physical securities are involved.
   c) By an escrow agent of the pledging institution
   d) A financial institution on the Illinois State Treasurer's approved list of safekeeping banks

b) Safekeeping will be documented by an approved written agreement. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

Qualified Financial Institutions

1. Depositories - Demand Deposits

a) Any financial institution selected by the Village shall provide normal banking services, including, but not limited to: checking accounts, wire transfers, purchase and sale of U.S. Treasury securities and safekeeping services.
b) The Village will not maintain funds in any financial institution that is not a member of the FDIC or SAIF system. In addition, the Village will not maintain funds in any institution not willing or capable of posting required collateral for funds in excess of FDIC or SAIF insurable limits.
c) To qualify as a depository, a financial institution must furnish the Treasurer or the Treasurer's Agent with copies of the latest two statements of condition which it is required to furnish to the Director of Financial Institutions or to the Comptroller of Currency as the case may be. While acting as a depository, a financial institution must continue to furnish such statement to the Treasurer or Treasurer's agent within 45 days of the end of each quarter.
d) Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Finance Committee on an annual basis. Fees for services shall be substantiated by a monthly account analysis and shall be reimbursed by means of compensating balances.
e) All financial institutions acting as a depository for the Village must enter into a "Depository Agreement".

2. Banks and Savings and Loans - Certificates of Deposit

Any financial institution selected to be eligible for the Village's competitive certificate of deposit purchase program must meet the following requirements:

a) Shall provide wire transfer and safekeeping services
b) Shall be a member of FDIC or SAIF system and shall be willing and capable of posting required collateral for funds in excess of FDIC or SAIF insurable limits.
c) To qualify as a depository, a financial institution must furnish the Treasurer or the Treasurer's Agent with copies of the latest two statements of condition which is required to furnish to the Director of Financial Institutions or to the Comptroller of Currency as the case may be. While acting as a depository, a financial institution must continue to furnish such statements to the Treasurer or the Treasurer's Agent within 45 days of the end of each quarter.

~~3. Sixty-Five Percent Rule~~

~~The amount of funds deposited and/or invested in a financial institution shall not exceed 65% of the capital stock and surplus of such institution unless collateral security has been pledged; in which case the amount of such deposits and/or investment shall not exceed 75%.~~

Management of Program

1. The following individuals are authorized to purchase and sell investments, authorize wire transfers, authorize the release of pledged collateral, and to execute any documents required under this policy at the direction of the investment committee:

   a) ~~Mayor~~Village Administrator
   b) ~~Trustee who is Chair of Finance Committee~~Finance Director
   ~~c) Village Clerk~~
   ~~d)~~c) Village Treasurer

   These documents include:

   i) Wire Transfer Agreement
   ii) Depository Agreement
   iii) Safekeeping Agreement
   iv) Custody Agreement

2. The Chair of the Finance Committee is authorized to appoint two additional people to join with the Chair, Vice-Chair of the Finance Committee and Village Administrator to form the Investment Committee. These people should have knowledge either of investment nature and/or be involved in the management or cash management of the Village.

3. Management responsibility for the investment program is hereby delegated to the Investment Committee who shall establish written procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in any investment transaction except as provided under the terms of this policy and the procedures established by the Investment Committee. The Finance Committee shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

4. The wording of agreements necessary to fulfill the investment responsibilities is the responsibility of the Finance Committee to bring to the Board as a Committee of the Whole who shall periodically review them for the consistency with Village policy and State law and who shall be assisted in this function by village legal counsel. These agreements include but are not limited to:

   a) Wire Transfer Agreement
   b) Depository Agreement
   c) Safekeeping Agreement

d) Custody Agreement

INVESTMENT POLICY

Ethics and Conflicts of Interest

Committee and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Commission any material financial interests in financial institutions that conduct business with the Village, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the Village's portfolio. Employees and committees shall subordinate their personal investment transactions to those of the Village particularly with regard to the timing of purchases and sales.

Indemnification

Investment Committees and employees of the Village acting in accordance with this Investment Policy and written procedures as have been or may be established and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market changes.

Reporting

This Finance Committee shall submit to the Committee of the Whole and then to the Village Board an investment report which shall describe the portfolio in terms of investment securities, maturities and cost by fund, and earnings for the current period and year to date as well as an estimated annual rate of return. The report shall indicate any areas of policy concern and planned revision of investment strategies.

The Finance Committee shall submit to the Committee of the Whole and then to the Board a comprehensive annual report on the investment program and activity. The report shall include a review of the year's overall performances as well as a projection of what may be anticipated in the future.

<u>MISCELLANEOUS</u>

Administrative Help

The Village shall provide and pay for the professional and administrative help, staff and equipment necessary to carry out the duties and responsibility contained in this investment policy and the procedures established for the operation of the program. This includes arbitrage rebate monitoring and reporting.

Amendment

This policy shall be reviewed from time to time and revisions shall be presented to the Committee of the Whole and then to the Board of Trustees for their approval.