

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

 X Resolution or Ordinance (Blue) *Waiver of First Requested*
 Recommendations of Boards, Commissions & Committees (Green)
 Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: David A. Hulseberg, Village Manager

DATE: March 5, 2012 (COW)(B of T) March 15, 2012

TITLE: Resolution Authorizing an Amendment to the Village of Lombard
Financial Policies Regarding the Fund Balance/Net Assets Policy

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

At the meeting on February 27, 2012, the Finance Committee discussed and voted upon an amendment to the Village's Financial Policies as recommended by staff, in order to comply with GASB #54. A memo on the proposed amendment as presented to the Finance Committee is attached. There are no substantive changes to the fund balance policy, just changes in terminology that are required under GASB #54.

The Finance Committee voted unanimously to recommend approval of the staff recommendation and the amended wording to the policy.

Review (as necessary):

| | | | |
|--------------------|-----------------------|------|---------------|
| Village Attorney X | _____ | Date | _____ |
| Finance Director X | <i>Timothy Sexton</i> | Date | <i>3/5/12</i> |
| Village Manager X | _____ | Date | _____ |

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.

RESOLUTION
R _____ 12

A RESOLUTION AUTHORIZING ADOPTION OF ADDITIONS AND AMENDMENTS
TO THE VILLAGE OF LOMBARD FINANCIAL POLICIES

WHEREAS, the President and Board of Trustees of the Village of Lombard, DuPage County, Illinois previously approved by Resolution 63-88 various financial policies approved by the Village Finance Committee, and

WHEREAS, Resolution 63-88 has in the past been amended by Resolutions 64-88, 13-94, 47-95, 58-95, 14-96, 98-96, 50-97, 97-98, 71-00, 69-02, 02-03, 142-03, 120-07, 85-09; and

WHEREAS, the Finance Committee has reviewed and recommended to the Corporate Authorities additions or amendments to the policies as attached hereto; and

WHEREAS, these policies contribute to the continuity and credibility of administering public funds; and

WHEREAS, the Corporate Authorities deem it to be in the best interest of the Village of Lombard to approve such policies.

NOW, THEREFORE, BE IT RESOLVED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF LOMBARD, DU PAGE COUNTY, ILLINOIS as follows:

Section 1: That the amendments to the Village of Lombard Financial Policies are hereby approved.

Section 2: That the Director of Finance is hereby directed to implement said policies as approved.

Adopted this ____ day of _____, 2012

Ayes: _____

Nays: _____

Absent: _____

Approved this ____ day of _____, 2012

William J. Mueller
Village President

ATTEST:

Brigitte O'Brien
Village Clerk



MEMORANDUM

To: Finance Committee
From: Timothy Sexton, Director of Finance
Date: February 24, 2012
Subject: Fund Balance/Net Asset Policy

Finance staff will review the attached Fund Balance/Net Assets Policy at the Finance Committee meeting on Monday, February 27, 2012. Our current policy is on the Village website under Budget Information in Section 2: Financial Policies in the 2011-2012 Budget, <http://www.villageoflombard.org/index.aspx?nid=84>. The Village must change the current policy to comply with GASB #54. Ron Amen, from the auditing firm for the Village, will be in attendance to respond to questions.

Staff is requesting the Finance Committee's approval of this proposed policy and recommendation to the Village Board of Trustees for their consideration.

VILLAGE OF LOMBARD FUND BALANCE/NET ASSETS POLICY

Purpose

A Fund Balance/Net Assets Policy establishes a minimum level at which the projected end-of-year fund balance/net assets must observe, as a result of the constraints imposed upon the resources reported by the governmental and proprietary funds. This policy is established to provide financial stability, cash flow for operations, and the assurance that the Village will be able to respond to emergencies with fiscal strength. More detailed fund balance financial reporting and the increased disclosures will aid the user of the financial statements in understanding the availability of resources.

It is the Village's philosophy to support long-term financial strategies, where fiscal sustainability is its first priority, while also building funds for future growth. It is essential to maintain adequate levels of funds balance/net assets to mitigate current and future risks. Fund balance/net asset levels are also crucial consideration in long-term financial planning. Credit rating agencies carefully monitor levels of fund balance/net assets and unassigned fund balance in the General Fund to evaluate the Village's continued creditworthiness.

Definitions

Governmental Funds

The fund balance will be composed of three primary categories:

- 1) Non-spendable Fund Balance – portion of a Governmental Fund's fund balance that is not available to be spent, either in the short-term or long-term, or through legal restrictions (e.g., inventories, prepaid items, land held for resale and endowments).
- 2) Restricted Fund Balance – portion of a Governmental Fund's fund balance that are subject to external enforceable legal restrictions (e.g., grantor, contributor and property tax levies).
- 3) Unrestricted Fund Balance – is made up of three components:
 - A) Committed Fund Balance – the portion of a Governmental Fund's fund balance with self-imposed constraints or limitations that have been placed at the highest level of decision making through formal Board action. The same action is required to remove the commitment of fund balance.
 - B) Assigned Fund Balance – the portion of a Governmental Fund's fund balance to denote an intended use of resources but with no formal Board action.
 - C) Unassigned Fund Balance – available expendable financial resources in a governmental fund that is not the object of tentative management plan.

Some funds are funded by a variety of resources, including both restricted and unrestricted (committed, assigned and unassigned). The Village assumes that the order of spending fund balance is as follows: restricted, committed, assigned, unassigned.

Definitions – Continued

Proprietary Funds

Proprietary funds include enterprise and internal service funds. The net assets will be composed of three primary categories:

- 1) Invested in Capital Assets, Net of Related Debt – portion of a proprietary fund's net assets that reflects the fund's net investment in capital assets less any amount of outstanding debt related to the purchase/acquisition of said capital assets. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the Village.
- 2) Restricted Net Assets – portion of a proprietary fund's net assets that are subject to external enforceable legal restrictions (e.g., grantor, contributor and bond covenants).
- 3) Unrestricted Net Assets – portion of a proprietary fund's net assets that is neither restricted nor invested in capital assets (net of related debt).

Authority

Governmental Funds

Committed Fund Balance – A self-imposed constraint on spending fund balance must be approved by ordinance or resolution of the Board. Any modifications or removal of the self-imposed constraint must use the same action used to commit the fund balance. Formal action to commit fund balance must occur before the end of the fiscal year. The dollar amount of the commitment can be determined after year end.

Assigned Fund Balance – A self-imposed constraint on spending fund balance based on the Village's intent to use fund balance for a specific purpose. The authority may be delegated to members of the management team by the Board.

Minimum Unrestricted Fund Balance Levels

Governmental Funds

General Fund

Purpose – Is a major fund and the general operating fund of the Village. It is used to account for all activities that are not accounted for in another fund.

Fund Balance – Unrestricted fund balance targets will be maintained at an amount which represents an average of three (3) months of operating expenditures. Balances above the maximum may be transferred to other funds or to capital projects at the Board's discretion.

Minimum Unrestricted Fund Balance Levels – Continued

Special Revenue Fund

Purpose - Used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Financing – Special revenue funds are provided by a specific annual property tax levy or other restricted and/or committed revenue source. Financing may also be received from other charges for services, etc.

Fund Balance – Derived from property taxes (or another restricted revenue source); therefore, legally restricted. The portion of fund balance derived from property taxes will be legally restricted.

The Liability Insurance Account will maintain a committed fund balance amount equal to the actuarially determined amount required to make future payments on workers compensation and property and casualty losses. In addition, an assigned fund balance of ten percent (10%) of total annual expenditures shall be maintained to cover additional unanticipated insurance costs or committed requirements. The Village will establish a contingency expenditure balance to provide for unanticipated expenditures of a non-recurring nature or to meet unexpected increases in service delivery costs.

Debt Service Fund

Purpose – Established to account for financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Financing – The Village levies an amount or transfers in an amount close to the principal and interest that is anticipated to be paid.

Fund Balance – Derived from property taxes; therefore, legally restricted.

Capital Projects Fund

Purpose - Established to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets, excluding those types of capital related outflows financed by proprietary funds.

Financing – Non-home rule sales tax, utility tax, motor fuel tax, TIF funds, debt financing, and grants are used to finance projects.

Fund Balance – Considered segregated for maintenance, construction and/or development; therefore, considered restricted, committed, or assigned depending on the intended source/use of the funds.

Minimum Unrestricted Fund Balance Levels – Continued

Proprietary Funds

Enterprise Fund

Purpose - Established to account for and report financial resources that are invested in capital assets, net of related debt, restricted, or unrestricted for future spending related to the fund. The focus of enterprise fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Enterprise funds are required to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Financing – User fees, debt financing, and non-home rule sales tax are used to finance operations, capital outlay and improvements, and debt service retirements.

Net Assets – Considered invested in capital assets net of related debt (for amounts capitalized as capital assets) less the outstanding debt related to the acquisition of said assets. Restricted net assets relate to bond covenant reserves as outlined in the bond ordinance, if applicable. Unrestricted fund balance targets will be maintained at an amount which represents an average of three (3) months of operating expenditures (excluding debt service and capitalized asset expenses).

Internal Service Fund

Purpose - Established to account for and report financial resources that are invested in capital assets, net of related debt, restricted, or unrestricted for future spending related to the fund. The focus of internal service fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Internal service funds are used to account for the financing of goods or services provided by an activity to other departments, funds or component units of the Village on a cost-reimbursement basis.

Financing – User fees charged to other departments, funds, or component units, or debt financing are used to finance operations, capital outlay and improvements, and debt service retirements.

Net Assets – Considered invested in capital assets net of related debt (for amounts capitalized as capital assets) less the outstanding debt related to the acquisition of said assets. Restricted net assets relate to bond covenant reserves as outlined in the bond ordinance, if applicable. Unrestricted net asset targets should represent appropriate levels given the activity of the fund and the discretion of the Board and management (excluding debt service and capitalized asset expenses).

Other Considerations

In establishing the above policies for unrestricted fund balance/net asset levels, the Village considered the following factors:

- The predictability of the Village's revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile)
- The Village's perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
- The potential drain upon General Fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require a higher level of unrestricted fund balance be maintained in the General Fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the General Fund)
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained)
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose)

If any of the above factors change, the Village should readdress current unrestricted fund balance/net asset levels to ensure amounts are appropriate.