

# Village of Lombard Financial Policies

2010-2011

2011-2012

2012-2013

2013-2014

2014-2015

2015-2016

2016-2017

2017-2018

2018-2019

2019-2020

2020-2021

2021-2022

2022-2023

2023-2024

2024-2025

## FINANCIAL POLICIES

### TABLE OF CONTENTS

#### ACCOUNTING & PURCHASING POLICIES

ACCOUNTING, AUDITING & FINANCIAL REPORTING	1
CASH MANAGEMENT	1
FIXED ASSETS	2-3
CHANGE ORDERS	4-7
FUND BALANCE/NET ASSETS	8-12

#### DEBT & INVESTMENT POLICIES

DEBT MANAGEMENT	13
INVESTMENT	13-19

#### REVENUE POLICIES

COLLECTION	20
EMERGENCY MEDICAL TRANSPORTATION FEES	20
PROPERTY TAX	21
USER FEES, PERMITS & OTHER CHARGES	21
SPECIAL ASSESSMENT POLICY FOR UNIMPROVED STREETS	22

#### RESERVE POLICIES

FACILITY RESERVE	23
LAKE MICHIGAN WATER RESERVE ACCOUNT	23
TECHNOLOGY RESERVE	23-25
<del>UTILITY TAX YEAR-END GENERAL FUND MAINTENANCE POLICY RESERVE</del>	<del>265</del>
WATER & SEWER CAPITAL RESERVE	276
VEHICLE & EQUIPMENT RESERVE	276-287

#### BUDGET POLICIES

LEVEL OF SERVICE	298
PERSONNEL LEVELS	298
OPERATING BUDGET	298
CAPITAL BUDGET	3029
MOTOR FUEL TAX	30-3129
REBATE OF FUNDS	310

#### RISK MANAGEMENT POLICY

RISK MANAGEMENT AND LOSS CONTROL	31-320
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## **ACCOUNTING & PURCHASING POLICIES**

### **ACCOUNTING, AUDITING & FINANCIAL REPORTING POLICY - Adopted December 3, 1987**

1. The Village of Lombard's accounting records for general government operations are maintained on a modified accrual basis, with revenues recorded when measurable and available and expenditures recorded when the services of goods are received and liabilities incurred. Accounting records for the Village's pension plans and enterprise funds are maintained on an accrual basis with revenues recorded when earned and expenses recorded when the liabilities are incurred. In developing and modifying the Village's accounting system, consideration is given to adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable but not absolute assurance that assets are safe guarded and financial records reliable.
2. The Village will produce annual financial reports in accordance with generally accepted accounting practices as outlined by the Governmental Accounting Standards Board.
3. An independent audit will be performed annually.

### **CASH MANAGEMENT - Adopted July 22, 1993; Revised May 1, 2003**

In order to properly manage the funds of the Village and the commingled cash accounts that the Village maintains it is necessary that from time to time interfund loans and transfers may be needed to cover negative cash balances. The Director of Finance is authorized to make such interfund loans and transfers as necessary in order to eliminate negative cash balances.

Such loans and transfers shall be recorded on the books and records of the Village and shall be audited as part of the Annual Village audit. Beginning June 1, 2003, any funds with negative cash balances or interfund loans will be charged interest expense.

## **FIXED ASSETS - Adopted June 6, 2002**

### PURPOSE

The Village shall establish and maintain fixed asset records to comply with governmental financial reporting standards, to provide a basis for determining appropriate insurable values, and to establish responsibility for property control.

### DEFINITION

Fixed assets shall include land, infrastructure, buildings, machinery, equipment, and vehicles with a life expectancy of one year or more, subject to the capitalization threshold below. Infrastructure shall include roads (including curbs and gutters), bridges, water and sewer mains, pumping stations, lift stations, traffic lights, streetlights, etc. Capitalization of road projects only occurs when the street is torn down to the base and completely rebuilt.

All expenditures related to an infrastructure project will also be capitalized (engineering, legal services, etc.). All other street construction, i.e. regrinding, patching, etc., is considered maintenance, and not capitalized. Water and sewer projects will be capitalized when the project constructs additional infrastructure or replaces infrastructure, and meets the capitalization threshold below. Repairs of water and sewer assets will only be capitalized when they materially extend the life of the original asset, and meet the capitalization threshold below.

### CAPITALIZATION THRESHOLD

The capitalization threshold or minimum value of an asset at the time of acquisition is established at \$50,000 on a per unit basis for machinery, equipment and vehicles, \$100,000 for buildings and improvements, and \$200,000 for land and infrastructure.

### PROPERTY ACCOUNTING

Responsibility for control of assets rests with the operating department wherein the asset is located. The Director of Finance shall ensure that control over fixed assets is maintained by establishing a fixed asset inventory that is updated annually and documents all additions and deletions to the fixed asset records. Operating departments shall report the disposal or relocation of a fixed asset promptly to the Director of Finance or his designee. Assets acquired during the year shall be recorded as an expenditure against the appropriate capital expenditure account, which shall be used for financial reporting purposes.

Assets shall be recorded in the fixed asset inventory by using an appropriate description and by recording serial numbers where applicable. Tagging of assets will not be required.

**PROPERTY CONTROL**

Assets, which do not meet the definition of "fixed assets" under this policy, but in the aggregate account for a substantial asset group, shall not be capitalized for financial accounting purposes. Rather, the responsible operating department shall maintain control of these assets using a system suitable for doing so. Examples of asset groups (and the department responsible for them) which shall be inventoried and maintained separately from the Village's fixed asset inventory include computers and related equipment (MIS Department), guns (Police), vehicles (Fleet Services) and any other asset group identified by the Director of Finance.

**DEPRECIATION METHOD**

All assets will be depreciated using the straight-line method of depreciation over the useful life of the asset. The Director of Finance will assign useful lives to each asset according to the guidelines below.

<u>Type of Asset</u>	<u>Useful Life</u>
Buildings	30-50 Years
Vehicles and Equipment	3-15 Years
Land	Not Depreciated
Land Improvements	10-20 Years
Water & Sewer Infrastructure	20-50 Years
Other Infrastructure	20-50 Years

**CHANGE ORDERS – Adopted February 16, 1995; Revised May 1, 2003; Revised November 3, 2005**

State statute requires Village Board approval of all change orders for \$10,000 or more and for all change orders which, when combined with those previously approved, increase or reduce the contract price by more than \$10,000. For projects with change orders exceeding 50% of the original contract amount, the contract must be rebid per state statute. The following financial policy is consistent with this statute.

It shall be the responsibility of each Department Head to ensure that all change orders are submitted to the Village Manager or Village Board for approval. In addition, Department Heads shall be responsible for monitoring all contract payouts and retainages and ensuring that the amount of the change order is correct.

Where a change order requires the approval of the Public Works Committee or Board of Local Improvements, approval shall be received prior to submitting the change order to the Village Board or Village Manager. Departments shall follow the procedures established by the Public Works Department for submitting change orders to these boards and committees.

The procedures outlined below shall not apply to professional service contracts (e.g. engineering, architectural or land surveying work). Changes to professional service contracts shall be treated as contract amendments.

**1. Change Orders Increasing or Reducing the Contract Price - Original Contracts for Less Than \$40,000:**

- a. Change Orders To Contracts for Less Than \$40,000 which Increase or Reduce the Contract Price by Less Than 25%:

Change orders to contracts for less than \$40,000 which do not exceed 25% of the original contract price may be approved by the Village Manager or his/her designee. Departments may receive approval by submitting a purchase requisition for the amount of the change order and a "Village of Lombard Change Order Form" to the Assistant Finance Director who will review it for completeness and accuracy. Upon approval by the Assistant Finance Director, the change order will be forwarded to the Director of Finance and Village Manager for final approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces an original contract for \$40,000 or more by more than 25% when combined with all other change orders previously approved. In these instances, departments shall be responsible for following the procedures described below for submitting change orders to the Village Board.

- b. Change Orders To Contracts for Less Than \$40,000 which Increase or Reduce the Contract Price By 25% Or More:

Change orders which increase or reduce a contract for less than \$40,000 by 25% or more (of the original contract price) must receive the approval of both the Village Manager and Village Board. In these cases, departments shall follow the procedures outlined below for submitting change orders to the Village Board. Change orders may not exceed 50% of the original contract amount without rebidding the project.

**2. Change Orders Increasing or Reducing the Contract Price - Original Contracts for \$40,000 or More:**

- a. Change Orders To Contracts For \$40,000 Or More Which Increase Or Reduce The Contract Price By Less Than \$10,000:

Change orders which increase or reduce an original contract for \$40,000 or more by less than \$10,000 require only the approval of the Village Manager or his/her designee. Departments may receive approval by submitting a purchase requisition for the amount of the change order and a "Village of Lombard Change Order Form" to the Assistant Finance Director who will review it for completeness and accuracy. Upon approval by the Assistant Finance Director, the change order will be forwarded to the Director of Finance and Village Manager for final approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces the original contract for \$40,000 or more by more than \$10,000 when combined with all other change orders previously approved. In these instances, Departments shall be responsible for following the procedures described below for submitting change orders to the Village Board.

- b. Change Orders To Contracts For \$40,000 Or More Which Increase Or Reduce The Contract Price By More Than \$10,000:

Change orders which increase or reduce the contract price by more than \$10,000 require the approval of the Village Manager and Village Board.

In these instances, departments should follow the procedures for submitting change orders to the Village Board outlined below. Change orders may not exceed 50% of the original contract amount without rebidding the project.

**3. Change Orders Increasing or Reducing the Time for Completion of a Contract:**

- a. Change Orders Increasing or Reducing the Time for Completion of the Contract by Less Than 30 Days

Change orders which increase or reduce the time for completion of a contract (regardless of the original contract price) by less than 30 days require only the approval of the Village Manager. Departments may receive approval by submitting a Village of Lombard Change Order Form directly to the Village Manager for approval.

Note: A change order (and all subsequent change orders) must be submitted to the Village Board for approval if it increases or reduces the time for completion of the contract by more than 30 days when combined with all other change orders previously approved. In these instances, departments shall be responsible for following the procedures outlined below for submitting change orders to the Village Board.

b. Change Orders Which Increase or Reduce the Time for Completion of the Contract by More Than 30 Days

Change orders which increase or reduce the time for completion of the contract by more than 30 days (regardless of the original contract price) require Village Board approval. In these instances, departments shall follow the procedures for submitting change orders to the Village Board outlined below.

PROCEDURES FOR SUBMITTING CHANGE ORDERS TO THE VILLAGE BOARD

Change orders requiring Village Board approval shall be placed on the Village Board's consent agenda and shall be accompanied by the following:

1. A purchase requisition for the amount of the change order (except with change orders dealing with time.) Purchase requisitions shall identify the appropriate budget account(s) and project(s) to be charged
2. Board of Trustees' Action Request Form
3. Village of Lombard Change Order Form and

A memorandum explaining the need for the contract revision. If a change order for less than \$10,000 is submitted to the Village Board for approval, departments shall explain that Village Board approval is necessary because the total value of all change orders exceeds \$10,000.

Change orders shall be numbered sequentially and shall bear the signature of the Department Head. In instances where a final balancing change order (regardless of the amount) reduces the contract price, departments shall instruct Finance to close out the remaining encumbered funds.



In special circumstances, a change order requiring Village Board approval may be authorized by the Village Manager or his/her designee prior to being placed on the Village Board agenda. After receiving authorization, however, the department, following the requirements outlined above, shall place the change order on the Village Board's agenda for the following meeting.

## **FUND BALANCE/NET ASSETS POLICY - Adopted March 15, 2012**

### **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.

### ***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.

#### 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. The Village will levy for the actuarially determined normal loss amount and any unfunded liability will be spread over four years.

#### 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.

### ***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.

## **DEBT & INVESTMENT POLICIES**

### **DEBT MANAGEMENT - Adopted December 3, 1987**

The Village will confine long-term borrowing to capital improvements and moral obligations and the use of short-term debt for tax anticipation purposes only. The Village will follow a policy of full disclosure on every financial report and bond prospectus. General obligation debt will not be used for enterprise activities without a designated retiring revenue source.

Debt financing will be used in the following circumstances:

1. For one-time capital improvements
2. When the useful project life will exceed the term of the financing
3. When project revenues or specific resources can be proven to be sufficient to cover the long-term debt
4. For projects that will benefit the residents of Lombard

The Village will maintain good communications with bond rating agencies about its financial condition.

### **INVESTMENT POLICY - Adopted December 3, 1987; Revised December 5, 1996 & December 2, 1999; Revised May 1, 2003; Revised May 3, 2007**

This Investment Policy applies to the investment activities of all funds of the Village of Lombard, except for the Police Pension Fund and the Firefighters' Pension Fund, which are subject to the order of the Board of Trustees of each respective fund.

The purpose of the Investment Policy of the Village of Lombard is to establish cash management and investment guidelines for Village officials responsible for the stewardship of public funds.

Specific objectives include:

**Safety:** Safety of principal is the foremost objective of the Investment Policy of the Village of Lombard. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

**Diversity:** The Village shall diversify its investments to avoid incurring unreasonable risks regarding specific security types and/or individual institutions.

**Liquidity:** The Village's investment portfolio shall remain sufficiently liquid to enable the Village to meet all operating requirements that may be reasonably anticipated in any Village fund.

**Return on Investments:** The investment portfolio of the Village shall be designed with the objective of regularly exceeding the average return of three (3) month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified herein and prudent investment principles.

### **Prudence**

In managing its investment portfolio, Village officials shall avoid any transaction that might impair public confidence in the Village of Lombard. Investments 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.

Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

### **Responsibility for the Investment Program**

Management responsibility for the investment program of the Village of Lombard is hereby delegated to the Director of Finance, who shall establish written procedures for the operation of the Investment Program consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Director of Finance shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials.

The responsibility for investment activities of the Police and Firefighters' Pension Funds rests with the respective Board of Trustees of each fund.

### **Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Village Manager any material financial interest in financial institutions that conduct business with this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officers shall subordinate their



personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

#### Cash Management

The Village's Policy regarding cash management is based upon the realization that there is a time-value to money. Temporarily idle cash may be invested for a period of one (1) day to an excess of one (1) year depending upon when the money is needed.

Accordingly, the Director of Finance shall prepare written cash management procedures, which shall include, but not be limited to, the following:

Receipts: All monies due the Village shall be collected as promptly as possible and deposited in an interest-bearing fund. Monies that are received shall be deposited in an approved financial institution no later than the next business day after receipt by the Finance Department. Amounts that remain uncollected after a reasonable length of time shall be subject to any available legal means of collection.

Disbursements: Any disbursement to suppliers of goods and/or services or to employees for salaries and wages shall be contingent upon an available budget appropriation.

#### Pooling of Cash

Except for cash in certain restricted and special accounts, the Village will pool the cash of various funds to maximize investment earnings. Investment income will be allocated to the various funds based upon their respective participation. Beginning June 1, 2003, any funds with negative cash balances or interfund loans will be charged interest expense.

#### Accounting

The Village of Lombard maintains its accounting records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the Village in accordance with generally accepted accounting principals as established by the Governmental Accounting Standards Board (GASB).

#### Financial Institutions

It shall be the policy of the Village of Lombard to select financial institutions on the following basis:

Security: The Village will maintain funds only in financial institutions that are members of the FDIC system. Furthermore, the Village of Lombard will maintain funds only in financial institutions willing or capable of posting required collateral for funds in excess of the FDIC insurable limits.

Size: The Village of Lombard will select as depositories, only financial institutions in which the Village funds on deposit will not exceed fifty percent (50%) of the institution's capital stock and surplus.

Statement of Condition: The Village of Lombard will maintain for public and managerial inspection current statements of condition for each financial institution named as depository. If, for any reason the information furnished is considered by the Director of Finance to be insufficient, the Village may request additional data. The refusal of an institution to provide such data upon request may serve as sufficient cause for the withdrawal of Village funds.

Services and Fees. Fees for services shall be mutually agreed to by an authorized representative of the depository bank and the Director of Finance.

#### Dealer Brokers

A list will be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of Illinois. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

#### Investment Selection

The Village of Lombard may invest in any type of security allowed by state law (30 ILCS 235/2).

The Village will specifically avoid any purchase of financial forwards or futures, any leveraged investments, lending securities or reverse repurchase agreements. Repurchase agreements will only be purchased if specific securities are under the control of the Village of Lombard or its agent depository.

#### Diversification and Maturities

To reduce the risk of default and attain market average rates of return, the investment portfolio of the Village shall use the following diversification limits as guidelines:

No financial institution shall hold more than twenty percent (20%) of the Village of Lombard's investment portfolio, exclusive of U.S. Treasury securities and collateralized investments held in safekeeping.

Commercial paper shall not exceed ten percent (10%) of the Village's investment portfolio.

The target allocation for the Illinois Public Treasurer's Investment Pool is twenty-five percent (25%) of the investment portfolio.

The target allocation for the Illinois Metropolitan Investment Trust is thirty-five percent (35%) of the investment portfolio.

The above allocations to the Illinois Public Treasurer's Investment Pool and the Illinois Metropolitan Investment Trust may be increased at the discretion of the Finance Director, if market conditions exist that make this beneficial to the Village.

Maturities of investments of the various funds of the Village shall be determined to enable the Village to have available sufficient cash for all operating purposes. Investment maturities in all Funds shall be limited to a maximum maturity of sixty (60) months from the date of purchase. Investments in other funds may be purchased with maturities to match future projected liability requirements. However, any investment purchased with a maturity longer than sixty (60) months must be supported by written documentation explaining the reason for the purchase and must be specifically pre-authorized by the Finance Committee.

Notwithstanding the provisions of the above paragraph, no investment in any fund shall have a maturity date greater than the period allowed by Illinois Compiled Statutes, by Village Ordinance or by other standards of this policy.

#### Collateral

It is the policy of the Village of Lombard to require that funds on deposit in excess of FDIC limits be secured by some form of collateral. The Village will accept any of the following assets as collateral:

U.S. Government Securities

Obligations of Federal Agencies

Obligations of Federal Instrumentalities

Obligations of the State of Illinois

Obligations of the Village of Lombard

General Obligation Municipal Bonds Rated "A" or better

Any other collateral identified in Illinois Compiled Statutes as acceptable for use by the Treasurer of the State of Illinois.

The amount of collateral provided will be not less than one-hundred-ten percent (110%) of the fair market value of the net amount of public funds secured. Pledged collateral will be held by the Village of Lombard or in safekeeping and evidenced by a safekeeping agreement. If collateral is held in safekeeping, it may be held by a third party or by an escrow agent of the pledging institution. Collateral agreements will preclude the release

of the pledged assets without an authorized signature from the Village of Lombard, but they will allow for an exchange of collateral of like value.

#### Internal Controls

The Director of Finance shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent certified public accountant in conjunction with the annual examination of the financial statements of the Village. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the Village.

#### Reporting

The Director of Finance shall submit a bi-monthly investment report that provides the following information:

- Principal and type of investments
- Book value
- Earnings by fund for the current month and year to date
- Breakdown of cash and investments
- Percentage of the Portfolio represented by each investment category

From time to time the Director of Finance shall suggest policies and improvements that might be made in the investment program.

#### Indemnification

The standard of prudence to be used by investment officials of the Village of Lombard shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons or 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 possible income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the Village's overall portfolio. Investment Officers of the Village of Lombard acting in accordance with this Investment Policy and written procedures as may be established and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion, and appropriate action is taken to control adverse development.

Amendment

This Policy shall be reviewed from time to time and any changes shall be presented to the Board of Trustees for their approval.

## **REVENUE POLICIES**

### **COLLECTION - Adopted December 3, 1987**

The Village will take an aggressive approach in pursuing all revenues due for services provided, and ensure that fines and permits due the Village are collected in a reasonable fashion. This policy will hold true for revenues generated in operating, enterprise, and special revenue funds.

### **EMERGENCY MEDICAL TRANSPORTATION FEES - Adopted April 25, 1996; Revised May 1, 2003**

The Village of Lombard Fire Department provides Emergency Medical Service and Emergency Medical Transportation Service to residents and non-residents of the Village and the Glenbard Fire Protection District. Fees are imposed for Emergency Medical Transportation Services.

It is the policy of the Village that there shall be separate Emergency Medical Transportation Service Fees established for the following groups:

- Residents of the Village of Lombard and the Glenbard Fire Protection District.
- Non-residents of the Village of Lombard and the Glenbard Fire Protection District.

There are three different levels of fees within each of these two groups, based on the level of emergency medical service that is delivered:

- Basic
- Advanced I
- Advanced II

Furthermore, it is the policy of the Village of Lombard that up to 50% of the cost to provide emergency medical services may be funded through Emergency Medical Transportation Fees. In calculating the cost of this service, the Village will include salaries, overtime, other operating costs (commodities, contractual services, capital equipment), vehicle maintenance, vehicle acquisition, fringe benefits and administrative overhead. Within these guidelines, fees shall be reviewed on an annual basis and may be adjusted upon recommendation of the Village Manager and approval of the Village Board of Trustees.

**PROPERTY TAX POLICY – Adopted December 3, 1987; Revised May 7, 1998;  
Revised May 1, 2003**

The Village of Lombard is authorized to levy a property tax for corporate purposes in accordance with Chapter 65, 5/8-3-1 of the Illinois Compiled Statutes.

The Village is also authorized to levy a property tax levy for special purposes in accordance with the provisions of the Illinois Compiled Statutes as noted below. The Village's special purpose levies support the following funds:

- Federal Insurance Contributions Act (FICA) 40 ILCS 5/21-110
- Firefighters' Pension 40 ILCS 5/4-118
- Illinois Municipal Retirement Fund (IMRF) 40 ILCS 5/7-171
- Liability Insurance 745 ILCS 10/9-107
- Police Pension 40 ILCS 5/3-125
- Public Benefit 65 ILCS 5/9-2-39

The Village Board should implement the statutorily allowable property tax increase allowed under state law for a Non-Home Rule community.

**USER FEES, PERMITS AND OTHER CHARGES - Adopted December 3, 1987**

User fees, permits, and other charges are charges made by the municipality in order to recover costs for conducting various services. These fees will be set at appropriate levels in order to recover costs associated with providing those services. ~~These charges will be reviewed as needed, but in no case longer than every other year in order to insure that the proper costs are being applied to administratively provide the service. At least once every 3 years, staff should review the Village's existing fee schedules to determine whether they are comparable to fees charged by other municipalities. The goal should be to remain competitive and to set Village fees at the mid-point, or 50% range, of the surveyed communities.~~

Revenues collected from these user fees will be used as allowed by Illinois State Statutes and Village ordinance.

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**SPECIAL ASSESSMENT POLICY FOR UNIMPROVED STREETS - Adopted June 15, 1995**

The Village of Lombard, in an effort to improve the streets in the Village, may from time to time undertake a basic improvement of unimproved streets in the community. Recognizing that both the Village as well as those property owners adjacent to such improvements benefit from them the following policy has been established relating to the cost sharing of such construction projects.

**A. Basic Improvement**

Residents shall share "basic improvement" project costs only. Basic improvements are defined as a composite roadway structure, curb and gutter, storm sewers, asphalt driveway apron (concrete if existing), sidewalks, parkway trees, streetlights (if feasible and affordable) and restoration.

Basic improvements shall also include a proportionate share of all ancillary project costs such as costs to establish the special assessment, engineering, and geotechnical work.

**B. Village/Property Owner Cost Sharing**

The Village shall pay (70%) of the cost of basic improvements as defined herein and residents shall pay (30%) of the cost of basic improvements as defined herein.

**C. Sideage Rates**

Sideage rates shall be calculated at 33.3% of frontage rates.

**D. Replacement of Sidewalks, Driveway Aprons and Water & Sewer Mains**

Sidewalk replacements will be offered to residents according to the regular Village "50/50" sidewalk replacement cost-sharing program. The property owner's share will vary from project to project based on the current cost of sidewalk replacement. Driveway upgrades from asphalt to concrete will be offered to residents. Residents will be asked to pay the difference in the Village's contract price. Water and sewer main replacements constructed as part of the project will normally be funded from Village sources.

**E. Responsibilities**

The Board of Local Improvements (BOLI) shall *estimate* the frontage and sideage rates at time of approval of the first resolution regarding the project and shall set the *final frontage* and sideage rates prior to adopting the second resolution. The Board of Trustees may amend this policy and its related financial requirements from time to time when it is deemed in the best interest of the Village of Lombard.



## **RESERVE POLICIES**

### **FACILITY RESERVE POLICY – Adopted September 5, 2013**

The Facility Capital Reserve Fund provides for funding of projects associated with the repair, maintenance, and replacement of the Village of Lombard's facilities. Expenditures from this fund are restricted to major repair, maintenance, and replacement projects for Village-owned facilities.

Funding is provided annually by allocating three percent (3%) of sales tax revenue and five percent (5%) of utility tax revenue.

### **LAKE MICHIGAN WATER RESERVE ACCOUNT – Adopted May 3, 2007**

In order to monitor future utilization of the remaining portion of the rebate received by the Village from the DuPage Water Commission, a Lake Michigan Water Reserve account has been established as an unrestricted but designated account in the Water and Sewer Fund to account for rebated funds from the DuPage Water Commission not previously utilized for rate stabilization or capital improvements. Future use of these funds for rate stabilization or capital improvements to the water and sewer system will be discussed as part of the Village's annual budget process.

### **TECHNOLOGY RESERVE – Adopted May 7, 1998; Revised May 1, 2003; Revised April 2, 2009**

The Village of Lombard has established a technology replacement reserve account in the General Fund. The purpose of this reserve is to set aside funds on an annual basis for the eventual upgrade and/or replacement of specific inventory of hardware, computer software, radios, and defibrillator equipment (hereinafter referred to as "equipment") including:

- Personal computer (CPUs), monitors and CRTs
- Computer software
- Telephone equipment
- Mid-range computer equipment
- Printers
- Copiers
- Computer Infrastructure Peripherals
- Automatic External Defibrillators (AEDs)
- Police & Fire Radios

Each fund having equipment for which a reserve is established shall annually contribute to the Technology Reserve Account for replacement of the specific equipment assigned to the fund, in order to have sufficient funds on hand for eventual replacement at the end of the equipment's useful life. These reserve funds will be kept separately from any general operating funds for the Information Technology (IT) division.

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In order to properly manage the Technology Reserve Account and maintain the reserve fund contribution by other funds at an appropriate level, the contribution amounts shall be annually determined based on the following factors:

- ◆ The fund reserve target for all equipment categories is set at 75% of the equipment replacement value as determined annually by IT, except that the target for the AEDs, mid-range computer equipment, and Village Hall copier shall be 100% of the equipment replacement value.
- ◆ Equipment shall be depreciated over its useful life. As a general guideline, the useful life established by category is as follows:

<u>CATEGORY</u>	<u>USEFUL LIFE</u>
Personal computers (CPUs), monitors and CRTs .....	3 years
Computer software.....	5-10 years
Telephone equipment.....	6-10 years
Mid-range computer equipment.....	5-10 years
Printers.....	5 years
Copiers.....	5 years
Computer Infrastructure Peripherals.....	10 years
Automatic External Defibrillators (AEDs) .....	7 years
Police and Fire Radios.....	6-8 years

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- ◆ Replacement cost and useful life for each item will be re-evaluated on an annual basis. This re-evaluation may change the annual amounts that each fund contributes to the technology reserve.

IT will annually review both the replacement cost and the general useful life guidelines and may amend these items for any individual piece of equipment for which a reserve is established. The Fire Department will review changes required for the AEDs. The reasons for such a change may include but are not limited to changes due to market conditions, technological improvements, and/or ongoing maintenance costs.

- ◆ A reserve amount for future replacement shall be set aside in the year of disposal but not in the year of purchase.
- ◆ Any funds received from the auction or sale of surplus equipment shall be applied to the reserve account for the replacement equipment, thereby reducing the budgeted annual expenditure required from the appropriate fund for future annual reserves. The budget for these items would therefore reflect gross replacement cost.
- ◆ Any funds received from the trade-in of obsolete equipment shall be used to reduce the budgeted expenditure for replacement of the traded-in equipment. The budget for these items would therefore reflect the net replacement cost. If the amount required to replace the equipment, less trade-in, is less than the amount allocated to replace the equipment, the balance shall be allocated to the reserve account set aside for

future replacement of the new equipment. This would thereby reduce the budgeted annual expenditure required from the appropriate fund for future annual reserves.

- ◆ If the amount received from trade-in proceeds is less than the amount needed to replace the equipment, the balance shall be made up from the fund that annually contributes to the reserve fund for that equipment item.
- ◆ The cost of improvements to existing equipment, provided that they extend the useful life of the equipment, shall be paid for from the reserve fund. Useful life of the equipment will be adjusted to reflect the improvement to existing equipment.
- ◆ Interest income earned in the Technology Reserve Account shall accrue to fund balance and may be used for IT capital equipment acquisition, maintenance or capital improvements to the IT facilities and/or to otherwise stabilize equipment reserve accounts.
- ◆ The Technology Reserve Account balance shall be used to pay for changeover costs associated with the installation of new equipment as may be needed from time to time.
- ◆ Any additions of equipment requested by operating departments will be carefully reviewed as part of the budget review process by the Village Manager, Director of Finance and IT Manager and funding for this additional equipment will not be provided from this reserve fund.
- ◆ A report on the replacement of equipment and the status of the Technology Reserve Account will be prepared on an annual basis by the IT Manager and will be presented to the Village Manager and Village Board as part of the budgetary process.

#### **UTILITY TAX RESERVE POLICY — Adopted May 3, 2007**

On March 21, 2006, Village residents approved through referendum a 1% Non-Home Rule Sales Tax. Pursuant to State law, Non-Home Rule Sales Tax may only be used for property tax relief or infrastructure improvements. The Village's commitment at the time of the referendum was to use it for the latter. As a result of utilizing Non-Home Rule Sales Tax for infrastructure purposes, the Village is in a position to re-allocate some or all of the Village's Utility and Telecommunication Tax revenue previously used for capital improvements toward meeting future operating needs. In order to monitor future utilization of the Utility and Telecommunications Tax revenue, a Utility Tax Reserve Account has been established as an unreserved but designated account in the General Fund to account for Utility and Telecommunications Tax revenue that is not designated for capital or operating purposes within a given fiscal year. The Utility Tax Reserve will be updated each year during the annual budget process based upon expenditure decisions made in previous fiscal years and updated revenue forecasts.

## YEAR-END GENERAL FUND RESERVE MAINTENANCE POLICY

Maintaining reserves is a prudent management practice. Reserves are an important indicator of the Village's financial position and its ability to withstand adverse events. At the end of each fiscal year, year-end revenues over expenses should be distributed to each reserve in the following order:

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1. An Emergency General Fund Reserve should be maintained equal to 5% of the current year's budgeted unassigned expenses in the General Fund. The Emergency Reserve may be used for unexpected, large-scale events where costs in excess of \$1 million are incurred, and immediate, remedial action must be taken to protect the health and safety of residents (e.g. major flood, earthquake, event requiring significant overtime, etc.).

2. The Village should maintain a "Revenue Stabilization" reserve with a goal of reaching 3.5% of the current year's budgeted unassigned expenses in the General fund. This reserve may be used to provide funding to temporarily offset unanticipated fluctuations in on-going revenues or unanticipated events, such as unexpected external mandates, reductions in state shared revenues, closure of large sales taxpayer, etc. The reserve funds will provide time for the Village to restructure its operations in a deliberate manner to ensure continuance of critical Village activities. Revenues should be down at least 1.5% compared to prior year budget to utilize this fund.

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3. Remaining funds should be split equally (50/50) between a Building Reserve Fund and a Pension Stabilization Fund.

- The Building Reserve Fund may be used to help fund the cost to build new, replace, or complete a major renovation to an existing Village owned building.
- The Pension Stabilization Fund may be used if the annual actuarially determined pension funding requirement exceeds the total statutorily permissible annual property tax levy. Funds over \$1M should be distributed as follows to pay down unfunded pension liabilities:
  - Illinois Municipal Retirement Fund: 20%
  - Police Pension Fund: 40%
  - Fire Pension Fund: 40%

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### **WATER AND SEWER CAPITAL RESERVE POLICY - Adopted December 3, 1987**

The Water & Sewer Capital Reserve Fund provides for funding of projects associated with the repair, maintenance, and replacement of the water and sewer system capital plant. Expenditures from this fund are restricted to major repair, maintenance, and replacement projects in the water and sewer system.

Funding is provided from annual water and sewer connection fees and a minimum of three percent (3%) of the annual revenue generated from the water and sewer system less the allowance for Lake Michigan water.

### **VEHICLE & EQUIPMENT RESERVE - Adopted July 22, 1993; Revised May 1, 2003**

The Village of Lombard has established an internal service fund for equipment replacement reserve. Each program shall annually contribute to the reserve fund for replacement of vehicles and equipment in order to have funds on hand for complete replacement at the end of the vehicle or equipment useful life. These reserve funds will be kept separately from any general operating funds for Fleet Services.

Replacement cost and useful life for each vehicle will be re-evaluated on an annual basis. This re-evaluation may change the annual amounts that programs contribute to the replacement of each vehicle.

In order to properly manage the Fleet Services Reserve Fund and maintain the reserve fund contribution by the operating departments at an appropriate level, the contribution amounts shall be annually determined based on the following factors:

- (1) Auction proceeds shall be applied to revenue needed for the replacement of a vehicle sold at auction thereby reducing the budgeted expenditure required for replacement of that vehicle. The budget would therefore reflect net replacement cost;
- (2) If a vehicle is traded in, the trade-in value received should be used to reduce the budgeted expenditure for replacement of the traded-in vehicle. The budget would therefore reflect the net replacement cost;
- (3) If the amount received from auction or trade-in proceeds exceeds the amount necessary to replace a vehicle, the balance shall be allocated to the reserve account set aside for future replacement of the new vehicle;
- (4) If the amount received from auction or trade-in proceeds is less than the amount needed to replace a vehicle, the balance shall be made up from the operating budget of the user department;
- (5) Vehicles and equipment shall be depreciated over their useful life. A reserve for future replacement shall be set aside in the year of disposal but not in the year of purchase;

- (6) Interest income earned in the Fleet Services Reserve Fund shall accrue to fund balance and be used for capital equipment acquisition, maintenance or capital improvements to the fleet service facilities and/or to otherwise stabilize labor rates or equipment reserve accounts;
- (7) The Fleet Services Reserve Fund balance shall be used to pay for changeover costs associated with new vehicles, including lightbars, radios and similar items.

Any additions to the fleet will be carefully scrutinized by the Village Manager and Fleet Superintendent and funding for these additional vehicles will not be provided from this reserve fund. A report on the replacement of vehicles and the status of that fund will be prepared on an annual basis and be presented to the Village Manager as part of the budgetary process.

## **BUDGET POLICIES**

### **CONSERVATIVE BUDGETING POLICY**

The Village should budget conservatively (budget revenues low and expenses high) and the Multi-Year Financial Forecast will be updated annually.

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### **LEVEL OF SERVICE - Adopted December 3, 1987**

The operating budget will be compiled in a manner to maintain the existing level of services to the community. Increases or decreases in service levels will be prioritized by the Village Board at separate work sessions prior to budget development. Staff will then be directed to develop an operating budget reflecting those service level priorities.

### **PERSONNEL LEVELS - Adopted December 3, 1987; Revised May 1, 2003**

Local government operations are service-oriented, which is labor-intensive, resulting in personnel costs being the largest overall expense in the operating budget. As such, it is important to review and justify existing personnel requirements to determine the most effective utilization of work force and to consider least-cost alternatives for any staffing requirements. Work force levels are staffed in order to provide essential services in public safety, public works and administration. The criteria in decisions related to work force growth should be directed by the need to increase services mandated by the public interest in the most effective way.

### **OPERATING BUDGET POLICY - Adopted December 3, 1987**

1. The Village will attempt to maintain its present service level for all priority and essential services within existing tax rates and new services will be added as deemed appropriate.
2. The Village will maintain a budgetary control system to ensure adherence to the budget and will prepare regular reports comparing actual revenues and expenditures to budgeted amounts.
3. The Village will integrate performance measurement and productivity integrators with the budget.
4. Personnel levels will be kept at existing levels in order to maintain the existing level of service.
5. All enterprise and special revenue funds will be self-supporting.

**CAPITAL BUDGET POLICY - Adopted December 3, 1987; Revised May 3, 2007**

The Village will develop a multi-year plan for capital improvements updated annually and will budget all capital improvements in accordance with the plan. Various funding sources including sales tax, motor fuel tax, a portion of water and sewer revenues, telecommunication and utility taxes, public benefit and TIF property tax will be allocated to support these improvements. In addition, the Village will consider long-term debt borrowing for projects where applicable.

The Village will maintain its physical assets at a level adequate to protect the capital investment and to minimize future maintenance and replacement cost.

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The operating budget will provide for adequate maintenance and orderly replacement of the capital plant and equipment from current revenues where possible. Prior to any approval of a project, a financial analysis shall be required that analyzes the long-term sustainability of funding from Village resources. Any operating and maintenance (O&M) costs associated with the completed project must be identified along with the proposed source for funding the O&M costs prior to approval of the project.

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Capital investment objectives will be prioritized by the Village Board and appropriately reflected in the capital budget.

**MOTOR FUEL TAX POLICY - Adopted December 3, 1987, Revised April 25, 1996; Revised May 7, 1998; Revised May 3, 2007**

The State of Illinois, Motor Fuel Tax Act (35 ILCS 505/8), provides for a tax on fuel used for operational motor vehicles upon highways and waters. The Act also provides that the Illinois Department of Transportation shall allot to each municipality its share of the amount of tax appropriated to the municipalities in the state in proportion to their share of the total population of the state, as determined by the last census in the both the state and individual communities. Except as otherwise specified, it is the policy of the Village of Lombard, that Motor Fuel Tax allotments can be used for operational purposes (salaries, wages, overtime, materials and supplies for snow & ice control and/or street maintenance and repairs) provided that no more than 33 1/3% of the total estimated allotment will be budgeted from the MFT Fund for operational purposes in any given fiscal year.

This policy does not require the expenditure of 33 1/3% of MFT allotments on operations, but rather provides that if the Village's financial position requires the use of MFT funds for operating purposes, that the amount to be used for such purposes is limited to 33 1/3%.

The remaining MFT funds not allocated to operating expenses shall be used for capital improvements and engineering based on the Village's 10-Year Capital Improvement Program.



The actual amount of the budgeted MFT revenue devoted to operational purposes will be reviewed each year by the Village Manager, Finance Committee, and Village Board as part of the annual budget process.

#### **REBATE OF FUNDS - Adopted May 7, 1998**

From time to time the Village receives rebates of funds from third parties or intergovernmental agencies in which the Village is a member. Such rebates may be for multiyear periods (e.g. the DuPage Water Commission) or a single one-time rebate of funds. This policy establishes a procedure for determining the use of funds rebated to the Village.

In the event that the Village is advised that it will receive such a rebate, the Director of Finance will notify the Village Manager, Finance Committee, and the Village Board. The Village Manager, as part of the preparation of the annual budget, will consider such rebates in presenting the proposed budget to the Finance Committee and Village Board and will prepare options for consideration regarding the disposition of the rebated funds. In determining the disposition of such rebates, the Village Manager and the Director of Finance will consider, in part, the following options:

- Capital improvements
- Customer rate relief
- Direct customer rebates
- Fund balance enhancement
- Operating expenses
- Reduction in citizen costs

Recommendations will take into consideration the nature of the funds rebated, the Village's current financial position, and the purposes and restrictions, if any, of the fund from which the money was originally expensed.

#### **RISK MANAGEMENT POLICY**

##### **RISK MANAGEMENT AND LOSS CONTROL - Adopted December 3, 1987; May 1, 2003**

The Village of Lombard is committed to provide a safe work environment, manage all risks in an appropriate manner, and conduct adequate loss control measures to ensure that liability and workers' compensation losses are kept at a manageable level. The Liability Insurance Account will be supported by property and sales tax dollars and will reflect the budgetary needs for those funds in any particular fiscal year.

All losses will be adequately documented, reviewed and follow-up procedures will be conducted to ensure that a safe work environment attitude is directed to all supervisors and employees. In addition, summary reports will be distributed quarterly and annually regarding loss history trend analysis in various risk areas by type of injury, claim, and department. The Village understands that many losses are unavoidable and, where unavoidable, will attempt to administer claims in an efficient manner.