



Meeting Location
City of DeKalb Police Department
Training Room, 2nd Floor
700 West Lincoln Highway
DeKalb, Illinois 60115

AGENDA
Finance Advisory Committee
April 24, 2018
5:00 p.m.

1. Call to Order
2. Roll Call for Attendance
3. Public Participation
4. Approval of Minutes
 - a. Minutes of the Finance Advisory Committee Meeting of March 27, 2018
5. Financial Policy Review and Recommendation
6. Confirm Next Meeting Date and Time
 - a. Tuesday, May 15, 2018 at 5:00 p.m. at the Police Department Training Room, 2nd Floor
7. Adjournment

This meeting will be video recorded

The Finance Advisory Committee's role (as listed in Chapter 54-11) is to provide well-reasoned, financially sound recommendations to the Council. Meetings and reporting shall be on a project-by-project basis or as otherwise assigned by the City Council. The Finance Advisory Committee shall work in cooperation with the City Council and the City Manager to analyze the City's financial policies, long term financial stability, options for greater efficiencies and possible revenue and expenditure modifications.

**MINUTES
CITY OF DEKALB
FINANCE ADVISORY COMMITTEE MEETING
MARCH 27, 2018**

1. CALL TO ORDER

The Finance Advisory Committee held a meeting on March 27, 2018, in the Police Training Room, at the DeKalb Police Department, 700 W. Lincoln Highway, DeKalb, Illinois.

The meeting was called to order at 5:02 p.m. by Chair Peddle.

2. ROLL CALL

Account Technician Carri Parker called roll, and the following members of the Finance Advisory Committee were present: Lynn Neeley, Steve Parker, Ron Partch and Chair Mike Peddle.

The following members of the Finance Advisory Committee were not present: Tom Teresinski and David Conlin.

Also present were: Finance Director Molly Talkington, Assistant Finance Director Robert Miller and Account Technician Carri Parker.

3. PUBLIC PARTICIPATION

Chair Peddle asked if there was anyone from the public present who wished to speak

No one from the public participated.

4. APPROVAL OF MINUTES

- a. Minutes of the Finance Advisory Committee of February 27, 2018

MOTION

Committee Member Partch motioned to approve the minutes of February 27, 2018; seconded by Committee Member Neeley.

VOTE

Motion carried on a 4-0-2 voice vote. Aye: Neeley, Parker, Partch, Peddle. Nay: none. Absent: Teresinski, Conlin.

5. FINANCIAL POLICY REVIEW AND RECOMMENDATION

Chair Peddle asked for a motion to approve the changes to the Investment Policy.

MOTION

Committee Member Neeley motioned to approve the changes to the Investment Policy; seconded by Committee Member Partch.

The Committee and staff discussed the changes made to the policy.

Chair Peddle questioned why staff is not able to complete the task and continually update it on a monthly basis.

Assistant Finance Director Miller stated that there is not any management to the investment portfolio but merging and closing accounts.

Chair Peddle asked Assistant Finance Director Miller a few questions.

VOTE

Motion carried on a 4-0-2 roll call vote. Aye: Neeley, Parker, Partch, Peddle. Nay: none. Absent: Teresinski, Conlin.

6. PENSION FUNDING ILLUSTRATIONS REVIEW

Chair Peddle explained that the document is not a policy document but a scenario for the pension life cycle.

Committee Member Partch commented he was appreciative that the information provided was transparent and informative.

Chair Peddle stated that the City should communicate what the employee's contribution rate, as the rate is higher than what one would think.

Firefighter Mike Thomas stated there is a lot of push downstate to combine all the pension funds. He mentioned that the DeKalb employees disagree with the combining of funds as some communities' fund more than others.

A discussion ensued between Committee members, staff and the public.

7. CONFIRM NEXT MEETING DATE AND TIME

Chair Peddle confirmed the next Finance Advisory Committee meeting on Tuesday, April 24, 2018 at 5:00 p.m. at the Police Department Training Room, 2nd Floor.

8. ADJOURNMENT

Chair Peddle asked for a motion to adjourn.

MOTION

Committee Member Parker motioned to adjourn the meeting; seconded by Committee Member Neeley.

VOTE

Motion carried by a 4-0-2 voice vote. Aye: Neeley, Parker, Partch, Peddle. Nay: none. Absent: Teresinski, Conlin.

CARRI PARKER, Account Technician III

Investment Policy

Policy Number: 01-08

Date: January 9, 2017

Purpose:

A. Policy

It is the policy of the City of DeKalb to invest public funds in a manner that will conform to state statute, maximize security, meet daily cash flow demands, and attempt to attain a market rate of return.

B. Scope

This policy includes all funds governed by the City Council and, except for cash in certain restricted funds, the City of DeKalb will consolidate cash balances to maximize investment earnings. Investment income will be allocated to the various individual funds based on their respective participation. Interest income derived from non-fund specific consolidated bank accounts will be attributed to the General Fund.

C. Objectives

The primary objectives of the City of DeKalb's investment activities are, in order of priority:

- 1) **Safety of principal** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, while mitigating credit and interest rate risks, as defined below:
 - a) **Credit Risk**, that is, the risk of loss due to the failure of the security issuer or backer. It may be mitigated by:
 1. Limiting investments to the safest types of securities;
 2. Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business; and
 3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
 - b) **Interest Rate Risk**, that is, the risk that the market value of securities in the portfolio will fail due to changes in general interest rates. It may be mitigated by:
 1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
 2. By investing operating funds primarily in shorter-term securities
- 2) **Liquidity**, so as to meet all operating requirements that may be reasonably anticipated, the portfolio shall consist largely of securities with active secondary or resale markets (dynamic liquidity).

3) Yield, with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments shall be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- a) a declining credit security could be sold early to avoid loss of principal;
- b) a security swap would improve the quality, yield, or target duration in the portfolio; or,
- c) liquidity needs of the portfolio require that the security be sold.

D. Standards of Care

1) Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers and employees of the City of DeKalb, while acting in good faith in accordance with this investment policy and any written procedures as might be established, shall be relieved of personal liability for an individual security's credit risk or market price changes.

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.

2) Ethics and Conflicts of Interest

City of DeKalb employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. They shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3) Delegation of Authority

Authority to manage the investment program is granted to the authorized municipal official described in Chapter 54 of the DeKalb Municipal Code. Responsibility for the operation of the investment program is hereby delegated to the Finance Director or his/her designee, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. These procedures shall include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements collateral/depository agreements and banking services contracts. All investments shall

follow the investment plan designed and approved by the Finance Director or his/her designee prior to execution.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the DeKalb City Council. The Finance Director, as Chief Financial Officer, shall be accountable for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

E. Safekeeping and Custody

All trades where applicable will be executed by Delivery vs. Payment (DVP). This shall ensure that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodian as evidenced by safekeeping receipts.

F. Authorized Financial Dealers and Institutions

A list shall be maintained of financial institutions authorized to provide investment services to the City of DeKalb, as well as a list of approved security broker/dealers (or their respective custodial clearing firm) selected for creditworthiness (minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following (as appropriate):

- 1) audited financial statements
- 2) proof of National Association of Securities Dealers (NASD) certification
- 3) proof of state registration
- 4) completed broker/dealer questionnaire
- 5) certification of having read the City of DeKalb's investment policy and that all investments will comply with the policy

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director or his/her designee.

G. Internal Controls

The Finance Director or his/her designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Finance Director or his/her designee shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

1. Prevention of collusion

- 1 Separation of transaction authority from accounting and record keeping.
- 2 Custodial safekeeping (Securities purchased from any bank or dealer including appropriate collateral, as defined by State Law, shall be placed with an independent third party for custodial safekeeping).
- 3 Avoidance of physical delivery securities.
- 4 Clear delegation of authority to subordinate staff members.
- 5 Written confirmation of telephone transactions for investments and wire transfers (may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures).
- 6 Development of a wire transfer agreement with the lead bank or third party custodian, which shall outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

a) **Suitable and Authorized Investments**

Investment Types

Consistent with the GFOA Recommended Practice on State Statutes Concerning Investment Practices, the following investments will be permitted by this policy and are those defined by state law where applicable:

1. U.S. Government obligations, U.S. Government agency obligations, and U.S. Government instrumentality obligations
2. Repurchase agreements
3. Certificates of deposit
4. Savings and loan association deposits
5. Investment-grade obligations of state, provincial and local governments and public authorities
6. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of domestic securities
7. Statewide investment pools

Use of repurchase agreements should be consistent with GFOA Recommended Practices on Repurchase Agreements (see attached "GFOA Recommended Practices").

Consistent with the GFOA Recommended Practice on Use of Derivatives by State and Local Governments, extreme caution shall be exercised in the use of derivative instruments (see attached "GFOA Recommended Practices").

From time to time, the City may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under this section. All terms and relationships will be fully disclosed and

authorized by the City Manager prior to purchase and shall be consistent with state or local law.

b) Collateralization

Funds on deposit (checking accounts, certificates of deposit, etc.) in excess of FDIC or SIPC limits, excluding interest, must be secured by some form of collateral, witnessed by a written agreement (see the attached "GFOA Recommended Practices"). Pledged collateral shall be held in safekeeping by the Federal Reserve Bank of Chicago (or other independent third party designated by the Finance Director or his/her designee) in the name of the municipality. In addition, the value of the pledged collateral must be marked to market monthly, or more frequently depending on the volatility of the collateral pledged. Last, the City requires that the amount of collateral pledged equal 110% of the uninsured amount on deposit.

6.1 Diversification

The City of DeKalb shall attempt to diversify its investments appropriate to the nature of the funds, the purpose for the funds, and the amount available to invest. Diversification can be by type of investment, number of institutions invested in, and length of maturity.

6.2 Maximum Maturities

To the extent practicable, the City of DeKalb shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of DeKalb will not directly invest in securities maturing more than 3-years from the date of purchase.

Reserve funds may be invested in securities exceeding 3-years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

Regardless of the foregoing, no funds may be invested in securities maturing in excess of 7-years from the date of purchase unless authorized by the City Council.

6.3 Reporting

The Finance Director or his/her designee shall prepare a monthly investment and bank balance report for City Council that provides:

- Cash balances held at the end of the month;
- A listing of individual securities and corresponding maturities held at the end of the reporting period;
- The percentage of the total portfolio which each type of investment represents;
- ~~Inception-to-date yields for each individual security;~~
- ~~Average weighted inception-to-date yield to maturity of the entire portfolio as compared to applicable benchmarks.~~

6.4 Performance Standards

This investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should attempt to obtain a comparable rate of return

during a market/economic environment of stable interest rates. The portfolio performance should be benchmarked to the return of the 90-day Treasury bill.

1.14 Investment Policy Adoption

The investment policy shall be adopted by the City Council.

1.15 Policy Exemption and Amendment

Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and any other appropriate authority, as well as the individual(s) charged with maintaining internal controls.

DATE: April 18, 2018

TO: Mike Peddle, Chair
Finance Advisory Committee

FROM: Patty Hoppenstedt, Interim City Manager
Molly Talkington, Finance Director

SUBJECT: Financial Policies Review – Budget Policy (01-01), Fund Balance Policy (01-02), and Revenue and Expenditure Policy (01-04)

I. Summary:

The City Council adopts financial policies that establish the framework for the services provided by the City of DeKalb. Currently, there are a total of eight adopted policies. Annually, the policies are reviewed and adopted as part of the budget. As part of the Fiscal Year (FY) 2019 budget process, the Finance Advisory Committee (FAC) has been tasked to conduct a review of all the policies and, if needed, recommend revisions to them for City Council consideration. The FY 2019 schedule has outlined four meetings for review of the policies starting with this February meeting. The policies for review at this meeting are the Budget Policy (01-01), Fund Balance Policy (01-02), and Revenue and Expenditure Policy (01-04).

II. Background:

Prior FAC Action

- On [January 30, 2018](#), FAC reviewed the Fiscal Year (FY) 2019 Budget Schedule, Five-Year Financial Plan draft, approved a Committee Operations Policy.
- On [February 27, 2018](#), FAC reviewed City Council's Goals, recommended revisions to the Five-Year Financial Plan, and recommended revisions to these policies:
 - Capital Equipment Replacement Fund (01-03),
 - Accounting, Auditing, and Financial Reporting Policy (01-05), and
 - Capital Asset Policy (01-06).
- On [March 27, 2018](#), FAC reviewed Police and Fire Pension funding illustrations and recommended revisions to the Investment Policy (01-08).

The FY 2018 budget was the most recent year of the annual review and adoption of the Budget (01-01), Fund Balance (01-02), and Revenue and Expenditure (01-04). policies as part of the annual budget adoption. The FAC meetings to review and, if needed, recommended revisions will be considered by City Council as part of the FY 2019 budget process. The following is a review of these policies and recommended revisions by the Finance Director.

- 1) **The Budget Policy (01-01)** outlines the high-level steps that staff works within to provide the City Council a budget annually and steps to take to amend the current budget. As shown in Attachment A (tracked changes), the revisions to this policy are to reflect the fund balance policy revision as discussed under the Fund Balance Policy (01-02) revisions and to add Advisory to the Finance Committee reference to reflect the accurate committee name.
- 2) **Fund Balance Policy (01-02)** defines fund balance as the net financial resources available to finance expenditures of future periods. The reserve policies are in place to avoid cash flow interruptions, generate investment income, and reduce the need for borrowing. The fund balance reserves identified within this policy are the minimum balances necessary to accomplish these objectives. As shown in Attachment B (tracked changes), the revisions to this policy include several instances of formatting and grammar changes such as starting with Part I versus Part II and spelling out acronyms, updated fund structure, and revising the General Fund unassigned balance threshold.

The General Fund unassigned fund balance policy basis is to provide the City with sufficient working capital and a margin of safety to address emergencies without borrowing. Annually, this is calculated as part of the budget process to be 25% of expenditures. For Fiscal Year (FY) 2018, the amount is \$9,429,491. Included in General Fund expenditures are the City's annual Police and Fire Pension contributions; totaling \$6,450,564 this year. The Police and Fire Pension contributions are mainly funded by the property tax levy. The City's contribution is based on annual actuarial valuations.

Actuarial valuations are conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects laws and regulations issued to date pursuant to the provisions of Article 3, Illinois Pension Code, as well as applicable federal laws and regulations. According to the City's actuary, Foster and Foster, the assumptions used in the valuations, as adopted by the City Council, represent reasonable expectations of anticipated plan experiences. Essentially, an actuarial valuation provides information vital to understanding the financial health of the Police and Fire Pension plans and helps determine the level of contributions needed in order for these plans to become 90% funded by 2040. Each year the City's contribution is course corrected to keep the City on the funding path to reach 90% funded by 2040.

As outlined in the Revenue and Expenditure Policy (01-04), the priority order for use of the property tax levy is to levy for Police, Fire, and Illinois Municipal



Retirement Fund (IMRF) pensions per actuary calculations. The policy also indicates that, if the actuarial reports indicated a higher employer contribution is needed, said increase will need to be added to the City's overall previous year levy request to avoid underfunding problems. The 2017 levy included in the FY2018 budget, provides funding for \$6,004,594 or 93% of Police and Fire Pensions only. The property tax levy is considered a stable revenue since annual receipts are consistent with a collection rate above 95% and provides time to adjust during economic downturns (low volatility).

Since annual actuarial valuations course correct the funding need for Police and Fire Pension contributions and the City's contributions are 93% funded by a stable revenue source, property tax, the recommended change to the General Fund unassigned fund balance is to calculate the unassigned fund balance threshold by adjusting the expenditure total down by the property tax revenue amount and raise the percentage needed to achieve the same dollar amount need in FY2018. The FY2018 unassigned fund balance is at \$9,429,491. To maintain the same dollar amount in the unassigned fund balance, the percentage of expenditures less property tax would calculate to 29.7%. Under the recommended calculation, 29.7% is rounded up to 30% of expenditure less property tax. Therefore, the unassigned fund balance threshold would increase by \$84,520 to \$9,514,011. It is also recommended this new calculation go into effect for the FY2019 budget.

The recommended calculation is intended to maintain the current policy that the unassigned fund balance provide the City with sufficient working capital and a margin of safety to address emergencies without borrowing. However, by removing the property tax funded expenditures, the City Council can make important pension decisions without sacrificing other services through additional reductions or adding new or increased non-property tax revenues to fund the 25% unassigned fund balance requirement that is in the current calculation.

For example, if the City's required Police and Fire Pension contributions increase \$600,000 in FY2019, under the current calculation an additional \$150,000 would need to be added to the unassigned fund balance. This amount would require service reductions or revenues increases to be identified. In the recommended calculation for the same example increase of \$600,000 and following the Revenue and Expenditure Policy, the increase would be funded through property tax and no other revenue or service reductions would be needed. However, if the increase is not offset by a property tax increase then \$180,000 in service reductions or other non-property tax revenue increases would be needed.

- 3) Revenue and Expenditure Policy (01-04)** establishes a foundation for revenue diversification and principles for revenue establishment and practice, as well as, expenditure expectations. The revisions to this policy were to spell out acronyms. Attachment C shows the revisions in track changes.

The Finance Director's revisions do not materially change the intent of these policies. Excluding the change in the General Fund unassigned fund balance policy calculation, the remaining revisions provide clarification to the end user.



III. Recommendation:

Staff is recommending the FAC review the existing policies, review the Finance Director's revisions, and discuss and recommend any other revisions the Committee would like to see to these three policies.

Attachments:

- A) Budget Policy (01-01) Track Changes
- B) Fund Balance Policy (01-02) Track Changes
- C) Revenue and Expenditure Policy (01-04) Track Changes



Budget Policy

Policy Number: 01-01

Date: December 11, 2017

Purpose: The City Manager shall submit an annual budget to the City Council which is within the City's ability to pay. The annual budget should provide for the following:

1. A meeting will be held with the Finance Advisory Committee after June 30 and before joint City Council budget discussions begin to discuss the previous year-end Comprehensive Annual Financial Report, review revenues trends and discuss any new policy recommendations.
2. Management shall prepare a draft of the annual budget for review by the City Council and the Finance Advisory Committee in October/November of each year. The recommended budget should be submitted to the City Council for review and a public hearing in November of each year. The final budget document shall be submitted to the full membership for approval prior to December 31 of each year.
3. The annual budget should effectively communicate meaningful and understandable information to the City residents, City Council, City Staff, and other readers.
4. The annual budget shall be monitored on a monthly basis. Revenue and expenditure budget reports shall be prepared and made available to City management staff for departmental review on a monthly basis. A quarterly budget summary report (Treasurer's Report) shall be presented to the City Council.
5. The annual budget should allow for the implementation of as many of the City Council's goals and objectives from the 2025 strategic plan as financially possible.
6. The annual budget should provide for the adequate funding of all pension plans (IMRF, Police Pension Fund, and Firefighters Pension Fund). An independent actuary should be used to determine the annual City contributions to the Police Pension Fund and the Firefighters Pension Fund and determine if these pension funds are adequately funded.
7. The annual budget should provide funding for the adequate maintenance of municipal equipment, municipal facilities, and infrastructure.
8. The annual budget should set aside-adequate funding (pay-as-you-go funding) for the replacement of major equipment. Annual funding (depreciation funding) for these replacements will eliminate major expenditure jumps in the annual budget when these acquisitions are made.

9. During the budget process, the City will assess the need for contingency funds to be included in the budget to fund unanticipated expenditures that might arise.
10. The annual budget should finance current operating expenditures, excluding major capital expenditures, with current revenues. The use of reserve funds to finance current operating expenditures should be carefully considered and avoided if possible.
11. The City should limit the use of the reserve fund to nonrecurring operating expenditures or capital expenditures, specifically if our anticipated fund balance is below our Fund Balance Reserve Policy of 3025% of expenditures less property tax revenue.
12. When the City is required to undertake a budget amendment and/or execute expenditure transfers to ensure that actual expenditures are within approved budgetary limits as authorized by City Council the following procedures will be followed. Administration of these procedures will be the responsibility of the City's Finance Director and the Finance Director will sign off that these procedures have been adhered to for any budget amendments and/or expenditure transfers undertaken by the City. Those procedures are as follows:
 - a. Upon knowledge that a budget amendment and/or expenditure transfer will be required, the City's Finance Director will inform both the Finance Advisory Committee and the City Council.
 - b. Documents will be drafted by the Finance Director with the reason for the required budget amendment and/or expenditure transfer, including the specific accounts affected and the dollar amounts of said amendments and/or expenditure transfers.
 - c. Formal City Council review and approval of proposed budget amendments and/or expenditure transfers will be required before any amendments and/or transfers are executed by the Finance Director.

Fund Balance Policy

Policy Number: 01-02

Date: December 11, 2017

Purpose: Fund balance measures the net financial resources available to finance expenditures of future periods. Fund balance reserve policies are established to avoid cash flow interruptions, generate investment income, and reduce the need for borrowing. The fund balance reserves identified within this policy are the minimum balances necessary to accomplish these objectives.

While keeping in mind the uneven nature of the City's cash flows, should the projected ending fiscal year fund balance fall below the desired percentage or amount, the City should create a plan to restore the appropriate levels.

Part II – Governmental Funds

This section only applies to fund balances reported in the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds, and Permanent Funds.

1. Definitions

The five fund balance classifications outlined in GASB Statement 54 follows:

Nonspendable Fund Balance: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

Restricted Fund Balance: This classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance: This classification reflects specific purposes pursuant to constraints imposed by formal action of the district's highest level of decision-making authority (generally the governing board). Also, such constraints can only be removed or changed by the same form of formal action.

Assigned Fund Balance: This classification reflects amounts that are constrained by the government's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.

Unassigned Fund Balance: This classification is the residual classification for the gGeneral Ffund only. It is also where *negative residual amounts for all other governmental funds* would be reported.

2. Fund Balance Commitments & Assignments

Committed fund balance for a specific use must be taken by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action of the City Council. In order to be recognized in the annual Audit Report, commitments of fund balance must be enacted prior to the end of that Report's particular fiscal year.

Assigned Fund Balance is intended for specific purposes not imposed by external parties or City Council's formal action. The City Council authorizes the City Manager and/or his/her designee(s) to assign fund balance. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular Fund.

3. Reserves

General Fund: Unassigned fund balance will be maintained at a minimum level equal to 3025% of annual expenditures less property tax revenue. The City's unassigned General Fund balance will be maintained to provide the municipality with sufficient working capital and a margin of safety to address emergencies without borrowing.

Tax Increment Financing (TIF) Funds: The City currently has two budgeted TIF Funds (the Central Area TIF and TIF II). These Funds should be self-supporting and should maintain a fund balance equivalent to meet the planned improvements identified in a multi-year capital schedule(s).

Capital Projects Fund: This Fund is used for resources accumulated and used in right of way improvements such as street repair, street reconstruction, and curb and gutter replacement. Costs associated with this Fund must not be State Motor Fuel Tax eligible and must cost over \$5,000 and have a useful life of at least three years. The funding source for this Fund will be the Local home rule motor Fuel Tax. The Capital Projects Fund should work toward establishing a fund balance at a minimum dollar amount to meet the planned improvements identified in a multi-year capital replacement schedule(s).

Special Revenue Funds: These Funds are used to account and report the proceeds of specific revenue sources which are restricted or committed toward expenditures for specific purposes other than debt service or capital projects. In general, all these Funds should maintain the least fund balance necessary to cover current fiscal year expenditures, plus an amount to pay for those expenditures of the subsequent fiscal year needed to avoid a cash deficit position.

4. Fund Balance Classification

Fund balance classifications depict the nature of the net resources that are reported in a governmental fund type. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The General Fund may also include an unassigned amount.

5. Prioritization of Fund Balance Use

When an expenditure is incurred for a purpose which can be paid from multiple fund balance classifications, the City will spend the most restricted dollars before less restricted, in the following order:

- Nonspendable (if funds become spendable)
- Restricted
- Committed
- Assigned
- Unassigned

Part III – Enterprise, Internal Service, & Fiduciary Funds

This section applies to Funds outside the scope of Governmental Accounting Standards Board (GASB) 54.

1. Definitions

Restricted Net Assets: The component of net assets restricted by external parties, constitutional restrictions, and enabling legislation.

Net Assets Invested in Capital Assets, Net of Related Debt: A component of net assets calculated by reducing capital assets by accumulated depreciation and the principal portion of related debt.

Unrestricted Net Assets: The portion of net assets that is neither restricted nor invested in capital assets net of related debt.

2. Reserves

Water Operating Fund: The unrestricted net assets of the Water Fund will be maintained at a minimum level equal to 25% of the annual budgeted operational expenses. Net position above 25% will be transferred annually to the Water Capital Fund for use in funding the Water Capital plan.

Water New Construction Fund: This revenue is from impact fees and is restricted for any new water main infrastructure in the City of DeKalb.

Water Capital Projects Fund: This fund will be used to account for all capital revenues and expenditures to Water Capital as approved by City Council in the annual budget. Capital projects include existing water infrastructure for water mains, wells, treatment plants, pumping systems and water towers. Additionally,

Water Division equipment and fleet that exceed \$10,000 with a useful life exceeding one year would be accounted for through this fund and be subject to the same annual budget approval by Council.

Airport Fund: The unrestricted net assets of the Airport Fund will be maintained at a minimum level equal to 25% of annual budgeted operational expenses, plus the budgeted capital improvements for the current fiscal year.

Other Specified Funds: The Health Insurance Fund should maintain unrestricted net assets of one month of IPBC premium. Any amount above this threshold may be transferred to the Workers' Compensation ~~Fund or /Liability/Property~~ Insurance Fund to be used toward claims, eliminate potential deficits, or maintain net asset policy in ~~the~~ ^{the} other Funds.

The Workers' Compensation/Liability Insurance —Fund should maintain unrestricted net assets of \$1,000,000 collectively (or 1-year premium for reinsurance plus the average annual retention costs associated with that premium).

~~The Liability/Property Insurance Fund should maintain unrestricted net assets approximately equivalent to 25% of annual budgeted expenses.~~

Part IIIV – Other

1. Cash Deficits

Should any Fund incur a cash deficit by the end of the fiscal year, an interfund loan will be created with a Fund or Fund(s) which have a cash surplus (unless restricted by statute or Fund Balance policy).

2. Reporting

Year to date revenues and expenditures for the General Fund will be issued to the City Council by their second regular meeting of each month.

On a quarterly basis, the City Council shall receive an update on the General Fund with a year-end forecast for the fiscal year and also receive a summary of major fund balances.

TIF Funds will be reported in greater detail to Council by the end of March and by the end of September of each year.

The City Council shall receive an update on Workers' Compensation claims through December 31 by the end of March and claims through June 30 by the end of September of each year.

A semi-annual report on economic development incentives will be reported to Council by the end of March and by the end of September of each year.

An update on retiree insurance costs will be reported annually by the end of March of each year.

Revenue and Expenditure Policy

Policy Number: 01-04

Date: December 11, 2017

Purpose: Revenues

The City desires to maintain a diversified and stable revenue base to reduce the impacts of fluctuations in any one revenue source. The revenue mix combines elastic and inelastic revenue sources to minimize the effects of an economic downturn. The City also incorporates the following principles related to revenues as it furthers its financial planning and fulfills its fiscal responsibilities:

1. The City prefers to keep its property tax rate as low as possible. The following components shall be followed in priority order each year when establishing the property tax levy:
 - a. Levy for Police, Fire and Illinois Municipal Retirement Fund (IMRF) pensions per actuary calculations. If the actuarial reports indicated a higher employer contribution is needed, said increase will need to be added to the City's overall previous year levy request to avoid underfunding problems.
 - b. Levy for Federal Insurance Contributions Act (FICA).
 - c. Levy for general obligation bond principal and interest less abatements.
 - d. Levy to support General Fund operations including Police, Fire, Public Works, Community Development, Finance, Human Resources, Information-Technology, and Administration. The annual increase for this component should not exceed the rate of inflation.
 - e. Levy to fund additional personnel as determined by the City Council.
2. User charges and tap-on fees will be sufficient to finance all operating and debt service costs for the Water Fund.
3. The City Manager should impose spending limits if, in his/her judgment, revenues will be below original estimates. Staff should review and monitor on a monthly basis, expenditures to assure control of spending within available revenues.
4. Ongoing transfers will be made from the General Fund to the Capital Equipment Fleet Replacement Fund on an annual basis to help plan for the purchasing of large capital equipment needs.

Expenditures

The City will strive to adhere to the following policies:

1. The City will consistently budget the minimum level of expenditures which will provide for the public well-being and safety of the residents and businesses of the community.
2. Expenditures will be within the confines of generated revenue. Fund balances will not be used to pay for operating expenditures except in the case of emergencies and after careful consideration.