Effingham County Financial Policy

Purpose

Effingham County government operates on policies designed to protect the County's assets, provide guidance to employees, and serve the public efficiently. It is the intent that the policy statements be used to avoid conflicting goals or activities that may have a negative impact on the overall financial position of the County. The County's system of internal accounting controls is designed also to provide reasonable assurance that the financial records are reliable for preparing financial statements and maintaining accountability for assets and obligations.

These financial policies address revenues, cash management, operating budget policies, capital improvement policies, debt management policies, risk management policies, and accounting policies.

Objectives

- To protect the policy-making ability of the County Board by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- To enhance the policy-making ability of the County Board by providing accurate information on program costs.
- To ensure sound management of the County government by providing accurate and timely information on the County's financial condition.
- To provide sound financial principles to guide important decisions of the County Board and of management which have a significant fiscal impact
- To establish operational principles that will maintain a diversified and stable system to shelter the County from short-run fluctuations in any one revenues source, distribute the cost of services fairly, and provide the adequate funds to operate the desired programs.
- To provide the essential public facilities and prevent deterioration of the County's capital infrastructure.
- To protect and enhance the County's credit rating.
- To ensure the legal and appropriate use of County funds through a system of financial security and internal control.

Revenue Policies

Revenue Policy 1: Fund Balance

- To maintain the County's credit rating and meet seasonal cash flow shortfalls, property tax-funded budgets shall provide for anticipated undesignated fund balance in an amount equal to 24 % of the fund's current fiscal year budget/appropriation at year end.

- The County Retirement funds, FICA and IMRF, shall be required to maintain an amount equal to 8% of the fund's current fiscal year budget/appropriation. The County Risk Management Fund shall be required to maintain an amount equal to 8% of the fund's current fiscal year budget/appropriation. The County follows the guidelines of Moody's Investment Services and the Government Finance Officers Association concerning fund balance, which is 5-10% of the budget. For purposes of this policy, "cash flow" is defined as the monthly difference between expenditures and revenues at year end.
- To meet seasonal cash flow shortfalls, non-property tax-funded budgets shall maintain an anticipated fund balance in an amount equal to 16% of the fund's current fiscal year budget/appropriation at year end.
- In the event the undesignated fund balance exceeds the established levels, the difference may be used to fund one-time capital expenditures which do not increase ongoing County costs and other one-time costs.
- If, at the end of a fiscal year, the fund balance falls below the established levels, then the County shall rebuild the balance within one year.

Revenue Policy 2: Sources of Revenue

- The County shall maintain a diversified and stable system to shelter the County from short-run fluctuations in any one revenue source, distribute the costs of services fairly, and provide the adequate funds to operate desired programs.
- Illinois statutes limit the amount of total property tax that can be levied by the County Board. In complying with these requirements, the levy for each fund shall be based upon the evaluation of its fiscal health; non-property tax revenues, and opportunities for future non-levy revenue growth; the level of planned expenditures; and cash requirements.
- Revenues are projected using conservative estimates based on historical information and current levels of collection.
- The County will project revenues for the next five (5) years and update the projection annually for all budgeted funds.
- The County uses one-time revenues for one-time expenditures. By not using these monies for operations, the Board should not have to reduce operations as the funds come and go.
- After determination of all sources, all revenues shall be allocated across the various items appropriated by the County Board as provided by law. Unless otherwise provided by law, no department has claim to any specific sources of revenue, and must bear responsibility for its pro rata share of any levy of taxes (where applicable), including any increase in any levy as may be applicable.

Revenue Policy 3: Grants

- The County shall aggressively pursue all grant opportunities; however, before accepting grants, the County will consider the current and future implications of both accepting and rejecting the monies.

- The County Tax and Finance Committee shall approve all new grant applications, and promptly inform the County Board of the grant application. All grant applications for renewal shall be prepared and submitted by either the Tax and Finance Committee, or the respective County Department Heads, who shall notify the County Board of the application for renewal.
- In recommending acceptance or rejection of a grant, the Tax and Finance Committee shall evaluate each grant upon consideration of the following:
  - The amount of matching funds required;
  - In-kind services that are to be provided;
  - The length of the grant and the requirements to continue the service after the grant has ended; and the related operating expenditures.

Revenue Policy 4: User Fees

- The County charges user fees for items and services which benefit a specific user more than the general public. User fees are determined by the statutes or an indirect cost study done bi-annually. Fee studies based on the cost study are done as needed to determine the level of fees needed to equal the total cost of providing the service.
- Where feasible, all fees for licenses, permits, fines and other miscellaneous charges shall be set to recover the County's expense in providing the attendant service. These fees shall be reviewed annually, and recommended changes presented to the appropriate County Board standing committee and the Tax and Finance Committee.

Revenue Policy 5: Transfers

- To the maximum extent feasible and appropriate, transfers from the General Fund to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such programs shall revert to the General Fund balance.

Operating Budget Policies

Operating Budget Policy 1: Pay-As You-Go

- The County shall attempt to operate on a pay-as-you-go basis, to pay for all current expenditures with current revenues. The County will avoid budgetary procedures that balance current expenditures at the expense of meeting future year's expenses, such as postponing expenditures or accruing future revenue.

Operating Budget Policy 2: Balanced Budget

- The County is required by Illinois Compiled Statutes, 55 ILCS 5/6-1, to adopt an annual budget and appropriation ordinance. All operating funds are appropriated in the Official Budget by County Board goal; the budget must balance expenditures against the available revenues and fund balance. The General Fund and Special Revenue Funds shall be balanced with fund balance if to do so would drop the fund balance below 8%.

- If expenditures exceed revenues and available fund balance, the Tax and Finance Committee shall make recommendations for the commensurate reductions of expenditures and increases in revenues to meet the balanced budget requirements. Such expenditure reductions shall be based upon a determination of the mandated or discretionary nature of the service.

Operating Budget Policy 3: Budget Performance Reporting

- The County Treasurer shall prepare a quarterly report comparing actual revenues and expenditures with budgeted revenues and expenditures to the Tax and Finance Committee.
- The County Treasurer shall submit monthly reports of budgeted amounts and revenues expended for the current fiscal year to the County Board.
- Where practical, the County shall institute performance measurements to be included in the budget.

Operating Budget Policy 4: Personal Services

- Long-term costs of changes in benefits packages shall be estimated and fully disclosed to the County Board before any negotiated labor agreements are affirmed. Final agreements resulting from the negotiations shall be reviewed by the Legislative/Personnel Committee and shall be ratified at the discretion of the County Board consistent with the Illinois Public Employment Relations Act.
- Salaries, wages, and other benefits for non-union employees shall be granted in a like manner, except for Top Management, who are in similar classifications and work sites but are exempt from union representation.
- Top Management personnel shall receive, at a minimum, salary and benefit adjustments which are at least the average adjustment on a percentage basis provided to other represented employees.
- Department Heads and Elected Officials are encouraged to review each vacant position in their department or office during the current fiscal year and budget development with regards to each position's importance to the department and any alternative to filling the vacancy.

Operating Budget Policy 5: Retirement and Compensated Absences

- The budget shall fully fund all retirement systems.
- The County shall fund IMRF based upon the annual required contribution rates provided annually by IMRF.
- The County does not fund compensated absences in its budgeting process. The audited financial reports show a liability for the accumulation of vacation, sick leave, and other time earned by employees by not taken. The balance is a projection of what the County would be required to pay out if it discontinued business as of that date. The County does not expect to cease operating, and it has not incurred problems with pay-outs exceeding the ability to pay.

Operating Budget Policy 6: Capital Replacement

- All equipment replacement and maintenance needs shall be projected and timed at stable intervals so as not to spend excessively in one year and restricted in the next.
- The budget should provide sufficient funds for the regular repair and maintenance of all County capital assets. The budget should be balanced by deferring these expenses.
- All budget requests for replacement of vehicles or other capital equipment shall be based upon the estimated total purchase price, exclusive of trade-in value.
- An item shall be considered capital equipment if it is a tangible item, has a useful life of more than 1 year, and has an acquisition cost greater than the applicable threshold. The County's capitalization thresholds are as follows: land $50,000, land improvement $50,000, building/building improvement $100,000, machinery / furnishings $20,000, software at $50,000, and intangible assets at $50,000.

Operating Budget Policy 7: New Program Requests

- New or expanded programs may be included in the budget as a separate package when funded by new sources of revenue or a commensurate reduction of existing operations. Departments are encouraged to explore this option for new and expanded program requests.
- New or expanded programs may be included in the budget as a separate package when no funding source is recognized and will be evaluated against County Board priorities and funding availability.

Operating Budget Policy 8: Budget Amendment

- Budgets may be amended in three ways: 1) The County Board may authorize transfers within and between object totals in a department budget; 2) The County Board may authorize transfers between departments and funds; and 3) The County Board may approve additional appropriations after budget adoption, by a super majority vote of 2/3rds of the entire County Board.

Operating Budget Policy 9: Fund Structure

- The budgetary policies of Effingham County are in accordance with the generally accepted accounting principles (GAAP). The County's financial structure begins with funds. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. Several types of funds are budgeted:
- Governmental funds account for traditional governmental operations that are financed through taxes and other fixed or restricted revenue sources.
    - General Fund: The General (Corporate) Fund is available for any authorized purpose and is used to account for all financial resources except those required to be accounted for in another Fund. A General Fund summary is prepared which lists the amount of General Fund appropriations for all impacted departments.

  - Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific sources that are legally restricted to expenditures for a specific purpose. Special Revenue Funds are budgeted and appropriated.
  - Debt Service Funds; Debt Service Funds are utilized to account for the payment of interest, principal, and related costs on the County's general long-term debt. The county will utilize debt service funds as projects arise and debt is required to complete the project.
  - Capital Project Funds: Capital Project Funds are used to account for all expenditures and revenues associated with the acquisition or construction of major facilities that are not financed through proprietary funds or funds being held for other governments.
- Proprietary Funds account for certain "business-type" activities of governments that are operated so that costs incurred can be recovered by chagrining fees to the specific user of these services.
  - Enterprise Fund: An Enterprise Fund is used to account for the operations which are financed primarily by User charges.
  - Internal Services Fund: Internal Services Fund is established to account for the financing of goods and services provided to the County and other agencies on a cost reimbursement basis; i.e. Employee Health benefits.

CAPITAL IMPROVEMENT POLICIES

Capital Improvement Policy 1: Capital Improvement Program / Capital Budget

- A five-year improvement program is prepared with each annual operating budget. The current year portion of the five-year plan is the capital budget.
- For presentation purposes, the County will establish special revenue funds, capital project funds, and debt service funds and segregate them into a capital budget.
- The County will coordinate development of the Capital Improvement Program with the development of the operating budget. Further operating costs associated with new capital improvements will be projected and included in operating budget forecasts.
- Requests for capital improvements shall accompany operating budget submission. A high priority shall be given to replacement of capital assets when such assets have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively impacting property values, or no longer functionally serving their intended purpose.

Capital Improvement Policy 2: Intergovernmental Assistance

- Intergovernmental assistance shall be used to finance only those capital improvements that are consistent with the capital improvement plan and County priorities, and whose operations and maintenance costs have been included in operating budget forecasts.

Capital Improvement Policy 3: Maintenance

- Standards of maintenance to adequately protect the County's capital investments shall be prepared and periodically updated. The annual budget shall be prepared to meet established maintenance schedules.
- The County will maintain all its assets at a level adequate to protect the investment and to minimize future maintenance and replacement costs.

Capital Improvement Policy 4: Financing

- To the extent allowable by law, various funding sources may be utilized for capital improvements including General Fund and Non-General Fund sources of revenue. Capital projects shall not be dictated by the nature of the funding available except to the extent that the project must be placed in priority dictated by the nature of funds available.
- The appropriate County Standing Committee will identify the estimated cost and potential funding sources for each capital project proposal prior to submission to the County Board for approval. This will include a determination of the least costly financing method for all new projects.
- Revenue sources identified by law as financing only capital projects shall be segregated into capital project funds.

Capital Improvement Policy 5: Capital Improvement Fund Balance

- Any unspent capital funds roll into the fund balance at the end of each Fiscal Year. This amount can be claimed as "funded in prior years", if the project is listed in the five-year capital improvement program. The funds do not automatically roll forward and the request must be included in the long term capital plan to be considered.

Capital Assets

Definition of a Capital Asset:

- Items individually with a life expectancy of at least two years and above the following thresholds: land, $50,000, land improvements $50,000, building / building improvements $100,000, machinery / equipment / furnishings $20,000, vehicles $20,000, software $50,000, intangible assets $50,000.
- In cases where the County must comply with Federal or State requirements for awards (or dealing with organizations with similar stipulations), the County will comply with those requirements in lieu of the thresholds stated in the capital asset policy. i.e. – All grant awards are subject to the capitalization thresholds stated within the grant agreement(s).

Ancillary costs

- All costs, including shipping, that are required to put the asset in service will be capitalized. These charges should be added onto the acquisition price of the item. Business-type activities may have capitalized interest included on construction projects, but governmental activities will not include such costs.

Depreciation

- Depreciation will be calculated on a straight-line basis over an estimated useful life. Estimated useful life means the estimated number of years that an asset will be able to be used for the purpose which it was purchased.

Debt Policies

Debt Policy 1: Use of Debt Financing

- The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues.
- Debt financing shall generally be utilized for projects that benefit the citizens of Effingham County, have a useful life that will exceed the term of the financing, and when specific project revenues or resources will be sufficient to service the debt.
- The County will not use long-term debt for current obligations.

Debt Policy 2: Limits on Issuance of Debt

- State statutes limit a government's debt to 2.875% of its assessed valuation.
- The County will try to keep the average maturity of debt at or below (15) fifteen years.

Debt Policy 3: Rating Agency Relationship

- The County established a self-insurance program for unemployment. The County utilizes CIRMA (Counties of Illinois Risk Management Association), a self-insurance pool of counties for liability and worker's compensation insurance coverage. The County utilizes conventional and HSA medical insurance for employee medical coverage.
- The County Board shall annually review 1) organizational compliance with administrative risk management policies in participating in the above efforts, 2) identify current and potential liability risks or activities with the potential to adversely impact County finances; and 3) specific strategies to address the risks identified.

ACCOUNTING POLICIES

Accounting / Auditing

- State statutes require an annual audit by independent certified public accountants. A comprehensive annual financial report shall be prepared to the standards set by the Government Finance Officers Association (GFOA).
- The County will follow Generally Accepted Accounting Principles (GAAP).

- The County uses an accounts receivable system to accrue revenues when they are measurable for governmental fund types. Departments should bill appropriate parties for amounts owed to Effingham County, review aging reports, complete follow-up information about the account, and monitor all accounts receivables.

Depreciation

- The County does not fund depreciation in its proprietary funds. The County established that policy on data processing equipment on the expectation that replacement cost is lower than the original purchase price due to technology evolution.

EEO-Affirmative Action

- The County Board set a policy that all vendors doing greater than $1000 business with the County must follow guidelines established for equal employment opportunity and affirmative action. Generally, the vendor must have a written sexual harassment policy that meets state statutes, and a written EEO policy. The vendor must be able to demonstrate they follow these policies.

Encumbrance

- An encumbrance system is maintained to account for commitments resulting from approved purchase orders and contracts. Encumbrances at year end for unfilled obligations of the current year budget are re-appropriated in succeeding year. An encumbrance for capital expenditures will continue in force until the purpose for which it is made has been accomplished or abandoned to the extent that the project is not under contract by the close of the fiscal period. Encumbrances at year end do not constitute expenditures or liabilities in the financial statements; however, for budgeting purposes, encumbrances are treated as a budgeted expense in the year the commitment to purchase is made.

Capital Assets

- The County maintains a capital asset inventory of furniture, equipment, buildings, and improvements with the corresponding value thresholds: land $50,000, land improvement $50,000, buildings / building improvements $100,000, machinery / equipment / furnishings $20,000, software at $50,000, and intangible assets at $50,000.

Fiscal Year

- The County's fiscal year is December 1st up to and including November 30th.

Purchasing

- The County's purchasing policy requires County Board approval for all purchases exceeding $20,000. All items with an expected value of $20,000 or greater must be competitively bid with exception of professional services as defined in state statutes. All vendors doing greater than

$1,000 with the County in any given calendar year must follow the County's EEO-Affirmative Action policy.

Internal Control

- Internal control procedures shall be documented and reviewed periodically

Investment Policy

- The County Treasurer is responsible for investing all of Effingham County funds. The Treasurer invests most funds' cash under a pooled cash concept, with maturities planned to coincide with cash needs. Amounts necessary to finance immediate, day to day needs are deposited in interest bearing demand accounts; other monies are invested in higher yielding Certificates of Deposit.
- The County Board approved the financial institutions in which the Treasurer may deposit funds.