

Basis of Budgeting

Purpose

To enhance the reader's understanding of the Village's budget, the Operating Budget is presented in several formats throughout the document. These formats include the Budget Summary, Revenues by Fund, detailed Revenue descriptions by Fund, Expenses by Fund and Department with detailed Expense descriptions. Included within each Department are all costs, including all necessary interfund transfers.

The Village's accounting system is maintained on a basis consistent with the adopted budget. This enables Departments to monitor their budget by utilizing the inquiry functions of the financial software system. The Village of Wauconda's Operating Budget is prepared on a cash basis. At the end of each fiscal year, the Village undertakes appropriate adjustments to bring the accounting system of the Village in line with GAAP from cash basis to accrual basis. These adjustments allow the Village to convert its financial structure from the budget format to a format that is appropriate for meeting the requirements of financial reporting required in the Comprehensive Annual Financial Report (CAFR). All year-end adjustments are carefully reviewed by the Village's outside auditor to ensure their accuracy.

Non-Appropriated Accounting Funds

The Village's financial system includes Escrow Funds that are not appropriated and are therefore not included in the Budget Document. The Escrow Fund is utilized by the Village to account for monies that are deposited with the Village for various purposes. These deposits are primarily used to offset the Village's expenses for review and inspection of construction or development projects. None of the transactions in these Funds are considered revenues or expenditures of the Village; therefore, they are excluded from the Budget Document.

Budget and Financial Policies

Budget Policies

1. The Village will adopt and maintain a balanced budget in which expenditures will not be allowed to exceed reasonably estimated revenues and other available funds at the same time striving to attain a one month minimum reserve as the recommended fund balance.
2. Budget development will be directed by specific goals and objectives as included in the Board's Strategic Plan and as developed by each Department.

3. As part of the annual budget review process, the Village will project fund revenues and expenditures for three years beyond the budget year and compare the projected balances to the fund balance policy. This will allow the Village to identify potential problems early enough to correct them.
4. The proposed budget will be prepared in a manner maximizing understanding by citizens and public officials. Copies will be made available to all interested parties on the Village of Wauconda website.
5. The Village will prepare and maintain a system of regular monthly reports comparing actual revenues and expenditures to budgeted amounts. These reports will be distributed to the Governing Board and Department Heads.
6. A review of revenues and expenditures will take place quarterly with all Department Heads to assess projected revenues and expenditures. If planned targets are not being met, a plan will be prepared by the affected Department and results reported to the Board.

Revenue Policies

1. The Village will plan to maintain a diversified and stable revenue base to shelter itself from short-term fluctuations in any one revenue source.
2. The Village will estimate annual revenues on an objective, reasonable, and conservative basis. Most revenues will be estimated based on a historical trend analysis. Major revenues will receive a more in-depth analysis.
3. The Village will actively seek County, State and Federal grants.
4. Water, Sewer and Water Reclamation will be self-supporting.
5. All charges for services, fees, licenses, permits, etc. will be reviewed regularly to insure that rates are maintained at a level that is related to the cost of providing the services and are competitive with others providing similar services in the area.
6. Water and sewer rates will be reviewed every year and set at levels adequate to meet expenditures for the next three years.

7. Connection fees for water and sewer services shall be reviewed annually in conjunction with the Five Year Capital Improvement Program to assure that fees are set at a rate adequate to cover the cost of extending services to new developments.
8. One-time revenues will not be used to support operating expenditures, except in emergency situations approved by the Board.
9. Unanticipated revenues will not be expended, but will be added to the existing fund balance.

Expenditure Policies

1. The Village will maintain a level of expenditures that will provide for the public well being and safety of the residents of the community.
2. The Village will not make any purchases in excess of the budgeted line.
3. Budget adjustments will only be permissible from one line item to another only when there are not available funds in a specified account and an expenditure is anticipated from another line item within the same fund.
4. The Village will comply with the existing approved purchasing manual. Purchases over \$750 - \$10,000 will be approved by a purchase order signed by the Village Administrator and Director of Finance and by the Governing Board for purchase over \$10,000 (Purchasing Policy Manual is available).

Reserve Policies

In order to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures, the Village will strive to established cash and investments balance (referred to as fund balance).

General Fund

The Village of Wauconda will strive to achieve a fund balance equal to a minimum of one month of operating expenditures. If the fund balance falls below the one month goal, the Board will need to approve a plan that will return to the minimum balance within a reasonable period of time.

Debt Service Fund

The fund balance shall be equal to a minimum of property tax supported debt service payments.

Police Pension Fund

The fund balance shall be adequate to fully fund (as determined by an actuarial study) the Police Pension Fund by the date required by state law.

Debt Policies

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the improvement.
2. The Village will maintain good communications with bond rating agencies about its financial condition. The Village will follow a policy of full disclosure on every financial report and bond prospectus.

Cash Management Policies

1. An investment policy has been adopted by the Village Board, which provides guidelines for the prudent investment of the temporary idle cash and outlines the policies for maximizing the efficiency of the cash management system. The ultimate goal is to enhance the economic status of the Village while protecting its pooled cash.
2. The cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the Village to invest funds to the fullest extent possible. In order to maximize interest earnings, the Village combines the cash of all funds excluding the Police Pension Fund. Interest revenue derived from intermingled cash is allocated to the participating funds monthly, based on the relative average cash balance of each fund.
3. Criteria for selecting investments and the order of priority are safety, liquidity, and yield.

Capital Asset Policies

1. Capital assets are major assets that benefit more than a single accounting period. They include: land, land improvements, buildings, building improvements, construction in progress, machinery and equipment, vehicles, and infrastructure. A capital asset is to be reported and, with some exceptions, depreciated in government-wide statements and, for enterprise funds, in the individual fund

statements. Assets that are not capitalized are expended in the year of acquisition.

For further clarification, infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and that are normally stationary in nature. Examples include roads, sidewalks, bike paths, bridges, drainage systems, water systems, sewer systems, etc. Infrastructure assets do not include buildings, drives, parking lots or any other examples given above that are incidental to property or access to the property.

2. For purposes of this policy, the Village of Wauconda will use the following capital asset categories:

- ◆ Land – General
- ◆ Land – Detention/Retention
- ◆ Land – Rights-of-Way
- ◆ Land Improvements – includes items such as golf course improvements, parking lots, non-infrastructure utility installation, etc., intended to make the land ready for its intended purpose.
- ◆ Buildings/Building Improvements – includes water towers, lift stations, wastewater treatment plant, salt storage dome, as well as general office and maintenance buildings
- ◆ Machinery and Equipment
- ◆ Infrastructure
 - Water mains
 - Sewer mains
 - Storm sewers
 - Streets/curbs/gutters
 - Traffic signals
 - Sidewalks/bikeways
 - Construction in progress

3. The Village of Wauconda will capitalize all assets that have a useful life greater than one year and meet the following dollar thresholds:

Land	\$1
Land Improvements	\$20,000
Buildings/Building	\$20,000
Machinery & Equipment	\$10,000
Infrastructure	\$50,000

4. Construction in progress will be recorded anytime the final project cost will require the project to be recorded as a capital asset, even if the construction in progress is below the \$50,000 threshold. When construction is complete, the project will be reclassified from construction in progress to the appropriate capital asset category.

5. With respect to asset improvements (such as street resurfacing, roof replacement, etc), costs over the appropriate asset category threshold will be capitalized if:
 - ◆ The estimated life of the asset is extended by more than 25%,
or
 - ◆ The cost results in an increase in the capacity of the asset, or
 - ◆ Significantly changes the asset, or
 - ◆ In the case of streets and road – if the work impacts the “base” structure

6. All assets that meet the above definitions and thresholds will be recorded at historical cost or estimated historical cost. In the case of a donated asset, it shall be recorded at its estimated fair value at the time of acquisition. The following parameters further refine the recording of capital assets:
 - ◆ Land – Recorded at historical cost and *not depreciated*
 - ◆ Land Improvements – Recorded at historical cost and depreciated if they have an expected life span. If not, they are not depreciated.
 - ◆ Buildings – Recorded at historical cost and depreciated. Cost should include architectural and engineering fees, permits, etc, as well as actual construction cost.
 - ◆ Machinery & Equipment – Recorded at historical cost and depreciated. Cost should include purchase price as well as any charges related to acquiring the asset such as freight and getting it ready for operation.
 - ◆ Infrastructure – Recorded at historical cost or estimated historical cost and depreciated.

7. An inventory record will be maintained on each capital asset that will include, depending on the type of asset, the following information:
 - ◆ Description
 - ◆ Type of asset
 - ◆ Responsible Department
 - ◆ Acquisition date
 - ◆ Useful life
 - ◆ Serial #, model #, etc.
 - ◆ Acquisition cost
 - ◆ Date, method, and authorization of disposal

8. Estimated useful life means the estimated number of years that an asset will be able to be used for the purpose for which it was purchased. Estimated useful lives for the category of assets identified in this policy are as follows:

◆ Land Improvements	10-20 years
◆ Buildings	25-50 years
◆ Machinery & Equipment	2-20 years
◆ Infrastructure	
Water Mains	50 years
Sewer Mains	50 years
Storm Sewers	50 years
Streets/Curbs/Gutters	20 years
Traffic Signals	25 years
Sidewalk/Bikeways	15 years

9. Assets subject to depreciation will be depreciated using a straight-line method. The cost of the asset will be written off evenly over the useful life of the asset beginning in the month the asset is purchased or put in service.

10. This policy is intended to address those capital assets that must be tracked for external financial reporting purposes. There are other assets that do not need to be included in the external financial reports due to their relatively low value. However, Departments will still be required to exert appropriate control on them. Examples of such assets include guns, radios, and computer equipment. Inventory of computer equipment will be the responsibility of the Finance Department. Control of other assets not included in this policy will be the responsibility of the Department to which the asset is assigned.

Financial Reporting Policies

1. The Village will adhere to a policy of full and open disclosure of all financial operations.
2. The Village will prepare a Comprehensive Annual Financial Report in conformity with generally accepted accounting principles and financial reporting practices.
3. An independent firm of certified public accountants will perform an annual financial and compliance audit according to Generally Accepted Auditing Standards (GAAS) and will publicly issue an opinion that will be incorporated in the Comprehensive Annual Financial Report.