

BUDGET STRUCTURE

This section describes the following topics:

- **Fund Structure** - description of the various types of funds the City employs
- **Budgeted Funds** - description of the funds the City budgets for
- **Major versus Minor Funds** – distinction and identification of major and minor funds
- **Audited Funds** - description of the funds the City does not budget for
- **Account Structure** - description of departments, programs, accounts, and object codes
- **Program and Financial Policies** - description of Council policies which govern the formation of the budget
- **Comparison of Budget Documents to Financial Statements** - description of the differences between budget documents and audited financial statements
- **Budget Changes** - description of the changes to the budget document this year

FUND STRUCTURE

A fund is a separate fiscal entity with revenues and expenses that are segregated for the purpose of carrying out a specific purpose or activity. Fund accounting demonstrates legal compliance and aids financial management by segregating transactions related to certain government functions or activities. The City’s budget is divided into several different funds. Each fund is considered a separate accounting entity. The budgeted funds are classified into five categories:

Debt Service Funds - A Debt Service Fund accounts for the payment of long-term debt. A Debt Service Fund may also be referred to as a Governmental Fund.

Enterprise Funds - Enterprise Funds are proprietary funds established to account for the financing of self-supporting activities of governmental units that render services on a user charge basis to the general public. The significant attribute of Enterprise Funds is that they are financed primarily by charges to consumers and that the accounting for them makes it possible to show whether they are operated at a profit or loss similar to comparable private enterprises. The City has three Enterprise Funds: Parking, Water and Sewer. Depreciation expenses are recorded in Enterprise Funds, but the City excludes this non-cash expense from its budget.

General Fund - This Fund represents a substantial portion of the City’s activities. It is used to account for activities that are not accounted for in the other funds. The General Fund may also be referred to as a Governmental Fund.

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The City budgets for six Special Revenue Funds: Emergency Telephone, Illinois Municipal Retirement Fund, Library, Motor Fuel Tax Fund, the Municipal Waste Management Fund and the Uptown Tax Increment Financing Fund. The City has additional Special Revenue Funds that are not included in the budget. These funds are the Asset Forfeiture, the Foreign Fire Insurance Tax, the Dempster Tax Increment Financing Fund, and the Alley Special Service Areas. Special Revenue Funds may also be referred to as Governmental Funds.

Capital Project Funds – Capital Projects Funds are governmental funds used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Enterprise funds).

BUDGET BY FUND STRUCTURE

| <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Enterprise</u> |
|------------------------|------------------------|---------------------|-------------------|
| Administration | Library | 2004A | Parking |
| Community & Civic Svs. | Motor Fuel Tax | 2004B | Water |
| Commun. Development | IMRF | 2005A | Sewer |
| Finance | Municipal Waste | 2006A | |
| Fire | E-911 | 2006B | |
| Police | Uptown TIF | | |
| Public Works | | | |

BUDGETED FUNDS

Within the five previously mentioned classifications, the City prepares budgets for fifteen different funds. They are:

2004 A and B Debt Service Funds - This fund accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs to finance the construction of a reservoir and pump station. Series 2004A is intended to be paid from Uptown TIF incremental property taxes; series 2004B is intended to be paid from water revenues.

2005 A Debt Service Fund – This fund accounts for the accumulation of resources for, and the payment of, debt principal, interest and related costs for the general obligation bonds issued in 2005 to finance the construction of phases I and II of the Uptown Redevelopment Project. Series 2005A is intended to be paid from TIF increment.

2006 A & B Debt Service Funds – The City issued debt to complete the redevelopment of Target Area 2. These funds account for the accumulation of resources for, and the payment of, debt principal, interest and related costs for the general obligation bonds to finance the construction of phase III of the Uptown Redevelopment Project. Series 2006 A & B is intended to be paid from Uptown TIF incremental property taxes; series 2006 A is a tax-exempt issue and 2006 B is taxable.

Emergency Telephone Fund - This fund is used to record the expenses of the Emergency 911 telephone system and telephone surcharge receipts. Revenues sources for the fund come from an emergency telephone surcharge and a subsidy from the general operating fund.

General Fund - The general operating fund is the City's primary operating fund. It accounts for all financial resources of general government, except those required to be accounted for in another fund. The services which are administered by the City and accounted for in the general operating fund include general government, public safety, and public works. The primary revenues in the general operating fund are: property taxes, utility and telecommunications taxes, sales taxes, and income taxes.

Illinois Municipal Retirement Fund - This fund is used to record employer contributions to a State administered retirement fund. All personnel, except those who are covered by the police or fire pensions and employees whose positions are classified as requiring less than 1,000 hours per year are covered under IMRF. A property tax is levied each year to fund the Illinois Municipal Retirement fund.

Library Fund - This fund is used to account for the operation and maintenance of the public library. Financing is provided by property taxes and other City and library revenues. The City Council appoints the Library Board and approves its annual budget. The property tax is the primary source of funding for the library.

Motor Fuel Tax Fund - This fund accounts for the use of the City's share of state gasoline taxes. State law requires that motor fuel taxes be used for improvements in the street right of way, including streets, curbs and gutters, traffic signalization and sewer related improvements.

Municipal Waste Management Fund - This fund is used to account for the operation and maintenance of the waste collection, transportation and disposal system, including all obligations to the Solid Waste Agency of Northern Cook County under the terms of the 1992 Project Use Agreement. Financing is provided by property taxes.

Parking Fund - This fund accounts for the provision and maintenance of parking facilities in the City. Projections are shown exclusive of depreciation. Funding comes from several parking related fees, such as parking penalties, unmetered parking charges, and parking meter fees.

Sewer Fund – This fund accounts for the provision and maintenance of sewer lines, catch basins, manholes, and inlets.

Uptown Tax Increment Financing Fund – This fund accounts for the activity in one of the City's tax increment financing fund. Revenue comes from incremental property taxes.

Water Fund - This fund accounts for the provision of water services to residents of the City. Projections are shown exclusive of depreciation. Residents are billed bi-monthly for water and major commercial accounts are billed monthly.

MAJOR AND MINOR FUNDS

The City budgets for the following **major governmental** funds: General Operating, Uptown TIF, Municipal Waste, and Library.

The City budgets for the following **major proprietary** fund: Water.

The remaining budgeted funds are **minor** funds.

The General Operating Fund is always a major fund. Other funds are considered a major fund when assets, liabilities, revenues or expenditures equal 10% or more of total governmental or enterprise funds respectively, and 5% or more for all governmental and enterprise funds combined.

AUDITED FUNDS

The City has additional funds that are audited, but not included in the budget. The asset forfeiture fund accounts for the receipt of confiscated illegal drug money or assets and the disbursement of monies for drug enforcement purposes and is considered minor. The fiduciary funds, such as the agency trust funds, are excluded because the City holds assets in a trustee capacity for other entities. Selected special revenue funds, such as the alley special service areas, are excluded because once the alleys are built, principal activity is for the City to levy property taxes until a receivable is collected.

ACCOUNT STRUCTURE

The City of Park Ridge uses a modified program budget. Budget dollars are allocated to specific programs. Departments consist of various programs. Departments and programs are both subsets of a fund. So, starting from the largest structure to the smallest, dollars are allocated to a particular fund, departments within the fund, programs within the department, accounts within the program, and finally object codes as the smallest classification of the account. The following is an illustration of this structure (203-3024-9951-47):

FUND _____ Motor Fuel Tax (203)
 DEPARTMENT _____ Public Works
 PROGRAM _____ Street Maintenance (3024)
 ACCOUNT _____ Street Repairs (9951)
 OBJECT _____ Year 2010 (48)

Accounts are listed in the budget with an accompanying thirteen-digit account number. The first three numbers indicate the fund number.

The City budgets for the following funds:

| Type | Fund Number | Fund Name |
|-----------------|-------------|--|
| General | 100 | General Operating |
| Special Revenue | 201 | Library |
| | 203 | Motor Fuel Tax |
| | 204 | Uptown Tax Increment Financing District |
| | 206 | Illinois Municipal Retirement |
| | 208 | Municipal Waste |
| | 220 | Emergency Telephone |
| Debt Service | 304 | Debt Service – 2004A General Obligation Issue |
| | 305 | Debt Service – 2004B General Obligation Issue |
| | 306 | Debt Service – 2005A General Obligation Issue |
| | 308 | Debt Service – 2006A General Obligation Issue (Tax-Exempt) |
| | 309 | Debt Service – 2006B General Obligation Issue (Taxable) |
| Enterprise | 501 | Parking |
| | 502 | Water |
| | 503 | Sewer |

The next four numbers indicate the department/program number. There are eight major departments within the City:

- Administration
- Community & Civic Services
- Community Preservation & Development
- Finance
- Library
- Police
- Fire
- Public Works

Within the General Fund, there are forty-one programs:

| | | |
|-----------------------------------|------------------------------------|----------------------------------|
| 1011 – Legislative | 1021 - City Administration | 1022 - Legal Counsel |
| 1023 - Records Control | 1024 - Human Resources | 1025 - Information Technology |
| 1026 - Information Services | 1027 – Economic Development | 1031 - Finance Administration |
| 1032 – Accounting | 1033 - Collections | 1034 - Purchasing |
| 1041 – Community Support | 1042 – Noise Abatement | 1044 – Transportation |
| 2011 - Police Administration | 2012 – Investigations | 2013 – Communications |
| 2014 - Patrol | 2015 - Crime Prevention | 2021 - Fire Administration |
| 2022 - Fire Prevention | 2023 - Emergency Response | 2024 – Special Services |
| 2025 – Emergency Preparedness | 3011 - Public Works Administration | 3012 - Engineering |
| 3021 - Traffic Control | 3022 - Street Lighting | 3023 - Snow, Ice & Storm Control |
| 3024 - Street Maintenance | 3025 – Sidewalk Maintenance | 3026 - Alley Maintenance |
| 3062 – City Buildings Maintenance | 3071 - Forestry | 3072 - Grounds Maintenance |
| 4011 - CP&D Administration | 4012 - Planning | 4022 - Zoning |
| 4031 - Building | 4051 – Environmental Health | |

Within the Library fund, there are seven programs:

| | | |
|-------------------------------|----------------------------|---------------------------|
| 5011 - Library Administration | 5012 - Library Maintenance | 5013 - Technical Services |
| 5014 - Adult Reference | 5015 - Children’s Services | 5016 - Circulation |
| 5017 - Reader Services | | |

Within the Motor Fuel Tax fund, there are three programs:

| | | |
|------------------------|---------------------------|--------------------------|
| 3021 - Traffic Control | 3024 - Street Maintenance | 3026 - Alley Maintenance |
|------------------------|---------------------------|--------------------------|

Within the Water Fund, there are five programs:

| | | |
|-----------------------------|---------------------------------|------------------------------|
| 3051 - Water Administration | 3052 - Water Supply & Treatment | 3053 - Fire Hydrant Services |
| 3054 - Water Main Services | 3055 - Water Meter Services | |

The remaining funds have one program each:

| Fund | |
|----------------------|--|
| IMRF | 6050 - IMRF |
| Municipal Waste | 3043 - Solid Waste Collection & Disposal |
| Emergency Telephone | 2013 - Communications |
| Debt Service – 2004A | 6110 – Debt Service |
| Debt Service – 2004B | 6110 – Debt Service |
| Debt Service – 2005A | 6110 – Debt Service |
| Debt Service – 2006A | 6110 – Debt Service |
| Debt Service – 2006B | 6110 – Debt Service |
| Parking | 3027 - Parking |
| Sewer | 3031 - Sewer |

The eighth through eleventh digits of the general ledger account number designate the type of account.

| | |
|-------------|------------------------------|
| 9100 – 9299 | Personal Services |
| 9300 – 9399 | Library Contractual Services |
| 9400 – 9499 | City Contractual Services |
| 9500 – 9699 | Commodities |
| 9700 – 9799 | Fixed Assets |
| 9800 – 9899 | Debt Service |
| 9900 – 9999 | Capital Budget |

The last two digits indicate the object code. Object codes are mostly used by the Library. Object codes indicate a designation within the same account category. An example would be Library Resources - Adult Books (5014-9540-01) and Library Resources - Periodicals (5014-9540-03).

PROGRAM POLICIES

The City has adopted a budgetary policy in lieu of an appropriation ordinance. The major attributes of the policy are:

- Budget Amendments - During the fiscal year, the City Manager may revise the budget for the City by deleting, adding to, changing, or creating accounts.
- Capital Improvements Program - A six-year projection of capital projects and debt service is prepared by staff each fall. The objective of this is prioritize capital projects independent of funding constraints.
- Home Rule – Park Ridge is a “home rule” municipality under the 1970 Illinois Constitution. Among other things, this gives the City certain budgetary authority. See Legal Debt Limit and Property Tax Caps below.
- Newly Elected Officials - Within the first 30 days of a fiscal year when newly elected officials are installed, by a majority vote of the members of the corporate authorities then holding office, the annual budget for the City may be revised by deleting, adding to, changing, or creating accounts.
- Property Tax Caps – Park Ridge, as a home rule municipality, is exempt from property tax cap legislation.
- Responsibility - The City operates under a Mayor-Council form of government. The Mayor and City Council establish policy; the City Manager manages the day-to-day operations of the City and its employees. The City Manager is also charged with the responsibility of submitting the annual budget.
- Timing of Budget Passage - The budget is passed by the City Council before the beginning of the fiscal year. An ordinance is then passed to establish the property tax as provided for in the approved budget.

FINANCIAL POLICIES

- Acquisition of Property – This policy guides the potential purchase of property. The discussion of acquisition of a specific parcel of property may be done in a closed session meeting of elected officials as may be permitted by law. After the conclusion of the closed session, the City Council shall reconvene in open session and announce the intent of acquisition of a specific parcel of property. The final authorization of the acquisition of property, which must be accomplished before an agreement is binding, shall be in open session at the next or future meeting of the City Council in accordance with law. In an extraordinary situation, as determined by a two-thirds vote of the City Council that a delay in final authorization will compromise the City’s ability to obtain the property on the most favorable terms, final authorization of the acquisition of property may be in the open session that immediately follows the conclusion of the closed session. The City may employ eminent domain, if eminent domain is determined to be necessary, to acquire property.
- Asset Classification – The City considers a capital asset to cost at least \$25,000 and have a life of not less than 10 years. The threshold for fixed assets is \$10,000.
- Balanced Budget – The term “balanced budget” refers to the balancing of revenues with expenditures. It may include the use of net assets or fund balance; a budget will be considered balanced if reserves are drawn down to subsidize revenues.
- Budgeted Expenditures - Budgeted expenditures lapse at the end of each fiscal year and unexpended balances are credited to fund balance.
- Capital Asset Policy – Capital assets include infrastructure, land, land improvements, buildings, building improvements, equipment, software, vehicles, and other tangible assets that are used in operations and have expected useful lives extending beyond a single reporting period. Capital assets are accounted for differently in the basic financial statements depending upon the measurement focus used. Capital assets acquired with governmental fund resources (general capital assets) are accounted for as capital expenditures and not capitalized in the governmental fund financial statements. General capital

assets also include donated assets even though they are not reported as capital expenditures or capitalized in the governmental funds. Capital assets acquired with proprietary or fiduciary fund resources or donated to those funds are capitalized in those funds and depreciated in those funds over their estimated useful lives.

In the government-wide financial statements, capital assets, including general capital assets are capitalized and depreciated over their estimated useful lives (except for land, land improvements, construction in progress, and software under development).

- Cash Disbursements Policy – Warrants are issued twice per month, on the 15th and 30th. The City Council approves the warrant register for disbursement at the bi-monthly meetings. Disbursements are reviewed and approved by the initiating Employee, Department Head, Purchasing Agent, Accounts Payable Clerk, Assistant Finance Director, Finance Director, Member of the City Council and Mayor. The City Manager signs all Purchase Orders over \$5,000.
- Cash Flow Policy - Cash flow projections that show the impact of budgetary decisions are prepared by the Finance Director. Individual funds may temporarily have deficit positions during the fiscal year provided that the overall cash position is positive.
- Contingency Funds – Each year, the City budgets \$140,000 and the Library budgets \$30,000 for contingency. Any usage of contingency funds must be reported to the Finance Committee. A contingency is a budgetary reserve set aside for emergencies.
- Economic Incentive Agreements Policy – The purpose of this policy is to establish instances under which incentives may be offered for business expansion or development. The benefits to the City for offering economic development incentives may include increasing sales tax receipts, improving the property tax base, helping the City to remain economically viable and competitive with surrounding communities, attracting additional retail business into the City, providing additional goods and services to Park Ridge residents, and protecting or increasing the revenue base of the City. The City will require any economic development investments provide a demonstrable quantitative and qualitative return on the City's investment to be realized during a reasonable period of time after such investment.
- Fund Balance – The City's target general fund balance at year-end is a range between four and six months of operating revenues of general, special revenue and debt service (where payment stems from the levying of property taxes) funds on a budgetary basis. Fund balance is defined as the excess of assets over liabilities. Also, at year-end, the City's target is to have cash reserves equal to a range of two to four months of operating expenses. The City Council approved this policy on August 15, 2005. A fund balance policy provides guidance to the City Council and senior staff regarding the appropriate balance between reserves, revenues and expenditures. Adherence to an appropriate policy will help the city maintain and improve its credit rating. Having adequate reserves will help the city maintain operations should unexpected emergencies arise, revenues not be realized or expenditures exceed expectations.
- Investment Policy - Investment income is guided by an investment policy as provided for in Council Policy Statement No. 25. This policy was substantially revised in October 1999. The primary objectives, in priority order, of the City's investment activities are: Preservation of Principal, Liquidity, and Yield. The City invests primarily in collateralized certificates of deposits. The certificates are collateralized at 110% and held at a third party in the City's name. The City may also invest in U. S. Treasuries, Agencies, IPTIP or IMET.
One of the more important investment parameters includes that no more than 50% of the City's total investment portfolio may be invested in any one financial institution. At least once per month, the City obtains quotes from seven banks and places the investment with the bank that offers the highest interest rate as long as this investment parameter is met.
Staff provides a monthly investment report to elected official that describes the portfolio in terms of investment by institution, by fund, and by type. Collateral by institution is also listed. Next investment rates and maturities are highlighted. This is compared to a benchmark.
- Legal Debt Limit – As a home rule community, the City has no debt limit nor is it required to seek referendum approval for issuance of general obligation debt. The Municipal Code prohibits the debt term from exceeding 40 years. On February 16, 2004, the City Council eliminated a requirement that a

referendum be held if total bonded debt exceeds 2.5% of the assessed valuation of the City's taxable real property, as last equalized.

- Guarantee of Debt – The City is currently not the guarantor of any third party debt. The decision to guarantee third party debt may be done on occasion, after extension deliberation, to spur economic development.
- Number of Years Budgeted - The budget is prepared two years forward. The next budget year is formally adopted by the City Council. Estimates are made for the year following the budget year to determine the impact of budgetary decisions on cash flow and fund balance.
- Purchasing Policies - The City adheres to a number of purchasing policies as outlined in its Purchasing Procedures Manual. Principal policies include:
 Purchases up to \$400: No quotations required, confirming orders allowed with the prior approval of the Department Head. Purchase Order is required.
 Purchases between \$400 and \$1,000: At least 2 telephone or internet quotations required, confirming orders allowed with the prior approval of the Department Head. Purchase Order is required.
 Purchases between \$1,000 and \$3,000: At least 3 telephone or internet quotations required, confirming orders allowed only with the prior approval of the Purchasing Agent. Purchase Order is required.
 Purchases between \$3,000 and \$5,000: At least 3 written quotations required, confirming orders allowed only with the prior approval of the Purchasing Agent. Purchase Order is required.
 Purchases between \$5,000 and 20,000: At least 3 written quotations required. Confirming orders allowed only with the prior approval of the Purchasing Agent. Purchase Order is required. The Purchasing Agent can require that formal bidding procedures be followed for purchases over \$5,000.
 Purchases over 20,000: Formal bidding process is required. Award of contract must be approved by the City Council.
 The City Manager signs all purchase orders.
Note: The dollar limit requiring City Council approval was increased from \$10,000 to \$20,000 in fiscal year 2006/07 to coincide with statutory guidelines.
- Requirements of Budget - Estimated revenues and recommended expenditures by fund must be shown.
- Use of Fund Balance – Reserves of fund balance may be drawn down to finance onetime expenditures. Fund balance may be used as a funding source to supplement the difference between revenues and expenditures.

COMPARISON OF BUDGET DOCUMENTS TO FINANCIAL STATEMENTS

Budget versus GAAP or Accrual versus Modified Accrual

The budget is not prepared on the same basis of accounting as the financial statements. The budget is presented on the Budgetary basis. The audited financial statements are presented in two ways: Budgetary basis and Generally Accepted Accounting Principles (GAAP) basis. The major differences between Budgetary and GAAP are:

- Budgetary Basis – Full Accrual: Property tax revenue is recorded when it is measurable and earned. Essentially, this means that property tax revenue is recognized when the Council levies the tax. Furthermore, debt service expenditures are recorded in the same period as the property taxes used to pay the expenditures.
- GAAP Basis – Modified Accrual: Property tax revenue is recorded when it is measurable and available. Property tax revenue is recognized when it is received by the city. Debt service expenditures are recorded when paid by the city.

The following funds are budgeted on a budgetary basis: Debt Service, General, Illinois Municipal Retirement, Library, and Municipal Waste. Budgetary is the same as GAAP for the following funds: Emergency Telephone, Motor Fuel Tax, Parking, and Water.

The property tax levy shown in the budget will be levied in December 2009 and collected in March and September of 2010. The 1998 debt service, general, IMRF, library, and municipal waste funds receive property taxes.

When presenting financial reports, we report the original budget and the final budget on the financial statements.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds (water and parking funds). Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. On an accrual basis, revenues from taxes are recognized when the City has a legal claim to the resources. Property taxes are recorded as revenue in the year for which they are levied. Grants, entitlements, State shared revenues and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Accrued revenues include property taxes, other taxes, grants, charges for services, and interest. All other revenue sources are considered to be measurable and available only when cash is received.

Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in the governmental funds.

BUDGET CHANGES

The 2009/10 budget includes the following change from the 2008/09 budget:

- The Developmental Review and Business District Support programs were combined with the Planning program and the Environmental Health – Neighborhood and Environmental Health – Business were combined into one Environmental Health program.
- Funding sources were included with the fund descriptions per a GFOA reviewer's comments.
- A new section that lists a cash projection for the Uptown Tax Increment Financing Fund is now included in the budget (pages 300 and 301).
- An analysis of the City's solvency was added to the Budget Message.
- The City added a new enterprise fund, the Sewer Fund.