

POLICY A-5

FISCAL POLICIES STATEMENT

General Policies Applicable to all ILJAOC Funds

Funds:

The activities of the ILJAOC shall be accounted for in three separate funds (Operating Fund, Capital Replacement Fund and Grant Fund). Each fund maintains its own set of self-balancing accounts including reserves and special designations within each of the three funds. Each fund may contain different budgetary policies as determined by the ILJAOC board.

GOAL:

The ILJAOC Budget, in conjunction with Reserve and other Fiscal Policies will provide a forward-looking financial plan that provides for long-term sustainability balanced with stable member agency fees.

Operating Fund Budget Policies

- The Operating Fund accounts for the operating and maintenance activity of the ILJAOC.
- The budget is developed by the Executive Director of the ILJAOC and reviewed by a subcommittee of voting members of the ILJAOC board with input by the ILJAOC Treasurer. The Subcommittee and Treasurer shall also review the Fiscal Policies Statement for compliance and make any appropriate recommendations for changes to that document to the full Board in conjunction with the submittal of the proposed Budget.
- ILJAOC Board meetings are public meetings, to allow tax-payer comments prior to the adoption of the annual budget.
- The budget is legally adopted through the passage of an appropriation resolution. The ILJAOC will adopt a balanced budget by June 30 of each year. A continuing appropriations resolution must be adopted by the Governing Board if the budget adoption will be delayed past June 30.
- The Operating Budget is adopted on an annual basis. Appropriations that are not spent or legally encumbered by June 30, lapse on July 1.
- Unless otherwise noted, appropriations related to incomplete projects shall be re-appropriated to the following fiscal year without Governing Board approval if the

purpose for which the expenditure was budgeted has not been completed. Upon the approval of the Executive Director, the ILJAOC Treasurer shall administratively re-appropriate qualifying unspent funds.

- The legal level of control is established at the fund level. Appropriations may be transferred between accounts during the course of the year at the direction of the ILJAOC Treasurer. Increasing total fund appropriations require the approval of the ILJAOC board [requires 2/3 majority approval per section 4.04 of JPA agreement]. Increasing total fund appropriations and transfers between funds shall be approved by the ILJAOC board unless as explicitly authorized elsewhere in the budget policy.
- An annual base Operating Budget will be developed by conservatively projecting revenues and expenditures for the current and up to the following two fiscal years.
- During the budget development process, the existing base budget will be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
- The ILJAOC will avoid budgetary and accounting procedures that balance the current budget at the expense of future budgets.
- A stabilization reserve will be maintained in the operating fund to buffer against steep member agency rate increases caused by unexpected operational cost increases. The stabilization reserve will be targeted at 25% of total annual member agency fees (which are based on both the Operating and Capital Replacement Funds) but may fluctuate to serve its purpose. If the stabilization reserve is utilized to balance operating expenditures in a given year, the ILJAOC board must be notified in writing along with a plan to replenish the reserve in a timely, but reasonable time frame as approved by the Governing Board. This transfer will take place in the following fiscal year, after the audited financial statements have been completed. The reserve will be based upon the current adopted budget and, upon approval by the Executive Director, the ILJAOC Treasurer shall transfer the funds administratively.
- The remaining fund balance from the Operating Fund, in excess of the stabilization reserve target, that is available at the end of the fiscal year will be transferred to the Capital Replacement Fund. This transfer will take place in the following fiscal year, after the audited financial statements have been completed. Upon approval by the Executive Director, the ILJAOC Treasurer shall transfer the excess fund balance administratively.
- Current revenues and the balance of the Stabilization Reserve will be sufficient to support current operating expenditures. Deficit financing of operating costs will not be allowed.
- The term of any financing shall not exceed the life expectancy of the equipment financed.

Capital Replacement Fund Policies

- The Capital Replacement Fund accounts for the member agency fees that are dedicated for capital replacement needs and which will be based upon a System Replacement Master Plan. The Fund will also include an allocation for system enhancements that are deemed necessary by the Governing Board during the intervening years between replacement cycles.
- The Governing Board will annually evaluate the appropriate funding level for the Capital Replacement Fund and make such funding decisions as may be necessary to properly reserve against the agency's predicted future needs.
- The Governing Board delegates the authority to modify or create new assignments of fund balance to the Executive Director or his designee. Assignments of fund balance are amounts of funds balance that are constrained by the ILJAOC's intent to be used for a specific purpose. Constraints imposed on the use of assigned amounts may be changed by the Governing Board or Executive Director.
- The ILJAOC will project its equipment and critical system infrastructure replacement and enhancement needs for the next five years and will update this projection every two to three years (depending upon market conditions) in the form of a System Replacement Master Plan. This projection will include adequate design, construction, and replacement of the ILJAOC's capital equipment and critical software system infrastructure on a routine systematic basis.
- After considering the balance of the Capital Replacement Fund and the System Replacement Master Plan, a maintenance and replacement charge will be developed and included in the member agency fee. The capital expenditure portion of the budget will also be developed based on this same information; however, the full cost of system replacements will be amortized over a period of years, and then included in the agency's annual fee.
- The ILJAOC will identify the estimated costs, potential funding sources and project schedule for each capital project proposal before it is submitted to the Governing Board for final approval.
- The Capital Replacement Fund adopts a project-length budget. Unless otherwise noted, appropriations related to incomplete projects shall be re-appropriated to the following fiscal year without Governing Board approval if the purpose for which the expenditure was budgeted has not been completed. Upon approval by the Executive Director, the ILJAOC Treasurer shall administratively re-appropriate unspent funds.
- The use of long-term debt is an acceptable financing mechanism for the construction of capital improvements to the existing system; if applicable, the annual debt service must be included in the current rate structure.

Grant Fund Policies

- The Grant Fund is utilized to account for the activities of grant funding opportunities.

- The ILJAOC will actively pursue grant opportunities when feasible to improve ILJAOC services and reduce the ILJAOC cost of operation.
- The ILJAOC board shall approve all grants prior to their acceptance, carefully considering the future obligations and net operating cost that may be associated with the acceptance of any grant.
- Grant Expenditures budgeted in one fiscal year may be carried over to the next fiscal year automatically if the purpose for which the expenditure was budgeted has not been completed.
- The Executive Director is responsible for completing all grant reporting requirements and for monitoring timely expenditures of grant funds.

Revenue Policies

- The ILJAOC will estimate its annual revenues by an objective, analytical process utilizing trend, judgmental and statistical analysis as appropriate.
- One-time revenues will be used for one-time expenditures only.

Expenditure Policies

- The ILJAOC will maintain a level of expenditures which will provide prudent ongoing support of the ILJAOC work plan as amended from time to time by the Governing Board.
- Governing Board approval is required before expending reserves.

Member Fees

- The Governing Board will annually evaluate and, if necessary, adjust member fees and user charges. Ongoing ILJAOC operations will be funded on a full-cost basis at a level which fully supports the total direct and indirect costs of the activity. Indirect costs may include the annual depreciation of capital and overhead charges.

Policy On The Use of Consultants

- As a matter of Governing Board Policy, each time the Agency embarks on a new and distinct project necessitating the use of consulting services, a separate Request for Proposal (RFP) or Request for Information (RFI) will be distributed to insure a competitive review of both the cost and qualifications of the firm/individuals performing the work.
- The Board may elect to request a separate RFP or RFI on existing projects, if they determine it would benefit the overall result from a cost and content perspective, regardless of the extent of the current consultant's knowledge of the existing project.

Investment Policies

The ILJAOC's investment policies shall be the policies of the Member Agency of the Treasurer/Controller as those may be modified by the Board of the ILJAOC. The ILJAOC Treasurer will report to the Governing Board in conjunction with the adoption of the Annual Budget regarding the annualized investment earnings of the ILJAOC, or at any time it is deemed appropriate based upon anomalies in the investment returns of the Agency.

Accounting, Auditing and Financial Reporting

- The ILJAOC's accounting and financial reporting systems will be maintained in conformity with generally accepted accounting principles as promulgated by the Government Accounting Standards Board and the Financial Accounting Standards Board.
 - Full disclosure will be provided in the financial statements.
 - The ILJAOC will maintain a good credit rating in the financial community.
 - An annual financial audit and Single Audit will be performed by an independent public accounting firm.
 - The annual audits will conform to Generally Accepted Auditing Standards (GAAS) and applicable federal audit requirements.
 - The auditors shall report directly to the ILJAOC board.
 - The ILJAOC management shall respond in writing to all significant audit concerns implementing corrective action plans where appropriate.
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